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European Energy

(UPI 12/2) 1204-A.SCI

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INTERNATIONAL REPORT

U.S. DECLINES TO ENTER INTO ENVIRONMENTAL AGREEMENTS AT PARIS MEETING

Citing public opinion and budgetary constraints brought on by the current recession, delegates from the United States declined to go along with environmental agreements made at the Paris meeting of the Organization for Economic Cooperation and Development (OECD). Representatives from the remaining 23 OECD member nations agreed to commit additional foreign aid to combat environmental degradation, and to stabilize their CO_2 emissions at 1990 by the end of the century.

Despite concern by other delegates that the cooperation of the United States on these matters was crucial, delegate chief and Environmental Protection Agency administrator William Reilly explained that such commitments were not possible at the moment.

"There are strong voices in the American public and in Congress against making additional foreign commitments," said Reilly. "From this perspective, this is not the time or place to make such commitments. When we don't commit ourselves to new and additional resources, it doesn't mean we won't."

(AP, REUTER 12/3) 1204-A.INT

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LACK OF DATA, RESEARCH, HAMPERS OZONE DEPLETION STUDY IN CHILE

Reports of blindness in sheep and increased cases of sunburn and skin allergies in children are the result of increased ultraviolet radiation due to depletion of the ozone layer, say Chilean scientists. They have urged the Chilean government and private businesses to fund a program to measure radiation levels that would support research into the dangers of further depletion.

The depletion of the ozone layer over the Antarctic, which occurs annually, was larger this year than ever before. Because of the hole's shape, regions in southern Chile were affected more than other near-Antarctic areas in Australia and New Zealand.

In addition to effects on humans on livestock, researchers also noticed this year a drop in algae growth. Many Chilean scientists believe this too has been caused by ultraviolet radiation, and could have far-reaching consequences for Chile's world-leading fish meal exporting business. But, due to a lack of data-gathering instruments (Chile has no ultraviolet radiation measuring device), scientists say they cannot yet make realistic conclusions.

"Human survival is at stake, and for now we are the guinea pigs," said researcher Bedrich Magas.

(REUTER 12/2) 1204-B.INT

Press Release

Paris, 3rd December 1991
OLIS : >
dist. : >

SG/PRESS(91)71

MEETING OF OECD MINISTERS ON ENVIRONMENT AND DEVELOPMENT

Paris, 2nd - 3rd December 1991

POLICY STATEMENT

Policy Statement

1. OECD Ministers of Environment and Development Co-operation, Heads of agencies, and a Commissioner of the European Community* met at the OECD in Paris, 2-3 December, to consider a co-operative new approach to achieving sustainable development on the national, regional and global levels. They were joined during the morning session of the first day by the Secretary-General of the United Nations Conference on Environment and Development and Heads of the United Nations Development Programme and the United Nations Environment Programme as well as a Vice-President of the World Bank. The meeting was chaired by Ms Edwige Avice, Minister of Co-operation and Development and Mr. Brice Lalonde, Minister of Environment, France. Vice-Chairmen were Mme. Pauline Browes, Minister of State for Environment, Canada; Mr. Toimi Kankaanniemi, Minister of Development Co-operation, and Ms. Sirpa Pietikainen, Minister of Environment, Finland; and Mr. Carlos Alberto Diogo Soares Borrego, Minister of Environment and Natural Resources, and Mr. Jose Manuel Durão Barroso, Secretary of State for Foreign Affairs and Co-operation, Portugal. Ministers came to the following conclusions:

Sustainable Development as a Shared and Common Objective

2. The meeting was convened in recognition of the fact that contributing to sustainable development world-wide is one of the OECD's central objectives. Over the past two decades, OECD Members and other countries have made major investments in the concurrent pursuit of economic growth, higher living standards and a healthy environment. Yet, the quality of the human condition in large parts of the world and hopes for a better future continue to be diminished by the interactions of poverty, illiteracy, malnutrition, unemployment, increased population pressures, uncontrolled urbanisation, pollution of the air, freshwater, seas and oceans, wasteful use of energy and natural resources, and degradation of arable land. This vicious circle must be broken through sound national economic and social policies, supported by international development co-operation. Furthermore, the growing recognition of regional and global scale environmental problems, such as ozone layer depletion and climate change, deforestation and desertification, loss of biological diversity, degradation of water resources and acid rain, calls for collective action by all nations to protect the basic life support systems of the Earth.

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* All subsequent references to "Ministers" also include Heads of Agencies and Commissioner of the European Community. All subsequent references to OECD Member countries, OECD governments, etc., include the European Community.

An Interdependent World Economy

3. During recent years an interdependent world economy has emerged, based increasingly on democratic political regimes and on free and open markets. This trend provides new hope and opportunities for the successful pursuit of sustainable development objectives in the 1990s and beyond. It is clear, however, that while the market economy has shown the necessary power and dynamism to promote efficiency and flexibility, market forces, if left to themselves, would not necessarily address the urgent need to combat widespread poverty and environmental problems. Government action is also needed.

A Strengthened Partnership

4. Ministers of the OECD countries, recognising the interdependence of all nations, therefore commit their Governments to use the unique opportunity of the United Nations Conference on Environment and Development in 1992 as a catalyst to build a strengthened partnership for sustainable development with non-Member countries, particularly in the developing world. This partnership should be based on mutual commitments by all countries in the light of their relative capacities and responsibilities.

Responsibilities of OECD Countries

* extends to all countries -- what will work? full cost pricing

5. Ministers acknowledge the responsibility that OECD countries bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command. In this regard, Ministers encourage the use of national environmental strategies to set priorities, to review policies and to monitor progress towards sustainable development. They emphasize that management of the environment requires the efficient and cost-effective integration and coherence of economic, social and environmental policies in all aspects of national and international policy-making, such as in industry, energy, transport, forestry and agriculture.

?= how soon is "soon as possible"

? any other country not committed?

6. Ministers fully recognise in particular that OECD countries must demonstrate international leadership and continued commitment to achieve more efficient use of energy and raw materials and to work towards the elimination of human and environmental exposures to highly toxic and persistent chemicals as well as a reduction in the release of waste products into the environment. In this context, Ministers commit themselves to substantial action on the enhancement and protection of greenhouse gas sinks and limitation of emissions of greenhouse gases aiming in particular, as a first step at a stabilisation, individually or collectively, of CO_2 emissions and a phasing-out as soon as possible of CFCs controlled by the Montreal Protocol. Ministers further take note that most OECD countries have committed themselves to stabilise CO_2 emissions, individually or collectively, in general by the year 2000 at 1990 levels, taking into account the differences in their starting points and approaches, and that those countries make a strong appeal to

other OECD countries to do the same. Ministers agree to consider further steps towards an early phase-out of substances controlled by the Montreal Protocol at the forthcoming meeting of the Contracting Parties to that Protocol in Copenhagen. Ministers request the OECD to initiate work on mechanisms to facilitate joint implementation, in a cost-effective manner, of commitments on greenhouse gases.

7. Achieving sustainable development will require a re-evaluation of patterns of both consumption and production. It will also require the development of policies necessary for the promotion of sustainable development. This will include the increased use of economic instruments and the setting of technical standards, for instance for energy efficiency and recycling. It will also require the systematic use of environmental impact assessments and public participation in decision-making. Furthermore, continued technological innovation and diffusion will be needed. Ministers in this context emphasize the major role of economic instruments in stimulating policy integration in a cost-saving manner.

8. Progress and performance of individual OECD countries in meeting domestic environmental policy objectives and international commitments will be monitored in part through the peer review processes of environmental policies within the OECD launched by Environmental Ministers in January 1991 as well as in the ongoing peer review process of the International Energy Agency (IEA) and the Development Assistance Committee.

Responsibilities of Non-OECD-countries

9. Non-OECD countries are urged to join OECD countries in their commitment to sustainable development. This would include good governance, the effective integration of economic, social and environmental policies, and participatory approaches which involve accountability and broad-based involvement in the formulation and implementation of government policies. This would also involve making full use of the potential of market-based economic policies as well as an efficient private sector for the increased mobilisation of domestic resources. While acknowledging the complex relationship among the environmentally damaging use of natural resources, population growth and development, they note the growing global consensus on the need to slow population growth in those many countries where it is too high to permit sustainable development. Ministers strongly support the action taken by many countries aimed at mastering population growth. Recognising that only with economic and social development will more sustainable growth rates be attained, they stand ready to support measures to improve women's economic and social conditions in developing countries and to help establish, fund and implement effective population strategies and programmes.

Partners in Cooperation: Resources

10. For developing countries to achieve sustainable development and be in a position to address pressing problems of economic growth needed to combat poverty and to improve environmental management domestically, they must have access to the financial resources necessary to meet these challenges. While domestic resources will have to provide a major part, Ministers pledge their support to ensure that external resources available from both the public and private sectors and provided through existing bilateral and multilateral channels should be increased and used effectively and efficiently. In this context, Ministers recognise the importance of equitable burden sharing.

11. For developing countries to play their full part in coping with global environment problems, Ministers consider that appropriate additional financial resources must be made available to them as part of a strengthened partnership. In this respect, Ministers welcome the use of innovative financial mechanisms, such as debt-for-environment swaps. The commitment of OECD countries to finding the means to support world-wide co-operation in protecting the environment is manifested by the recent creation of a special fund under the Montreal Protocol and the establishment of the Global Environment Facility (GEF). Ministers underline that a modified GEF under appropriate governance should play a leading role as the multilateral mechanism to provide additional financial resources to developing countries in the resolution of environmental problems of global significance. In this regard, most OECD countries will provide new financial resources.

Technology

12. Technological innovation and diffusion will be critical determinants of the pace and character of future economic growth and environmental management. All countries should create propitious conditions to encourage the private sector to innovate, market and use the technologies that contribute to sustainable development. Ministers note the important contribution that the private sector can make toward technology innovation, co-operation, the transfer of "clean" technology and environmental management information. Ministers thus commit their governments to expand technology co-operation with non-Member countries, to provide technology assistance and to address barriers to technology transfer, with a view to improving their access to environmentally-sound technologies, to facilitate the transfer of such technologies to developing countries and to enhance their scientific, technological and administrative capacities to use and develop technologies, by:

-- assisting the development of appropriate incentive structures, policies, legislation and institutions;

-- providing information on technology availability and options;

December 5, 1991

Mr. E. Patrick Coady
United States Executive Director
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Coady:

I understand that you will lead the United States delegation at a meeting to be held on December 7 and 8 in Geneva, Switzerland to discuss the Pilot Program for the Conservation of the Brazilian Rainforest. I am concerned that the success of that Program is now in jeopardy, and I am therefore writing to urge you to work with the Brazilians in Geneva to carry the Program forward.

As you know, the Brazilian government developed the Program at the request of President Bush and the other leaders of the Group of Seven nations at the 1990 Houston Summit meeting. This initiative is, of course, of tremendous importance to efforts to preserve the incredibly rich Amazon ecosystem. But its importance extends far beyond the bounds of the Brazilian rainforest. Signifying the willingness of the industrialized countries to work in partnership with the developing world to preserve and protect the environment, the Program is also critically important to the whole host of international environmental discussions that are now taking place in anticipation of the 1992 United Nations Conference on Environment and Development. Nevertheless, President Bush -- alone among the G7 leaders -- refused to endorse the effort when the initial outlines of the Program were presented at the 1991 London Summit meeting.

The Brazilian government has expended a great deal of time and effort in responding to the initial G7 request and in modifying the Program after the London meeting. Moreover, in deciding recently to demarcate the Yanomami and Kaiapo Indian lands, President Collor has clearly demonstrated his determination to move ahead. It is now our turn.

I would appreciate it if you could keep me apprised of progress on the Pilot Program and of the efforts of our delegation to contribute to it. I would be particularly interested in substantive analyses and critiques that are being done, and in financial assessments and commitments that are made in support of the Program. I look forward to hearing from you on this extremely important matter at your earliest convenience after the Geneva meeting.

Financial Resource

European Community NEWS

No. 33/91
December 11, 1991

SUCCESS AT MAASTRICHT: A LANDMARK SUMMIT

In the early morning hours of December 11, the European Community heads of state and government emerged from a marathon two-day summit in Maastricht, Netherlands having agreed to major revisions of the EC founding treaties that will forge closer economic, monetary and political ties within the Community, including a single currency before the end of the decade, and a framework for a common foreign and security policy.

On the economic and monetary union (EMU), the EC leaders reached an accord that will introduce a single currency, the ECU, establish a European System of Central Banks (ESCB) and a European Central Bank (ECB). The coordinated economic policies will follow guiding principles of stable prices, sound public finance and monetary conditions, a sustainable balance of payments and avoid excessive government deficits..

On the political side, the treaty improves the present cooperation on foreign policy matters by setting down rules for joint action. It also creates the embryo of a future common European defense policy which must be compatible with the NATO alliance.

In addition, the summit covered cooperation among the Twelve on matters ranging from immigration and asylum policies to the fight against organized crime and drug trafficking.

EUROPEAN COUNCIL PRESIDENCY CONCLUSIONS
Maastricht, December 9 and 10, 1991

Mr. BARON CRESPO, President of the European Parliament, put to the European Council his Institution's views on the draft Treaties on Political Union and Economic and Monetary Union.

The European Council welcomed all the contacts which had been established with the European Parliament during the preparation of these drafts and, in particular, the inter-institutional meetings which had made for a better understanding of the respective opinions.

TREATY ON EUROPEAN UNION

The Intergovernmental Conferences on Political Union and Economic and Monetary Union, meeting at the level of Heads of State and Government, reached agreement on the Draft Treaty on European Union based on the texts concerning Political Union and on the Draft Treaty text concerning Economic and Monetary Union. The necessary final legal editing and harmonization of the texts will be completed with a view to signature of the Treaty in the beginning of February 1992.

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EC OFFICE OF PRESS AND PUBLIC AFFAIRS
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With particular reference to social policy the European Council confirms that the present provisions of the Treaty can be considered an "acquis communautaire".

The European Council notes that eleven Member States desire to continue on the path laid down by the Social Charter in 1989. To this end it has been agreed to annex to the Treaty a Protocol concerning social policy which will commit the Institutions of the Community to take and implement the necessary decisions while adapting the decision-making procedures for application by eleven Member States.

ENLARGEMENT

The European Council recalls that the Treaty on European Union which the Heads of State and Government have now agreed, provides that any European State whose systems of Government are founded on the principle of democracy may apply to become members of the Union.

The European Council notes that negotiations on accession to the European Union on the basis of the Treaty now agreed can start as soon as the Community has terminated its negotiations on Own Resources and related issues in 1992.

The European Council notes that a number of European countries have submitted applications or announced their intention of seeking membership of the Union. The European Council invites the Commission to examine those questions including the implications for the Union's future development and with regard to the European Council in Lisbon.

URUGUAY ROUND

The European Council notes that the trade liberalization negotiations have entered a conclusive stage. It has been informed about the progress of the negotiations, both in Geneva as well as in the Transatlantic Summit, at The Hague on November 9, 1991.

The European Council reiterates its firm commitment to a substantial, balanced and global package of results of the Uruguay Round by the end of the year. This package should cover GATT rules and disciplines, market access, agriculture, textiles, services, Trade Related Intellectual Property Rights (TRIPs) and the institutional reinforcement of the GATT system, excluding any recourse to unilateral action by any partner. It urges other partners in the Uruguay Round to join in its efforts to finalize the negotiations on this basis.

The European Council invites the Commission to elaborate a good negotiated outcome of the Round encompassing substantial and credible results in all major areas, consistent with the objectives of the European Communities.

It asks the Commission to keep the Council closely informed of the results obtained.

CO-OPERATION IN THE SPHERES OF JUSTICE AND HOME AFFAIRS

Free movement of persons, immigration and asylum

A. The European Council noted the reports on immigration and asylum drawn up at its request by the Ministers responsible for immigration. It considered that they constituted an adequate basis for measures to be taken in those areas.

   It agreed on the program of work and the timetables laid down and invited the Ministers for Immigration to implement them.

B. The European Council took note of the report by the Co-ordinators' Group on Free Movement of Persons and approved the recommendations made in it.

C. The European Council regretted that it had not yet been possible to resolve the last problem preventing the signing of the Convention between the Member States of the European Communities on the crossing of their external frontiers. The European Council invited the Presidency to collaborate with the two Member States concerned in actively seeking a solution for this problem.

D. The European Council requests the Co-ordinators to examine what the structure of the European Information System should be and to take care that the technical and legal provisions - including the protection of personal privacy - are being taken to build the system.

In view of the need for a speedy conclusion of these activities, it is desirable in the first place to establish whether the arrangements already existing between certain Member States may also apply to all the Member States.

Europol

The European Council agreed on the creation of a European police office (Europol) the initial function of which would be to organize the exchange of information on narcotic drugs at the level of the Community's twelve Member States. The European Council instructed the TREVI Ministers, in collaboration with the Commission, to take such measures as were needed to allow Europol to be set up at an early date.

Drugs

The European Council took note of the report by the European Committee on the Fight Against Drugs (CELAD).

It invited the Institutions of the European Community to employ all means to ensure that the act setting up the European anti-drug monitoring body could be adopted before June 30, 1992.

In the context of the widest possible information on drug problems the European Council supported the organization, during the second half of 1992, of a European Week to promote the prevention of drug use.

The European Council invited CELAD to continue its function of co-ordination and to ensure that the various responsible bodies lost no time in implementing the European program for the fight against drugs adopted by the European Council in Rome on December 14, 1990.

Consequences of the draft Treaty on European Union

The European Council instructed the competent Council bodies and the Coordinators' Group on Free Movement of Persons to collaborate with the Commission on the examination of the consequences of the draft Treaty on European Union on proceedings in these areas, so that the relevant provisions of the future Treaty might be effectively applied as soon as that Treaty entered into force.

FOOD SUPPLY SITUATION IN MOSCOW AND ST. PETERSBURG

The European Council expressed its preoccupation with the critical food supply situation in Moscow and St. Petersburg, and agreed that the Community should take concrete rapid steps to help the populations of these cities.

The Member States will respond positively to requests from the Commission for making logistic experts available.

It asked the Commission to come forward with specific proposals and the Economic and Financial Council of Ministers to examine at its session on December 17, 1991 the specific financial aspects of a Community action, including the question of credit guarantee.

EUROPEAN POLITICAL COOPERATION

Middle East

- The European Council adopted the declaration on the peace process in the Middle East in Annex 1.

- The European Council welcomes the release of further hostages in Lebanon. It expresses its gratitude to the Secretary General of the United Nations for his efforts in this respect.

The European Council deplores that the German nationals Heinrich Strübig and Thomas Kemptner are still being detained in Lebanon.

The European Council urges all governments and personalities who are able to contribute to the solution of the hostage problem, to continue their efforts towards an unconditional release of all persons who are detained without legal procedure.

The hostage question in Lebanon will not be resolved until all hostages have been released.

The European Council welcomes the fact that the Secretary General of the United Nations has declared his readiness to continue his efforts.

Developments in the Soviet Union

The European Council discussed recent developments in the Soviet Union and adopted the declaration in Annex 2.

Policy regarding new European states

The European Council asked Ministers of Foreign Affairs to assess developments in Eastern Europe and in the Soviet Union with a view to elaborating an approach regarding relations with new States.

Racism and xenophobia

The European Council adopted the declaration in Annex 3.

Enquiries in the bombing of flights PAN AM 103 and UTA 772

Recalling the declaration issued by the Community and its member States on December 2, the European Council takes a most serious view of accusations against Libyan nationals in connection with the bombings of flight Pan Am 103 in December 1988 and of flight UTA 772 in September 1989. The European Council reaffirms its condemnation of all acts of terrorism, wherever and by whomever committed.

The European Council has noted the demands made of the Libyan authorities by the Governments of France, the United Kingdom and the United States on November 27. It fully endorses these demands and calls upon the Libyan authorities to comply promptly and in full.

ANNEX 1

DECLARATION ON THE PEACE PROCESS IN THE MIDDLE EAST

The European Council attaches great significance to the Middle East Peace Conference in Madrid, which has launched a process of negotiations on the basis of UN Security Council Resolutions 242 and 338 which should lead to a just and comprehensive solution to the Arab-Israeli conflict and the Palestinian question. On the basis of the principles which have long governed their position, the Community and its member States are determined to continue to undertake all possible efforts alongside the United States and the Soviet Union to support this process. In Madrid they pledged their constructive partnership in all phases of the negotiations.

The European Council considers it of vital importance that the momentum gained at Madrid is not dissipated on procedural matters. It noted that the second round of bilateral negotiations has been convened in Washington. These negotiations should be pursued in good faith by all parties. Only then may the way be opened to movement on substance and meaningful confidence building measures. The European Council considers a halt to Israel's settlement activity in the Occupied Territories an essential contribution to creating the stable environment which progress in the negotiations requires. Renunciation of the Arab trade boycott is another.

With regard to the situation in the Occupied Territories, it is important that both sides show restraint and that Israel abide by the provisions of the Fourth Geneva Convention. The European Council looks forward to a tangible improvement in the situation in these territories, even before the putting in place of interim or other arrangements. In this respect it noted reports indicating that since the Conference in Madrid, the level of violence there has diminished. Indeed, this Conference has led to an atmosphere of hope, both in the Occupied Territories and elsewhere, which should not be disappointed.

The European Council reaffirms the commitment of the Community and its member States to make an active practical contribution to progress in the multilateral phase of the negotiations on regional cooperation. It expresses the hope that all parties in the region will participate in these negotiations. The European Council considers that the bilateral and multilateral agendas should go hand in hand, each one reinforcing the other. However, regional cooperation cannot progress faster than movement towards a political settlement. Given its close ties with all the parties involved, the Community and its member States are determined to remain in close contact with all participants and to do all they can to promote significant steps in the direction of a comprehensive, just and lasting settlement.

ANNEX 2

DECLARATION ON DEVELOPMENTS IN THE SOVIET UNION

The European Council took note of the decision of the Republics of Byelorussia, Ukraine and Russia to form a "Commonwealth of independent States", which other Republics have been invited to join. It also took note of President Gorbachev's statement on December 9, 1991.

The European Council underlines the necessity for a constructive dialogue among all parties concerned to ensure that the process of transformation of the Soviet Union, which has entered a crucial phase, continues in a peaceful, democratic and orderly manner.

The European Council welcomes the fact that the three Republics engaged in this comprehensive process of change have declared that they mutually recognise and respect each other's territorial integrity and the inviolability of the borders existing in the context of their Commonwealth.

The European Council is pleased to note that these Republics have at the same time reaffirmed their readiness to respect the international commitments of the Soviet Union and to ensure single control of nuclear weapons on their territory.

The European Council recalls the importance which the Community and its member States attach to respect for and implementation by all Republics of all provisions of the Helsinki Final Act, the Charter of Paris and other relevant provisions of the Conference on Security and Cooperation in Europe (CSCE) regarding human rights and the rights of persons belonging to national minorities. It also recalls that according to these provisions, the frontiers of all States in Europe are inviolable and can only be changed by peaceful means and agreement. Furthermore, the

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Community and its member States attach particular importance to necessary measures being taken without delay at the level of the Republics concerned to put into effect the agreements in the field of arms control, nuclear non-proliferation and the effective control and security of nuclear weapons. The Community and its member States also subscribe to the principle that Republics acceding to sovereignty should, for their part, respect the obligations deriving from the external debt of the Soviet Union.

At a moment when these Republics express democratically and peacefully their will to accede to full sovereignty, the Community and its member States wish to open with them, in a spirit of cooperation, a dialogue regarding the development of their mutual relationship.

The European Council also expresses the wish that these Republics develop among themselves the structures of cooperation required to facilitate their insertion in the international community under conditions appropriate to ensure the security, stability and legitimate fulfilment of all.

ANNEX 3

DECLARATION ON RACISM AND XENOPHOBIA

The European Council notes with concern that manifestations of racism and xenophobia are steadily growing in Europe, both in the member States of the Community and elsewhere.

The European Council stresses the undiminished validity of international obligations with regard to combating discrimination and racism to which the member States have committed themselves within the framework of the United Nations, the Council of Europe and the CSCE.

The European Council recalls the Declaration against racism and xenophobia issued by the European Parliament, Council and Commission on June 11, 1986 and, reaffirming its Declaration issued in Dublin on June 26, 1990, expresses its revulsion against racist sentiments and manifestations. These manifestations, including expressions of prejudice and violence against foreign immigrants and exploitation of them, are unacceptable.

The European Council expresses its conviction that respect for human dignity is essential to the Europe of the Community and that combating discrimination in all its forms is therefore vital to the European Community, as a community of States governed by the rule of law. The European Council therefore considers it necessary that the Governments and Parliaments of the member States should act clearly and unambiguously to counter the growth of sentiments and manifestations of racism and xenophobia.

The European Council asks Ministers and the Commission to increase their efforts to combat discrimination and xenophobia, and to strengthen the legal protection for third country nationals in the territories of the member States.

Lastly, the European Council notes that, in connection with the upheavals in Eastern Europe, similar sentiments of intolerance and xenophobia are manifesting themselves in extreme forms of nationalism and ethnocentrism. The policies of the Community and its member States towards the countries concerned will aim to discourage strongly such manifestations.

DECLARATION OF THE MEMBER STATES OF THE WESTERN EUROPEAN UNION ISSUED ON THE OCCASION OF THE 46TH EUROPEAN COUNCIL MEETING ON DECEMBER 9 AND 10 1991 AT MAASTRICHT.

The member states of Western Economic Union (WEU) welcome the development of the European security and defence identity. They are determined, taking into account the role of WEU as the defence component of the European Union and as the means to strengthen the European pillar of the Atlantic Alliance, to put the relationship between WEU and the other European states on a new basis for the sake of stability and security in Europe. In this spirit, they propose the following:

States which are members of the European Union are invited to accede to WEU on conditions to be agreed in accordance with Article XI of the modified Brussels Treaty, or to become observers if they so wish. Simultaneously, other European member states of NATO are invited to become associate members of WEU in a way which will give them the possibility to participate fully in the activities of WEU.

The member states of WEU assume that treaties and agreements corresponding with the above proposals will be concluded before December 31, 1992.

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From: BXL-ECCO (DGX026) Delivered: Wed 11-Dec-91 11:40 GMT Sys 10074 (349)
Subject: Conclusions in English - revised format
Mail Id: IPM-10074-911211-105140940

Maastricht, 11 December 1991

EUROPEAN COUNCIL

Maastricht, 9 and 10 December 1991

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It agreed on the programme of work and the timetables laid down and invited the Ministers for Immigration to implement them.

B. The European Council took note of the report by the Co-ordinators' Group on Free Movement of Persons and approved the recommendations made in it.

C. The European Council regretted that it had not yet been possible to resolve the last problem preventing the signing of the Convention between the Member States of the European Communities on the crossing of their external frontiers. The European Council invited the Presidency to collaborate with the two Member States concerned in actively seeking a solution for this problem.

D. The European Council requests the Co-ordinators to examine what the structure of the European Information System should be and to take care that the technical and legal provisions - including the protection of personal privacy - are being taken to build the system.

In view of the need for a speedy conclusion of these activities, it is desirable in the first place to establish whether the arrangements already existing between certain Member States may also apply to all the Member

States.

Europol

The European Council agreed on the creation of a European police office (Europol) the initial function of which would be to organize the exchange of information on narcotic drugs at the level of the Community's twelve Member States. The European Council instructed the TREVI Ministers, in collaboration with the Commission, to take such measures as were needed to allow Europol to be set up at an early date.

Drugs

The European Council took note of the report by the European Committee on the Fight Against Drugs.

It invited the Institutions of the European Community to employ all means to ensure that the act setting up the European anti-drug monitoring body could be adopted before 30 June 1992.

In the context of the widest possible information on drug problems the European Council supported the organization, during the second half of 1992, of a European Week to promote the prevention of drug use.

The European Council invited CELAD to continue its function of co-ordination and to ensure that the various responsible bodies lost no time in implementing the European programme for the fight against drugs adopted by the European Council in Rome on 14 December 1990.

Consequences of the draft Treaty on European Union

The European Council instructed the competent Council bodies and the Co-ordinators' Group on Free Movement of Persons to collaborate with the Commission on the examination of the consequences of the draft Treaty on European Union on proceedings in these areas, so that the relevant provisions of the future Treaty might be effectively applied as soon as that Treaty entered into force.

FOOD SUPPLY SITUATION IN MOSCOW AND ST. PETERSBURG

The European Council expressed its preoccupation with the critical food supply situation in Moscow and St. Petersburg, and agreed that the Community should take concrete rapid steps to help the populations of these cities.

The Member States will respond positively to requests from the Commission for making logistic experts available.

It asked the Commission to come forward with specific proposals and the Council (ECO/FIN) to examine at its session on 17 December 1991 the specific financial aspects of a Community action, including the question of credit guarantee.

EUROPEAN POLITICAL COOPERATION

Middle East

- The European Council adopted the declaration on the peace process in the Middle East in Annex 1.

- The European Council welcomes the release of further hostages in Lebanon. It expresses its gratitude to the Secretary General of the United Nations for his efforts in this respect.

The European Council deplores that the German nationals Heinrich Str?big and Thomas Kemptner are still being detained in Lebanon.

The European Council urges all governments and personalities who are able to contribute to the solution of the hostage problem, to continue their efforts towards an unconditional release of all persons who are detained without lega. procedure.

The hostage question in Lebanon will not be resolved until all hostages have been released.

The European Council welcomes the fact that the Secretary General of the United Nations has declared his readiness to continue his efforts.

Developments in the Soviet Union

The European Council discussed recent developments in the Soviet Union and adopted the declaration in Annex 2.

Policy regarding new Eeuropean states

The European Council asked Ministers of Foreign Affairs to assess developments in Eastern Europe and in the Soviet Union with a view to elaborating an approach regarding relations with new States.

Racism and xenophobia

The European Council adopted the declaration in Annex 3.

Enquiries in the bombing of flights PAN AM 103 and UTA 772

Recalling the declaration issued by the Community and its member States on 2 December, the European Council takes a most serious view of accusations agair. Libyan nationals in connection with the bombings of flight Pan Am 103 in December 1988 and of flight UTA 772 in September 1989. The European Council reaffirms its condemnation of all acts of terrorism, wherever and by whomever committed.

The European Council has noted the demands made of the Libyan authorities by the Governments of France, the United Kingdom and the United States on 27 November. It fully endorses these demands and calls upon the Libyan authorities to comply promptly and in full.

ANNEX 1

DECLARATION ON THE PEACE PROCESS IN THE MIDDLE EAST

The European Council attaches great significance to the Middle East Peace Conference in Madrid, which has launched a process of negotiations on the basis of UN Security Council Resolutions 242 and 338 which should lead to a just and comprehensive solution to the Arab-Israeli conflict and the Palestinian question. On the basis of the principles which have long governed their position, the Community and its member States are determined to continue to undertake all possible efforts alongside the United States and the Soviet Union to support this process. In Madrid they pledged their constructive partnership in all phases of the negotiations.

The European Council considers it of vital importance that the momentum gained at Madrid is not dissipated on procedural matters. It noted that the second round of bilateral negotiations has been convened in Washington. These negotiations should be pursued in good faith by all parties. Only then may the way be opened to movement on substance and meaningful confidence building measures. The European Council considers a halt to Israel's settlement activity in the Occupied Territories an essential contribution to creating the stable environment which progress in the negotiations requires. Renunciation of the Arab trade boycott is another.

With regard to the situation in the Occupied Territories, it is important that both sides show restraint and that Israel abide by the provisions of the Fourth Geneva Convention. The European Council looks forward to a tangible improvement in the situation in these territories, even before the putting in place of interim or other arrangements. In this respect it noted reports indicating that since the Conference in Madrid, the level of violence there has diminished. Indeed, this Conference has led to an atmosphere of hope, both in the Occupied Territories and elsewhere, which should not be disappointed.

The European Council reaffirms the commitment of the Community and its member States to make an active practical contribution to progress in the multilateral phase of the negotiations on regional cooperation. It expresses the hope that all parties in the region will participate in these negotiations. The European Council considers that the bilateral and multilateral agendas should go hand in hand, each one reinforcing the other. However, regional cooperation cannot progress faster than movement towards a political settlement. Given its close ties with all the parties involved, the Community and its member States are determined to remain in close contact with all participants and to do all they can to promote significant steps in the direction of a comprehensive, just and lasting settlement.

ANNEX 2

DECLARATION ON DEVELOPMENTS IN THE SOVIET UNION

The European Council took note of the decision of the Republics of Byelorussia, Ukraine and Russia to form a "Commonwealth of independent States", which other Republics have been invited to join. It also took note of President Gorbachev's statement on 9 December 1991.

The European Council underlines the necessity for a constructive dialogue among all parties concerned to ensure that the process of transformation of the Soviet Union, which has entered a crucial phase, continues in a peaceful, democratic and orderly manner.

The European Council welcomes the fact that the three Republics engaged in this comprehensive process of change have declared that they mutually recognise and respect each other's territorial integrity and the inviolability of the borders existing in the context of their Commonwealth.

The European Council is pleased to note that these Republics have at the same time reaffirmed their readiness to respect the international commitments of the Soviet Union and to ensure single control of nuclear weapons on their territory.

The European Council recalls the importance which the Community and its member States attach to respect for and implementation by all Republics of all provisions of the Helsinki Final Act, the Charter of Paris and other relevant provisions of the CSCE regarding human rights and the rights of persons belonging to national minorities. It also recalls that according to these provisions, the frontiers of all States in Europe are inviolable and can only be changed by peaceful means and agreement. Furthermore, the Community and its member States attach particular importance to necessary measures being taken without delay at the level of the Republics concerned to put into effect the agreements in the field of arms control, nuclear non-proliferation and the effective control and security of nuclear weapons. The Community and its member States also subscribe to the principle that Republics acceding to sovereignty should, for their part, respect the obligations deriving from the external d of the Soviet Union.

At a moment when these Republics express democratically and peacefully their will to accede to full sovereignty, the Community and its member States wish to open with them, in a spirit of cooperation, a dialogue regarding the development of their mutual relationship.

The European Council also expresses the wish that these Republics develop among themselves the structures of cooperation required to facilitate their insertion in the international community under conditions appropriate to ensure the security, stability and legitimate fulfilment of all.

ANNEX 3

DECLARATION ON RACISM AND XENOPHOBIA

The European Council notes with concern that manifestations of racism and xenophobia are steadily growing in Europe, both in the member States of the Community and elsewhere.

The European Council stresses the undiminished validity of international obligations with regard to combating discrimination and racism to which the member States have committed themselves within the framework of the United Nations, the Council of Europe and the CSCE.

The European Council recalls the Declaration against racism and xenophobia issued by the European Parliament, Council and Commission on 11 June 1986 and reaffirming its Declaration issued in Dublin on 26 June 1990, expresses its revulsion against racist sentiments and manifestations. These manifestations, including expressions of prejudice and violence against foreign immigrants and exploitation of them, are unacceptable.

The European Council expresses its conviction that respect for human dignity is essential to the Europe of the Community and that combating discrimination in all its forms is therefore vital to the European Community, as a community of States governed by the rule of law. The European Council therefore considers it necessary that the Governments and Parliaments of the member States should act clearly and unambiguously to counter the growth of sentiments and manifestations of racism and xenophobia.

The European Council asks Ministers and the Commission to increase their efforts to combat discrimination and xenophobia, and to strengthen the legal protection for third country nationals in the territories of the member States.

Lastly, the European Council notes that, in connection with the upheavals in Eastern Europe, similar sentiments of intolerance and xenophobia are manifesting themselves in extreme forms of nationalism and ethnocentrism. The policies of the Community and its member States towards the countries concerned will aim to discourage strongly such manifestations.

10.12.1991

<u>Declaration of the Member States of Western European Union issued on the occasion of the 46th European Council meeting on 9 and 10 December 1991 at Maastricht</u>

The Member States of WEU welcome the development of the European security and defence identity. They are determined, taking into account the role of WEU as the defence component of the European Union and as the means to strengthen the European pillar of the Atlantic Alliance, to put the relationship between WEU and the other European states on a new basis for the sake of stability and security in Europe. In this spirit, they propose the following:

States which are members of the European Union are invited to accede to WEU on conditions to be agreed in accordance with Article XI of the modified Brussels Treaty, or to become observers if they so wish. Simultaneously, other European member states of NATO are invited to become associate members of WEU in a way which will give them the possibility to participate fully in the activities of WEU.

The member states of WEU assume that treaties and agreements corresponding with the above proposals will be concluded before December 31, 1992.

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Maastricht, 10 December 1991

AMENDMENTS TO THE EEC TREATY

- ECONOMIC AND MONETARY UNION -

AS AGREED IN THE EUROPEAN COUNCIL OF MAASTRICHT

ON 10 DECEMBER 1991

TABLE OF CONTENTS

DESIRING to settle, in accordance with the general objectives of this Treaty certain particular problems existing at the present time,

taking into account that,

The Danish Constitution contains provision which may imply a referendum in Denmark prior to Danish participation in the third stage of Economic and Monetary Union,

HAVE AGREED on the following provisions which shall be annexed to this Treaty:

1. The Danish Government shall notify the Council of its position concerning participation in the third stage of the Economic and Monetary Union, before the Council makes its assessment under Article 109 F paragraph 2 of this Treaty.

2. In case of a notification that Denmark will not participate in the third stage, Denmark shall have an exemption. The effect of the exemption is that all articles and provisions of the Treaty and the Statute of the ESCB referring to a derogation shall be applicable to Denmark.

3. In such case, Denmark shall not be included among the majority of Member States which fulfil the necessary conditions mentioned in Article 109 F paragraph 2, second indent and paragraph 3, first indent of the EEC Treaty.

4. As for the abrogation of the exemption, the procedure referred to in Arti 109G, paragraph 2 shall only be initiated at the request of Denmark.

5. In case of abrogation of the exemption status, the provisions of this Protocol shall no longer be applicable.

PROTOCOL ON FRANCE

THE HIGH CONTRACTING PARTIES,

DESIRING to take into account a particular point relating to France,

HAVE AGREED upon the following provisions, which shall be annexed to this Treaty:

France will keep the privilege of monetary emission in its overseas territories under the terms established by its national laws, and will be solely entitled to determine the parity of the CFP franc.

DECLARATION ON TITLE III AND VI OF THE EC TREATY

The Conference affirms that the Council referred to in Part Three Title III Chapter 4 on capital and payments and Part Three Title VI on Economic and Monetary Policy of the EC Treaty is considered to be the Council in the composition of Economic and Finance Ministers.

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DECLARATION ON TITLE VI OF THE EC TREATY

PROTOCOL
ON CERTAIN PROVISIONS RELATING TO
THE UNITED KINGDOM

THE HIGH CONTRACTING PARTIES,

RECOGNISING that the United Kingdom shall not be obliged or committed to move to the third stage of economic and monetary union without a separate decision to do so by its government and Parliament,

NOTING the practice of the government of the United Kingdom to fund its borrowing requirement by the sale of debt to the private sector,

HAVE AGREED the following provisions, which shall be annexed to the EEC Treaty:

1. The United Kingdom shall notify the Council whether it intends to move to the third stage of economic and monetary union before the Council makes its assessment under Article 109 F paragraph 2 of the EEC Treaty.

2. Unless the United Kingdom notifies the Council that it intends to move to the third stage, it shall be under no obligation to do so.

   If no date is set for the beginning of the third stage under Article 109 F paragraph 3 of the EEC Treaty the United Kingdom may notify its intention to move to the third stage before 1 January 1998.

   Articles 3 to 9 of this Protocol shall have effect if the United Kingdom notifies the Council that it does not intend to move to the third stage.

3. The United Kingdom shall not be included among the majority of Member States which fulfil the necessary conditions mentioned in Article 109 F paragraph 2, second indent and paragraph 3, first indent of the EEC Treaty.

4. The United Kingdom shall retain its powers in the field of monetary policy according to national law.

5. Articles 3 A paragraph 2, 104 B paragraphs 1, 9 and 11, 105, 106 paragraph 3, 106 paragraph 7, 107, 108 paragraphs 1-3, 109, 109 A paragraph 4 and 109 H paragraphs 4-5 of the EEC Treaty shall not apply to the United Kingdom. In these provisions references to the Community or the Member States shall not include the United Kingdom and references to national central banks shall not include the Bank of England.

6. Articles 109 C paragraph 4 and 109 E bis of the EEC Treaty shall continue to apply to the United Kingdom. Article 109 B paragraph 3 shall apply to the United Kingdom as if it had a derogation.

7. The voting rights of the United Kingdom shall be suspended in respect of acts of the Council referred to in the Articles listed in Article 5 of this Protocol. For this purpose the weighted votes of the United Kingdom shall be excluded from any calculation of a qualified majority under Article G paragraph 5 of the EEC Treaty.

   The United Kingdom shall also have no right to participate in the appointment of the President, the Vice-President and the other members of the Executive Board of the ECB under Articles 109 A and 109 H paragraph 1 of the EEC Treaty.

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The criterion on the convergence of interest rates as mentioned in Article 109 F paragraph 1 fourth indent of this Treaty shall mean that observed over a period of one year before the examination a Member State has an average nominal long-term interest rate that does not exceed that of at most the three best performing Member States in terms of price stability by more than 2 percentage points. Interest rates shall be measured on the basis of long term Government bonds or comparable securities, taking into account differences in national definitions.

Article 5

The statistical data to be used for the application of this protocol shall be provided by the Commission.

Article 6

The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, the EMI or ECB and the Committee referred to in Article 109 B of this Treaty, adopt the appropriate provisions to lay down the details of the convergence criteria as mentioned in article 109 F of this Treaty which shall then replace this Protocol.

PROTOCOL
ON THE PRIVILEGES AND IMMUNITIES OF THE
EUROPEAN CENTRAL BANK AND THE
EUROPEAN MONETARY INSTITUTE

THE HIGH CONTRACTING PARTIES,

CONSIDERING that, in accordance with Article 40 of the Statute of the European System of Central Banks and of the European Central Bank and in accordance with Article 21 of the Statute of the European Monetary Institute, the European Central Bank and the European Monetary Institute shall enjoy in the territories of the Member States such privileges and immunities as are necessary for the performance of their tasks,

HAVE AGREED upon the following provisions, which shall be annexed to this Treaty:

Article 1

The Protocol on the Privileges and Immunities of the European Communities, annexed to the Treaty establishing a Single Council and a Single Commission of the European Communities, shall be supplemented by the following provisions:

"Article 23
This Protocol shall also apply to the European Central Bank, to the members of its organs, to its staff, without prejudice to the provisions of the Protocol on the Statute of the European System of Central Banks and the European Central Bank.

The European Central Bank shall in addition be exempt from any form of taxation or imposition of a like nature on the occasion of any increase in its capital

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20.2 Persons having access to data covered by specific secrecy Community legislation shall be subject to such legislation.

Article 21 - Privileges and immunities

The EMI shall enjoy in the territories of the Member States such privileges and immunities as are necessary for the performance of its tasks, under the conditions laid down in in the Protocol on the privileges and immunities of the European Communities annexed to the Treaty establishing a Single Council and a Single Commission of the European Communities.

Article 22 - Signatories

The EMI shall be legally committed vis--vis third parties by the President or the Vice-President or by the signatures of two members of the staff of the EMI who have been duly authorized by the President to sign on behalf of the EMI.

Article 23 - Liquidation of the EMI

23.1 In accordance with Article 109 H of this Treaty, the EMI shall go into liquidation on the establishment of the ECB. The liquidation shall be terminated by the beginning of the third stage of EMU.

23.2 The mechanism for the creation of ECUs against gold and US dollars as provided for by Article 17 of the EMS Agreement shall be unwound

by the first day of the third stage of EMU in accordance with the provisions of Article 20 of the said Agreement.

23.3 All claims and liabilities arising from the very short-term financing mechanism and the short-term monetary support mechanism, as provided for by the Agreements referred to in Article 6.1, shall be settled by the first day of the third stage of EMU.

23.4 All remaining assets of the EMI shall be disposed of and all remaining liabilities of the EMI shall be settled.

23.5 The proceeds of the liquidation described in Article 22.4 shall be distributed to the national central banks in accordance with the key as referred to in Article 16.2.

23.6 The Council of the EMI shall, acting by a qualified majority of two-thirds of the Members, take the measures necessary for the application of Articles 23.4 and 23.5.

23.7 Upon the establishment of the ECB, the President of the EMI shall retire from office.

PROTOCOL
ON THE EXCESSIVE-DEFICIT PROCEDURE

THE HIGH CONTRACTING PARTIES,

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Article 14 - Legal capacity

The EMI, which in accordance with Article 109 D paragraph 1 of this Treaty shall have legal personality, shall enjoy in each of the Member States the most extensive legal capacity accorded to legal persons under their laws; it may, in particular, acquire or dispose of movable or immovable property and may be a party to legal proceedings.

Article 15 - Legal acts

15.1 In the performance of its tasks, and under the conditions laid down in this Statute, the EMI shall:

- deliver EMI opinions;
- make EMI recommendations;
- take EMI decisions and adopt EMI guidelines which shall be addressed to the national central banks.

15.2 Opinions and recommendations of the EMI shall have no binding force.

15.3 The Council of the EMI may adopt guidelines laying down the methods fo: the implementation of the conditions necessary for the ESCB to perform functions in the third stage of EMU. EMI guidelines

shall have no binding force; they shall be submitted for decision to the ECB.

15.4 Without prejudice to Article 3.1, a decision of the EMI shall be binding in its entirety upon those to whom it is addressed. Articles 190 and 191 of this Treaty shall apply in all respects to EMI decisions.

Article 16 - Financial resources

16.1 The EMI shall be endowed with its own resources. The size of the resources of the EMI shall be determined by the Council of the EMI, acting by a qualified majority, with a view to ensuring an income deemed necessary to cover the administrative expenditure incurred in the performance of the tasks and functions of the EMI.

16.2 The resources of the EMI determined in accordance with Article 16.1 shall be formed out of contributions by the national central banks in accordance with the key as referred to in Article 29 of the Statute of the ESCB and paid up at the establishment of the EMI.

16.3 The Council of the EMI, acting by a qualified majority of two- thirds of the Members, shall determine the form in which contributions shall be p· up.

Article 17 - Annual accounts and auditing

17.1 The financial year of the EMI shall begin on the first day of January and end on the last day of December.

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Article 17 - Annual accounts and auditing

17.1 The financial year of the EMI shall begin on the first day of January and end on the last day of December.

17.2 The Council of the EMI shall adopt an annual budget before the

7.1 Once a year the EMI shall address a report to the Council on the state of the preparation for the third stage of EMU. These reports shall include assessment of the progress towards convergence in the Community, and cove- in particular the adaptation of monetary policy instruments and the preparation of the procedures necessary for carrying out a single monetary policy in the third stage of EMU as well as the statutory requirements to be fulfilled for central banks to become an integral part of the ESCB.

7.2 In accordance with the Council decisions referred to in Article 109 D paragraph 7 of this Treaty, the EMI may fulfil other tasks for the preparation of the third stage of EMU.

Article 8 - Independence

The members of the Council of the EMI who are the representatives of their institutions shall act, with respect to their activities, according to their own responsibilities. In exercising the powers and performing the tasks and duties conferred upon them by this Treaty and this Statute, the Council of the EMI may not seek or take any instructions from Community institutions or bodies or Governments of Member States. The Community institutions and bodies as well as the Governments of the Member States undertake to respect this principle and not to seek to influence the Council of the EMI in the performance of its tasks.

Article 9 - Administration

9.1 In accordance with Article 109 D paragraph 1 of this Treaty, the EMI sha be directed and managed by the Council of the EMI.

9.2 The Council of the EMI shall comprise the President, Vice-President and the Governors of the national central banks. If a Governor is unable to attend a meeting he may nominate another representative of his institution.

9.3 The President shall be appointed for a period of three years, by common accord of the Governments of the Member States at the level of Heads of State or of Government on a recommendation from, as the case may be, the Committee of Governors or the Council of the EMI and after consulting the Council and the European Parliament. The President shall be selected from among persons of recognized standing and professional experience in monetary or banking matters. Only nationals of Member States may be President of the EMI. The Governors shall appoint a Vice-President from among themselves for a period of three years.

9.4 The President shall perform their duties on a full-time basis. He shall not engage in any occupation, whether gainful or not, unless exemption is exceptionally granted by the Council of the EMI.

9.5 The President shall:
- prepare and chair the meetings of the Council of the EMI;
- present without prejudice to Article 22 the views of the EMI externally;
- be responsible for the day-to-day management of the EMI.

In the absence of the President, his duties shall be performed by the Vice President.

9.6 The terms and conditions of employment of the President, in particular his salary, pension and other social security benefits, shall be the subject of contracts with the EMI and shall be fixed by the Council of the EMI on a proposal from a Committee comprising three members appointed by the

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3.2 The EMI shall act in accordance with the objectives and principles stated in Article 2 of the Statute of the European System of Central Banks (in this Statute called "ESCB") and the European Central Bank (in this Statute called "ECB").

Article 4 - Primary tasks

4.1 In accordance with Article 109 D paragraph 2 of this Treaty, the EMI shall:
- strengthen co-operation between the national central banks of the Member States;
- strengthen the co-ordination of the monetary policies of the Member States with the aim of ensuring price stability;
- monitor the functioning of the European Monetary System (in this Statute called "EMS");
- hold consultations concerning issues falling within the competence of the national central banks and affecting the stability of financial institutions and markets;
- take over the tasks of the EMCF; in particular it shall perform the functions referred to in Articles 6.1, 6.2 and 6.3;
- facilitate the use of the ECU and oversee the development, including the smooth functioning, of the ECU clearing system;
- hold regular consultations concerning the course of monetary policies and the use of monetary policy instruments;
- normally be consulted by the national monetary authorities before they take decisions on the course of monetary policy in the context of the common framework for ex ante coordination.

4.2 At the latest by 31 December 1996 the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage of EMU, respecting the principle of an open economy with free competition. This framework shall be submitted for decision to the ECB at the beginning of the third stage.

In accordance with Article 109 D paragraph 3 of this Treaty, it shall in particular:
- prepare the instruments and the procedures necessary for carrying out a single monetary policy in the third stage;
- promote the harmonization, where necessary, of the conditions governing the collection, compilation and distribution of statistics in the areas within its field of competence;
- prepare the rules for operations to be undertaken by the national central banks in the framework of the ESCB;
- promote the efficiency of EC cross-border payments consistent with the requirements of the third stage;
- supervise the technical preparation of ECU bank-notes.

Article 5 - Advisory functions

5.1 In accordance with Article 109 D paragraph 4 of this Treaty, the Council of the EMI may formulate opinions and recommendations on the overall orientation of monetary policy and exchange rate policy as well as on the respective measures introduced in each Member State. The EMI may express opinions and recommendations to Governments and to the Council on policies which might affect the internal and external monetary situation in the Community and, in particular, the functioning of the EMS.

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Article 48 - Transitional provisions for the capital of the ECB

In accordance with Article 29.1 each national central bank will be assigned weighting in the key for subscription of the ECB's capital. By derogation f Article 28.3, central banks of Member States with a derogation shall not pay their subscribed capital unless the General Council, acting by a qualified majority as defined in Article 10.3, decides that a minimal percentage has to be paid up for covering the operational costs of the ECB.

Article 49 - Deferred payment of capital, reserves and provisions of the ECB

49.1 A central bank of a Member State whose derogation has been abrogated, shall pay up its subscribed share of the capital of the ECB to the same extent as the other central banks of Member States without a derogation, and shall transfer to the ECB foreign reserve assets in accordance with Article 30.1. The sum to be transferred shall be determined by multiplying the ECU value at current exchange rates of the foreign reserve assets which have hitherto been transferred to the ECB in accordance with Article 30.1, by the ratio between the number of shares subscribed by the national central bank concerned and the numbers of shares already subscribed by the other national central banks.

49.2 In addition to the payment to be made in accordance with paragraph 1, the central bank concerned shall contribute to the reserves of the ECB, to those provisions equivalent to reserves, and to the amount still to be appropriated to the reserves and provisions corresponding to the balance of the profit and loss account as at 31st December of the year prior to the subscription of its share in the capital of the ECB. The sum to be contributed shall be determined by multiplying the amount of the reser as defined above and as stated in the approved balance sheet of the EC by the ratio between the number of shares subscribed by the central bank concerned and the number of shares already subscribed by the other central banks.

Article 50 - Initial appointment of the members of the Executive Board

When the Executive Board of the ECB is being established, the President, the Vice-President and the other members of the Executive Board shall be appointed by common accord of the Governments of the Member States at the level of Heads of State or of Government, on a recommendation from the Council and after consulting the European Parliament and the Council of the EMI. The President of the Executive Board shall be appointed for 8 years. By derogation from Article 11.2 of this Statute and Article 109 A paragraph 4 of this Treaty, the Vice-President shall be appointed for 4 years and the other members of the Executive Board for a term of office of between 5 and 8 years, and the EMI instead of the Governing Council shall be consulted. The mandate shall not be renewable. The number of members of the Executive Board may be smaller than provided for in Article 11.1 of this Statute, but in no circumstance less than four.

Article 51 - Derogation from Article 32

51.1 If, after the start of the third stage of EMU, the Governing Council, acting by a qualified majority, decides that the application of Articl of this Statute results in significant changes in national central bar relative income positions, the amount of income to be allocated pursua to Article 32 shall be reduced by a uniform percentage which shall not exceed 60% in the first financial year after the start of the third stage of EMU and which shall decrease by at least 12 percentage points in each subsequent financial year.

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immunities as are necessary for the performance of its tasks, under the conditions laid down in the Protocol on the privileges and immunities of the European Communities annexed to the Treaty establishing a Single Council and a Single Commission of the European Communities.

CHAPTER VIII - AMENDMENT OF THE STATUTE AND COMPLEMENTARY LEGISLATION

Article 41 - Simplified amendment procedure

41.1 In accordance with Article 106 paragraph 5 of this Treaty, Articles 5.1, 5.2, 5.3, 17, 18, 19.1, 22, 23, 24, 26, 32.2, 32.3, 32.4, 32.6, 33.1(a) and 36 of this Statute may be amended by the Council, acting by a qualified majority on a recommendation from the ECB and after consulting the Commission and after receiving the assent of the European Parliament, or, acting unanimously on a proposal from the Commission and after consulting the ECB and after receiving the assent of the European Parliament.

41.2 A recommendation made by the ECB under this Article shall require a unanimous decision by the Governing Council.

Article 42 - Complementary legislation

In accordance with Article 106 paragraph 6 of this Treaty, immediately after the decision on the date for the beginning of the third stage the Council shall:

- acting by a qualified majority on a proposal from the Commission and after consulting the ECB, or, acting on a recommendation from the ECB and after consulting the Commission and after consulting the European Parliament, adopt the provisions referred to in Articles 4.1, 5.4, 19, 20, 28.1, 29,2, 30.4 and 34.3 of this Statute.

CHAPTER IX - TRANSITIONAL AND OTHER PROVISIONS FOR THE ESCB

Article 43 - General provisions

43.1 A derogation as referred to in Article 109 G paragraph 1 of this Treaty shall entail that the following Articles of this Statute shall not bestow any rights or obligations on the Member State concerned: 3, 4.2, 6, 9.2, 12.1, 14.3, 16, 18, 19, 20, 22, 23, 26.2, 27, 30, 31, 32, 33, 34 and 52.

43.2 The central banks of Member States with a derogation as specified in Article 109 G paragraph 1 of this Treaty shall retain their powers in the field of monetary policy according to national law.

43.3 In accordance with Article 109 G paragraph 4 of this Treaty, "Member States" shall be read as "Member States without a derogation" in the following Articles of this Statute: 3, 11.2, 19, and 34.2.

43.4 "National central banks" shall be read as "central banks of Member Stat without a derogation" in the following Articles of this Statute: 9.2, 10.1, 10.3, 12.1, 16, 17, 18, 22, 23, 27, 30, 31, 32 and 52.

Article 44 - Transitional tasks of the ECB

The ECB shall take over those tasks of the EMI that because of the derogations unities as are necessary for the performance of its tasks, under the ditions laid down in the Protocol on the privileges and immunities of the European Communities annexed to the Treaty establishing a Single Council and a Single Commission of the European Communities.

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Article 44 - Transitional tasks of the ECB

application of this Article.

Article 33 - Allocation of net profits and losses of the ECB

33.1 The net profit of the ECB shall be transferred in the following order:
(a) an amount to be determined by the Governing Council, which may not exceed 20% of the net profit, shall be transferred to the general reserve fund within the limit of 100% of the capital;
(b) the remaining net profit shall be distributed to the shareholders of ECB in proportion to their subscribed shares.

33.2 In the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the financial year concerned in proportion and up to the amounts allocated to the national central banks in accordance with Article 32.5.

Chapter VII - GENERAL PROVISIONS

Article 34 - Legal acts

34.1 In accordance with Article 106 paragraph 7 of this Treaty, the ECB shall:
- issue ECB recommendations and ECB opinions;
- take, under the conditions laid down in this Statute, ECB decisions necessary for carrying out the tasks entrusted to the ESCB under this Treaty and this Statute;
- adopt, under the conditions laid down in this Statute, ECB regulations to the extent necessary to implement the tasks defined in Article 3.1 first indent, Articles 19, 22 or 25.2 and in cases which shall be laid down in the acts of the Council referred to in Article 42.

The ECB may publish its recommendations and opinions.

34.2 An ECB decision shall be binding in its entirety upon those to whom it is addressed.

An ECB regulation shall have general application. It shall be binding in its entirety and directly applicable in all Member States. ECB recommendations and ECB opinions shall have no binding force.

Articles 190 to 192 of this Treaty shall apply in all respects to ECB regulations and ECB decisions.

34.3 Within the limits and under the conditions adopted by the Council under the procedure laid down in Article 42, the ECB shall be entitled to impose fines and periodic penalty payments on undertakings for failures to comply with obligations with respect to ECB regulations adopted and ECB decisions taken on the basis of this Statute.

1 The content of this Article will be added to Article 106, paragraph 7.

Article 35 - Judicial control and related matters

35.1 The acts or omissions of the ECB shall be open to review or interpretation by the Court of Justice under the conditions laid down for the legal control of the acts or omissions of Community institutions. The ECB may, application of this Article.

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- 50% of the share of its respective Member State in the population of the Community in the penultimate year preceding the establishment of the ESCB;
- 50% of the share of its respective Member State in the gross domestic product at market prices of the Community as recorded in the last five years preceding the penultimate year before the establishment of the ESCB;

The percentages shall be rounded up by 0.05% points.

29.2 The statistical data to be used for the application of this Article laid down by the Commission in accordance with the rules adopted by the Council under the procedure provided for in Article 42.

29.3 The weightings assigned to the national central banks shall be adjusted every five years after the establishment of the ESCB in analogy to the provisions laid down in Article 29.1. The adjusted key shall apply with effect from the first day of the following year.

29.4 The Governing Council shall take all other measures necessary for the application of this Article.

Article 30 - Transfer of foreign reserve assets to the ECB

30.1 Without prejudice to the provisions of Article 28, the ECB shall be provided by the national central banks with foreign reserve assets, other than Member States' currencies, ECUs, IMF reserve positions and SDR's, up to an amount equivalent to ECU 50.000 million. The Governing Council shall decide upon the proportion to be called up by the ECB at the implementation of this Statute and the amounts called up at later dates. The ECB shall have the full right to hold and manage the foreign reserves that are transferred to it and to use them for the purposes set out in this Statute.

30.2 The contributions of each national central bank shall be fixed in proportion with its share in the subscribed capital of the ECB.

30.3 Each national central bank shall be credited by the ECB with a claim equivalent to its contribution. The Governing Council shall determine the denomination and remuneration of such claims.

30.4 Further calls of foreign reserve assets beyond the limit set in Article 30.1 may be effected by the ECB, in accordance with the provision of Article 30.2, within the limits and under the conditions set by the Council in accordance with the procedure of Article 42.

30.5 The ECB may hold and manage IMF reserve positions and SDRs and provide for the pooling of such assets.

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Article 21 - Operations with public entities

21.1 In accordance with Article 104 of this Treaty, overdrafts or any other type of credit facility by the ECB or by the national central banks to Community institutions or bodies, Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of Member States and the purchase directly from them of debt instruments shall be prohibited.

21.2 The ECB and national central banks may act as fiscal agents for the entities referred to in paragraph 1.

21.3 The provisions under this Article shall not apply to publicly-owned credit institutions, which in the context of the supply of reserves by central banks shall be given the same treatment by national central banks and the ECB as private credit institutions.

Article 22 - Clearing and payment systems

The ECB and national central banks may provide facilities, and the ECB may issue ECB regulations to ensure efficient and sound clearing and payment systems within the Community and with other countries.

Article 23 - External operations

The ECB and the national central banks may:
- establish relations with central banks and financial institutions in other countries and, where appropriate, with international organisations;
- acquire and sell spot and forward all types of foreign exchange assets and precious metals; the term "foreign exchange asset" shall include securities and all other assets in currency of any country or units of account and in whatever form held;
- hold and manage the assets defined above;
- conduct all types of banking transactions in relations with third countries and international organisations, including borrowing and lending operations.

Article 24 - Other operations

In addition to operations arising from their tasks, the ECB and the national central banks may enter into operations for their administrative purposes or for their staff.

Chapter V - PRUDENTIAL SUPERVISION

Article 25 - Prudential supervision

25.1 The ECB may offer advice to and be consulted by the Council, the Commission and the competent authorities of the Member States on the sc and implementation of Community legislation relating to the prudential supervision of credit institutions and to the stability of the financial system.

25.2 In accordance with the Council decision referred to in Article 108

Article 21 - Operations with public entities

21.1 In accordance with Article 104 of this Treaty, overdrafts or any other type of credit facility by the ECB or by the national central banks to Community institutions or bodies, Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of Member States and the purchase directly from them of debt instruments shall be prohibited.

21.2 The ECB and national central banks may act as fiscal agents for the entities referred to in paragraph 1.

21.3 The provisions under this Article shall not apply to publicly-owned credit institutions, which in the context of the supply of reserves by central banks shall be given the same treatment by national central banks and the ECB as private credit institutions.

Article 22 - Clearing and payment systems

The ECB and national central banks may provide facilities, and the ECB may issue ECB regulations to ensure efficient and sound clearing and payment systems within the Community and with other countries.

Article 23 - External operations

The ECB and the national central banks may:
- establish relations with central banks and financial institutions in other countries and, where appropriate, with international organisations;
- acquire and sell spot and forward all types of foreign exchange assets and precious metals; the term "foreign exchange asset" shall include securities and all other assets in currency of any country or units of account and in whatever form held;
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25.2 In accordance with the Council decision referred to in Article 108 paragraph 4 of this Treaty, the ECB may fulfil specific tasks concerning

12.4 The Governing Council shall exercise the advisory functions referred to in Article 4.

12.5 The Governing Council shall take the decisions referred to in Article 6.

Article 13 - The President

13.1 The President, or, in his absence, the Vice-President shall chair the Governing Council and the Executive Board of the ECB.

13.2 Without prejudice to Article 39, the President or his nominee shall present the positions of the ECB externally.

Article 14 - National central banks

14.1 In accordance with Article 108 paragraph 2 of this Treaty, each Member State shall ensure, at the latest at the date of the establishment of the ESCB, that its national legislation including the Statutes of its national central bank is compatible with this Treaty and this Statute.

14.2 The Statutes of the national central banks shall in particular provide that the term of office of a Governor of a national central bank shall be no less than 5 years.

The Governor may be relieved from office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct. A decision to this effect may be referred to the Court of Justice by the Governor concerned or the Governing Council.

14.3 The national central banks are an integral part of the ESCB and shall act in accordance with the guidelines and instructions of the ECB.
The Governing Council shall take the necessary steps to ensure compliance with the guidelines and instructions of the ECB, and shall require that any necessary information be given to it.

14.4 National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two-thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the ESCB.

Article 15 - Reporting commitments

15.1 The ECB shall draw up and publish reports on the activities of the ESCB at least quarterly.

15.2 A consolidated financial statement of the ESCB shall be published each week.

15.3 In accordance with Article 109 A paragraph 3 of this Treaty, the ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and the current year to the European Parliament, the Council and the Commission, and also to the European Council.

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most extensive legal capacity accorded to legal persons under their law it may, in particular, acquire or dispose of movable and immovable property and may be a party to legal proceedings.

9.2 The function of the ECB shall be to ensure that the tasks conferred upon the ESCB under Article 3 are implemented either by the ECB's activities pursuant to this Statute or through the national central banks pursuant to Articles 12.1 and 14.

9.3 In accordance with Article 106 paragraph 3 of this Treaty, the decision-making bodies of the ECB are the Governing Council and the Executive Board.

Article 10 - The Governing Council

10.1 In accordance with Article 106 paragraph 3 of this Treaty, the Governing Council shall comprise the members of the Executive Board and the Governors of the national central banks.

10.2 Subject to Ar4ijle 10.3, only members of the Governing Council present in person shall have the right to vote. By derogation from this principle, the Rules of Procedure referred to in Article 12.3 may lay down that members of the Governing Council may cast their vote by means of teleconferencing. These rules shall also provide that a member of the Governing Council who is prevented from voting for a prolonged period m appoint an alternate as a member of the Governing Council.

Subject to Articles 10.3 and 11.3 each member shall have one vote. Save as otherwise provided for in this Statute, the Governing Council shall act by a simple majority. In the event of a tie, the President shall have the casting vote.
In order for the Governing Council to vote, there shall be a quorum of two-thirds of the members. If the quorum is not met, the President may convoke an extraordinary meeting at which decisions may be taken without regard to the quorum referred to above.

10.3 For any decisions to be taken under Articles 28, 29, 30, 32, 33 and 51, the votes in the Governing Council shall be weighted according to the national central banks' shares in the subscribed capital of the ECB. The weights of the members of the Executive Board shall be zero. A decision by a qualified majority shall be approved if the votes cast in favour represent at least two thirds of the subscribed capital of the ECB and represent at least half of the shareholders. If a Governor is unable to be present, he may nominate an alternate to cast his weighted vote.

10.4 The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public.

10.5 The Governing Council shall meet at least ten times a year.

Article 11 - The Executive Board

11.1 The Executive Board shall comprise the President, the Vice-President and four other members.
The members shall perform their duties on a full-time basis. No member shall engage in any occupation, whether gainful or not, unless exemption is exceptionally granted by the Governing Council.

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Chapter I - CONSTITUTION OF THE ESCB

Article 1 - The European System of Central Banks

1.1 The European System of Central Banks (in the Statute called "ESCB") and the European Central Bank (in this Statute called "ECB"), shall be established in accordance with Article 4 A of this Treaty; they shall perform their functions and carry on their activities in accordance with the provisions of this Treaty and of this Statute.

1.2 In accordance with Article 106 paragraph 1 of this Treaty, the ESCB shall be composed of the European Central Bank and of the central banks of the Member States (in this Statute called "national central banks").

The Institut Mon?taire Luxembourgeois will be the central bank of Luxembourg.

Chapter II - OBJECTIVES AND TASKS OF THE ESCB

Article 2 - Objectives

In accordance with Article 105 paragraph 1 of this Treaty, the primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, it shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2 of this Treaty. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3 A of this Treaty.

Article 3 - Tasks

3.1 In accordance with Article 105 paragraph 2 of this Treaty, the basic tasks to be carried out through the ESCB shall be:

- to define and implement the monetary policy of the Community;
- to conduct foreign exchange operations consistent with the provisions of Article 109 of this Treaty;
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation of payment systems.

3.2 In accordance with Article 105 paragraph 3 of this Treaty, the third indent of paragraph 1 shall be without prejudice to the holding and management by tha'TK_.//W>hK4uY{er States of foreign exchange working balances.

3.3 In accordance with Article 105 paragraph 5 of this Treaty, the ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

Article 4 - Advisory functions

4.1 In accordance with Article 108 paragraph 1 of this Treaty, the ECB:
-shall be consulted regarding any proposed Community act within its fields of competence; within the limits and under the conditions set out by the Council in accordance with the procedure of Article 42, the ECB

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4. If by the end of 1997 the date for the beginning of the third stage has n been set, the third stage will start on 1 January 1999. Before 1 July 1998, the Council, meeting in the composition of Heads of State or of Government, after a repetition of the procedure provided for in paragraphs 1 and 2, with the exception of the second indent of paragraph 2, taking into account the reports as referred to in paragraph 1 and the opinion of the European Parliament, shall, acting by a qualified majority, and on the basis of the recommendations of the Council referred to in paragraph 2, confirm which Member States fulfil the necessary conditions for the adoption of a single currency.

Article 109 G

1. - In the case that the decision has been taken to set the date in accordance with Article 109 F paragraph 3, the Council shall, on the basis of the recommendations of the Council as referred to in Article 109 F paragraph 2, acting by a qualified majority on a recommendation from the Commission, decide whether any, and if so, which Member States will need a derogation as defined in paragraph 3 of this Article. Such Member States will in this Treaty be called "Member States with a derogation".

   - In the case that the Council has confirmed which Member States fulfil the necessary conditions for the adoption of a single currency, in accordance with Article 109 F paragraph 4, those Member States that do not fulfil th conditions will need a derogation as defined in paragraph 3 of this Artic Such Member States will in this Treaty be called "Member States with a derogation".

2. At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB shall report to the Council following the procedure of Article 109 F paragraph 1. After consulting the European Parliament and after discussion in the Council, meeting in the composition of the Heads of State or of Government, the Council shall, acting by a qualified majority on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions based on the criteria set out in Article 109 F paragraph 1, and abrogate the derogations of the Member States concerned.

3. A derogation as referred to in paragraph 1 shall entail that the following Articles do not apply to the Member State concerned: Articles 104 B paragraphs 9 and 11, 105, 106 paragraph 7, 108 paragraph 3, 109 and 109 A paragraph 4. The exclusion of the rights and obligations within the ESCB is laid down in Chapter IX of the Statute of the ESCB.

4. In Articles 105, 108 paragraph 3, 109 and 109 A paragraph 4 "Member States" shall be read as "Member States without a derogation".

5. The voting rights of the Member States with a derogation shall be suspended for the Council decisions referred to in the Articles of this Treaty mentioned in paragraph 3. In that case, by derogation from Article 149, qualified majority shall be defined as two thirds of the weighted votes o the Member States without a derogation and unanimity of those Member States shall be required for an act constituting an amendment to a proposal from the Commission.

6. The provisions of Article 109 E bis will remain valid for a Member State with a derogation

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2. At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB shall report to the Council following the procedure of Article 109 F paragraph 1. After consulting the European Parliament and after discussion in the Council, meeting in the composition of the Heads of State or of Government, the Council shall, acting by a qualified majority on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions based on the criteria set out in Article 109 F paragraph 1, and abrogate the derogations of the Member States concerned.

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collection, compilation and distribution of statistics in the areas within its field of competence;

- prepare the rules for operations to be undertaken by the national central banks in the framework of the ESCB;
- promote the efficiency of EC cross-border payments;
- supervise the technical preparation of ECU bank-notes.

At the latest by 31 December 1996 the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage. This framework shall be submitted for decision to the ECB at the date of its establishment.

4. The EMI may, acting by a qualified majority, formulate opinions, or recommendations on the overall orientation of monetary policy and exchange rate policy as well as on the respective measures introduced in each Member State. The EMI may express its opinions or recommendations to Governments and to the Council on policies which might affect the internal or external monetary situation in the Community and, in particular, the functioning of the European Monetary System. The EMI may also, acting by a qualified majority, make recommendations to the national monetary authorities of the Member States concerning the conduct of their monetary policy.

5. The EMI may, acting unanimously, publish its opinions and its recommendations.

6. The EMI shall be consulted by the Council regarding any proposed Community act within its field of competence; within the limits and under the conditions set out by the Council, acting by a qualified majority on a proposal from the Commission and after consulting the EMI and the European Parliament, the EMI shall be consulted by the authorities of the Member States on any draft legislative provision within its field of competence.

7. The Council may, acting unanimously on a proposal from the Commission and after consulting the EMI and the European Parliament, confer upon the EMI other tasks for the preparation of the third stage.

8. In such cases where this Treaty provides for a consultative role for the ECB in the second stage, references to the ECB shall be read as referring to the EMI.

9. During the second stage, the term "European Central Bank" used in Articles 173, 175, 177, 180 and 215 shall be read as referring to the EMI.

ARTICLE 109 E

The currency composition of the ECU basket shall not be changed.

From the start of the third stage the value of the ECU shall be irrevocably fixed in accordance with the provisions of Article 109 H paragraph 3.

ARTICLE 109 E bis

Articles 108 and 109 of the EEC Treaty will in this Treaty be renumbered as Article 109 E bis paragraphs 1 and 2.

ARTICLE 109 F

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Articles 108 and 109 of the EEC Treaty will in this Treaty be renumbered as Article 109 E bis paragraphs 1 and 2.

ARTICLE 109 F

Article shall cease to exist. The Economic and Financial Committee shall have the following tasks:

- to deliver opinions, at the request of the Council, the Commission, or on its own initiative, for submission to these institutions;
- to keep under review the economic and financial situation of the Member States and of the Community and to report regularly thereon to the Council and the Commission, in particular on financial relations with third countries and international institutions;
- without prejudice to Article 151, to contribute to the preparation of the work of the Council referred to in Articles 73 E, 73 F, 103 paragraphs 2, 3, 4 and 5, 103 A, 104 A, 104 B, 106 paragraphs 5 and 6, 108 paragraphs 3 and 4, 109, 109 E bis, 109 G paragraph 2, 109 H paragraphs 3 and 4, and to carry out other advisory and preparatory tasks assigned to it by the Council;
- to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of this Treaty and of measures of the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination.

The Member States, the Commission and the ECB shall each appoint no more than two members of the Committee.

The Council shall, acting by a qualified majority on a proposal from the Commission and after consulting the ECB and the Committee referred to in this Article, lay down detailed provisions concerning the composition of the Committee. The President of the Council shall inform the European Parliament about the decision taken.

3. In addition to the tasks set out in paragraph 2, if and as long as there are Member States with a derogation as referred to in Article 109 F and 109 G, the Committee shall keep under review the monetary and financial situation and the general payments system of those Member States and report regularly thereon to the Council and to the Commission.

ARTICLE 109 BB

For matters within the scope of Articles 103 paragraph 4, 104 B with the exception of paragraph 14, 109, 109 F, 109 G and 109 H paragraphs 3 and 4 the Council or a Member State may ask the Commission to make a recommendation or a proposal. The Commission examines this request and submits its conclusions to the Council without delay.

CHAPTER 4 : TRANSITIONAL PROVISIONS

ARTICLE 109 C

1. The second stage for achieving economic and monetary union shall begin on January 1994.

2. Before that date,

   a. Each Member State shall:
   - adopt where necessary appropriate measures to comply with the prohibitions

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- to deliver opinions, at the request of the Council, the Commission, or on its own initiative, for submission to these institutions;
- to keep under review the economic and financial situation of the Member States and of the Community and to report regularly thereon to the Council and the Commission, in particular on financial relations with third countries and international institutions;
- without prejudice to Article 151, to contribute to the preparation of the work of the Council referred to in Articles 73 E, 73 F, 103 paragraphs 2, 3, 4 and 5, 103 A, 104 A, 104 B, 106 paragraphs 5

and 6, 108 paragraphs 3 and 4, 109, 109 E bis, 109 G paragraph 2, 109 H paragraphs 3 and 4, and to carry out other advisory and preparatory tasks assigned to it by the Council;
- to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of this Treaty and of measures of the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination.

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issue. The Council may, acting by a qualified majority on a proposal from the Commission and after consulting the ECB and in cooperation with the European Parliament, adopt measures to harmonize the denominations and technical specifications of all circulation coins to the extent necessary to permit a smooth circulation of coins within the Community.

4. The Council may, acting unanimously on a proposal from the Commission and after consulting the ECB and after receiving the assent of the European Parliament, confer upon the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions

and other financial institutions with the exception of insurance undertakings.

ARTICLE 109

1. The Council may, acting by unanimity on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, after consulting the European Parliament, in accordance with the arrangement procedures of paragraph 3 conclude formal agreements on an exchange rate system for the ECU vis--vis non-Community currencies. The Council may, acting by a qualified majority on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, adopt, adjust or abandon the ECU central rates of the ECU within the exchange rate system. The President of the Council shall inform the European Parliament on the adoption, adjustr or abandonment of the ECU central rate.

2. In the absence of an exchange rate system vis--vis one or more non-Community currencies as referred to in paragraph 1 of this Article, the Council may, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, on a recommendation from the ECB, formulate general orientations for exchange rate policy vis--vis these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.

3. By derogation from Article 228, in case agreements concerning monetary or foreign exchange regime matters need to be negotiated by the Community with one or more States or international organizations, the Council, after consulting the ECB, shall, acting by a qualified majority on a recommendation from the Commission, decide the arrangements for the negotiation and for the conclusion of such agreements. These arrangements shall ensure that the Community expresses a single position. The Commission will be fully associated in the negotiations.

Agreements concluded in accordance with this paragraph shall be binding on the ECB, on the institutions of the Community and on Member States.

4. Subject to paragraph 1 of this Article, the Council shall, acting by a qualified majority on a proposal from the Commission and after consulting the ECB, decide on the position of the Community on the international lev as regards issues of particular relevance to economic and monetary union acting unanimously its representation in compliance with the allocation o powers laid down in Articles 103 and 105.

5. Without prejudice to Community competence and Community agreements as regards EMU, Member States may negotiate in international bodies and conclude international agreements.

issue. The Council may, acting by a qualified majority on a proposal from the Commission and after consulting the ECB and in cooperation with the European Parliament, adopt measures to harmonize the denominations and technical specifications of all circulation coins to the extent necessary to permit a smooth circulation of coins within the Community.

4. The Council may, acting unanimously on a proposal from the Commission and after consulting the ECB and after receiving the assent of the European Parliament, confer upon the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions

and other financial institutions with the exception of insurance undertakings.

ARTICLE 109

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2. In the absence of an exchange rate system vis--vis one or more non-Community currencies as referred to in paragraph 1 of this Article, the Council may, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, on a recommendation from the ECB, formulate general orientations for exchange rate policy vis--vis these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.

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4. Subject to paragraph 1 of this Article, the Council shall, acting by a qualified majority on a proposal from the Commission and after consulting the ECB, decide on the position of the Community on the international level as regards issues of particular relevance to economic and monetary union and acting unanimously its representation in compliance with the allocation of powers laid down in Articles 103 and 105.

5. Without prejudice to Community competence and Community agreements as regards EMU, Member States may negotiate in international bodies and conclude international agreements.

deficit in the Member State concerned has been corrected. If the Council previously has made public recommendations, it will, as soon as the decision has been abrogated, make a public statement that an excessive deficit in the Member State concerned no longer exists.

13. When taking the Council decisions referred to in paragraphs 7 and following, the Council shall act on a recommendation from the Commission by a majority of two thirds of the weighted votes of the Member States, excluding the votes of the Member State concerned.

14. Further provisions relating to the implementation of the procedure described in this Article are set out in the Protocol on the excessive-deficit procedure annexed to this Treaty.
The Council shall adopt, acting unanimously on a proposal from the Commission and after consulting the ECB, and the European Parliament, the appropriate provisions which shall then replace this Protocol.
Subject to the other provisions of this paragraph the Council shall, before 1 January 1994, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament, lay down detailed rules and definitions for the application of the provisions of this Protocol.

CHAPTER 2 : MONETARY POLICY

ARTICLE 105

1. The primary objective of the European System of Central Banks shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3 A.

2. The basic tasks to be carried out through the ESCB shall be:
 - to define and implement the monetary policy of the Community;
 - to conduct foreign exchange operations consistent with the provisions of Article 109;
 - to hold and manage the official foreign reserves of the Member States;
 - to promote the smooth operation of payment systems.

3. The third indent of paragraph 2 shall be without prejudice to the holding and management by the Governments of Member States of foreign exchange working balances.

4. The ECB shall have the exclusive right to authorize the issue of bank-notes within the Community. The ECB and the national central banks may issue such notes. The bank-notes issued by the ECB and the national central banks sh be the only such notes to have legal tender status within the Community.

5. The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

ARTICLE 106

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13. When taking the Council decisions referred to in paragraphs 7 and following, the Council shall act on a recommendation from the Commission by a majority of two thirds of the weighted votes of the Member States, excluding the votes of the Member State concerned.

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5. The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

ARTICLE 106

ARTICLE 104 AA

Any measure, not based on prudential considerations, establishing a privileged access by Community institutions or bodies, Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of Member States to the financial institutions shall be prohibited. The Council shall, before 1 January 1994, acting by a qualified majority on a proposal from the Commission and in co-operation with the European Parliament, specify definitions for the application of the prohibition referred to in this Article.

ARTICLE 104 A

1. The Community shall not be liable for or assume the commitments of Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.

2. If necessary, the Council may, acting by a qualified majority on a proposal from the Commission and in co-operation with the European Parliament, specify definitions for the application of the prohibitions referred to in Article 104 and in this Article.

ARTICLE 104 B

1. Member States shall avoid excessive government deficits.

2. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with the budgetary discipline on the basis of the following two criteria:

- whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value and, if so,

  - whether the ratio has not declined substantially and continuously and has not reached a level that comes close to the reference value;

  - or, alternatively whether the excess over the reference value is only exceptional and temporary and the deficit remains close to the reference value;

- whether the ratio of government debt to gross domestic product exceeds a reference value, and if so, whether the ratio is not sufficiently diminishing and not approaching the reference value at a satisfactory pace.

The reference values are specified in a Protocol on the excessive-deficit procedure annexed to this Treaty.

ARTICLE 104 AA

Any measure, not based on prudential considerations, establishing a privileged access by Community institutions or bodies, Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of Member States to the financial institutions shall be prohibited. The Council shall, before 1 January 1994, acting by a qualified majority on a proposal from the Commission and in co-operation with the European Parliament, specify definitions for the application of the prohibition referred to in this Article.

ARTICLE 104 A

1. The Community shall not be liable for or assume the commitments of Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.

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whether the ratio of government debt to gross domestic product exceeds a reference value, and if so, whether the ratio is not sufficiently diminishing and not approaching the reference value at a satisfactory pace.

The reference values are specified in a Protocol on the excessive-deficit procedure annexed to this Treaty.

3. If a Member State does not fulfil the requirements under one of these

Article 73 E

Where, in exceptional circumstances, movements of capital to or from third countries cause, or threaten to cause, serious difficulties for the operation of economic and monetary union, the Council, acting by a qualified majority on a proposal from the Commission and after consulting the ECB, may take safeguard measures vis--vis third countries of limited duration for a period not exceeding six months if such measures are strictly necessary.

Article 73 F

1. If, in the cases envisaged in Article 228 A, action by the Community is deemed necessary, the Council may, in accordance with the procedure provided for in Article 228 A, take the necessary urgent measures on the movement of capital and on payments as regards third countries concerned.

2. Without prejudice to Articles 223 and 224 and as long as the Council has not taken measures pursuant to paragraph 1, a Member State may, for serious political reasons on grounds of urgency take measures on its own initiative. The Commission and the other Member States shall be informed of such measures by the date of their entry into force at the latest. The Council may, acting by a qualified majority on a proposal from the Commission, decide that the Member State concerned shall amend or abolish the measures. The President of the Council shall inform the European Parliament about the decision taken.

TITLE VI - ECONOMIC AND MONETARY POLICY

CHAPTER 1: ECONOMIC POLICY

ARTICLE 102 A

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community, as defined in Article 2 and in the context of the broad guidelines referred to in Article 103 paragraph 2. The Member States and the Community shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3 A.

ARTICLE 103

1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 102 A.

2. The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council.
The European Council shall, acting on the basis of this report from the Council, discuss a conclusion on the broad guidelines of the economic poli‹
of the Member States and of the Community.
On the basis of this conclusion, the Council shall, acting by qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall report its recommendation to the European Parliament.

3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council

Article 73 E

Where, in exceptional circumstances, movements o: untries cause, or threaten to cause, serious d: . economic and monetary union, the Council, act: a proposal from the Commission and after consult: measures vis--vis third countries of limited durá exceeding six months if such measures are strictl

Article 73 F

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TITLE VI - ECONOMIC AND MONET

CHAPTER 1: ECONOMIC POL

ARTICLE 102 A

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3. In order to ensure closer coordination of econ convergence of the economic performances of th

Vatican City and Monac 90

Declaration on Article 73 91

CONFERENCE
OF THE REPRESENTATIVES OF THE GOVERNMENTS
OF THE MEMBER STATES
- ECONOMIC AND MONETARY UNION -

PART ONE - PRINCIPLES

ARTICLE 3 A

1. For the purposes set out in Article 2, the activities of the Member States and the Community shall include, as provided for in this Treaty and in accordance with the timetable set out therein, the adoption of an economic policy based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and which is concluded in accordance with the principle of an open market economy with free competition.

2. Concurrently with the foregoing, and as provided for in this Treaty and in accordance with the timetable and the procedures set out therein, these activities shall include the irrevocable fixing of exchange rates leading to the introduction of a single currency, the ECU, the definition and conduct of a single monetary policy and exchange rate policy the primary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Community,, in accordance with the principle of an open market economy with free competition.

3. These activities of the Member States and the Community shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

ARTICLE 4 A

A European System of Central Banks (in this Treaty called "ESCB") and the European Central Bank (in this Treaty called "ECB") shall be established in accordance with the procedures laid down in this Treaty; they shall act within the limits of the powers conferred upon them by this Treaty and the Statute of the ESCB and the ECB annexed thereto.

PART THREE - POLICIES OF THE COMMUNITY

TITLE III - FREE MOVEMENT OF PERSONS, SERVICES, CAPITAL AND FREEDOM OF PAYMENTS

CHAPTER 4: CAPITAL AND PAYMENTS

ARTICLES 67 TO 73
Unchanged

ARTICLE 73 A

From 1 January 1994, Articles 67 to 73 shall be replaced by Articles 73B, EB, C, D, E and F.

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SN 252/1/91 REV 1

POLITICAL UNION

The Presidency proposes the following modifications to its text (doc CONF-UP 1850/91 + COR 1 + COR 2):

COMMON PROVISIONS

Article A

By this Treaty, the High Contracting Parties establish among themselves a European Union, hereinafter called the "Union".

This Treaty marks a new stage in the process creating an ever closer Union among the peoples of Europe, where decisions are taken as closely as possible to the citizens.

The Union shall be founded on the European Communities, supplemented by the policies and forms of co-operation established by this Treaty. Its task shall be to organize, in a manner demonstrating consistency and solidarity, relations between the Member States and between their peoples.

Article B

The Union shall set itself the following objectives:

- to promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and the establishment of economic and monetary union ultimately including a single currency in accordance with the provisions of the present Treaty,

- to assert its identity on the international scene, in particular through the implementation of a common foreign and security policy which shall include the eventual framing of a common defence policy,

- to strengthen the protection of the rights and interests of the nationals of its Member States through the introduction of a citizenship of the Union,

- to develop close co-operation on justice and home affairs,
- to maintain in full the "acquis communautaire" and build on it with a view to considering through the procedure referred to in Article W 2 to what extent the policies and forms of co-operation introduced by this Treaty may need to be revised with the aim of ensuring the effectiveness of the mechanisms and the Institutions of the Community.

The objectives of the Union shall be achieved as provided in this Treaty and in accordance with the conditions and the timetable set out therein while respecting the principle of subsidiarity as defined in Article 3b of the Treaty establishing the European Community.

Articles C, D

unchanged

Article E

Replace "specific provisions" by "other provisions".

Article F

unchanged

PROVISIONS AMENDING THE EEC-TREATY WITH A VIEW TO ESTABLISHING THE EUROPEAN COMMUNITY

Article 3

Paragraph (d): Add "as provided for in Article 100C".

add indent: "- contribution to the strengthening of consumer protection".

Article 3 b
(page 13)

Replace by the following:

"The Community shall act within the limits of the powers conferred upon it by this Treaty and of the objectives assigned to it therein.

In the areas which do not fall within its exclusive jurisdiction, the Community shall take action, in accordance with the principle of subsidiarity, only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of proposed action, be better achieved by the Community.

Any action by the Community shall not go beyond what is necessary to achieve the objectives of the Treaty."

Article 4
(page 14)

1st paragraph add: Court of Auditors

Article 87
(page 24)

Present EEC Treaty text unchanged.

Article 99

Delete: "Without prejudice to Article 101,"

Article 100 C
(page 26)

Replace by the following:

1. The Council, acting by unanimity on a proposal from the Commission and after consulting the European Parliament, shall determine the third countries whose nationals must be in possession of a visa when crossing the external borders of the Member States.

2. However, in the event of an emergency situation in a third country posing a threat of a sudden inflow of nationals from that country into the Community, the Council may, acting by a qualified majority on a recommendation from the Commission, for a period not exceeding 6 months, introduce a visa requirement for nationals from the country in question. The visa requirement established under this provision may be extended according to the procedure referred to in paragraph 1.

3. From the 1 January 1996, the Council shall act by a qualified majority on the decisions referred to in paragraph 1. The Council shall, before the same date, acting by the same majority on a proposal from the Commission and after consulting the European Parliament, adopt the measures related to uniform format for visas.

4. In the spheres referred to in this Article the Commission shall ex any request made by a Member State that it submit a proposal to Council.

5. This Article shall be without prejudice to the exercise of the responsabilities incumbent upon the Member States with regard to th maintenance of law and order and the safeguarding of internal secur

6. The provisions of this Article shall apply to other subjects if so decided persuant to Article I of the provisions of the Treaty on th Union which relate to co-operation in the field of justice and home affairs.

7. The provisions of the conventions in force between the Member State governing issues covered by this Article shall remain in force unti their content has been replaced by directives or measures adopted pursuant thereto.

Title VIII - Chapter 1: Social provisions

Present EEC Treaty provisions unchanged. (c.f. Annex III).

Chapter 3 : Education

(Page 38)

Add at the end of the first paragraph of Article A:
"and their cultural and linguistic diversity".

Article 123
(page 37)

Replace "adaptation to industrial changes" by "adaptation to industrial changes and to changes in production systems".

Title X - Economic and Social Cohesion (page 43)

Add the protocol in Annex I.

Article 130 D

Change the last paragraph with the following:

"The Council, acting in accordance with the same procedure, shall before the 31.12.1993 set up a Cohesion Fund providing financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure."

Title XI - Research and technological development

Article 130i (framework programme)

189 B procedure with unanimity.

Article 130 s (Environment)
(pages 52-53)

Read paragraph 2 as follows:

"By way of derogation from the previous paragraph and without prejudice to Article 100a, the Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, shall adopt

- provisions primarily of a fiscal nature;

- measures concerning town and country planning, land use with the exception of waste management and measures of a general nature, and management of water resources;

- measures significantly affecting a Member State's choice between different energy sources and the general structure of its energy supply.

The Council may, acting unanimously on a proposal from the Commission and after consulting the European Parliament, define those matters referred to in the present paragraph on which decisions are to be taken by a qualified majority."

Paragraph 3, first alinea, read as follows:

"In other areas general action programmes setting out priority objectives to be attained shall be adopted by the Council, acting in accordance with the procedure referred to in Article 189b."

Read paragraph 5 as follows:

"Without prejudice to the principle that the pollutor should pay, if a measure based on the provisions of paragraph 1 involves costs deemed disproportionate for the public authorities of a Member State, the Council shall, in the act adopting that measure, lay down appropriate provisions in the form of:

- temporary derogations and/or

- financial support from the Cohesion Fund to be set up no later than 31.12.1993 pursuant to the provisions of Article 130 D."

Add the following declaration of the Member States.

" Changes in Community legislation cannot undermine the derogations accorded to Spain and Portugal until 31 December 1999 under directive ... (large combustion plants)."

Title XIII - Trans-European Networks

Article B
(pages 54-55)

Read the third indent of the first paragraph as follows:

"- may support the financial efforts made by the Member States for projects of common interest financed by Member States, which are identified in the framework of the guidelines referred to in the first indent, particularly through feasability studies, loan guarantees or interest rate subsidies; the Community may also contribute financially through the Cohesion Fund to be set up no later than 31.12.1993 pursuant to the provisions of Article 130 D, to specific projects in Member States in the area of transport infrastructure."

Article C

Add a new alinea 2;

"Each Member State shall approve the guidelines and projects of common interest relating to its own territory."

Title XIV - Industry (page 56)

Read the last sentence of paragraph 3 as follows:

"The Council, acting by unanimity after consulting the European Parliament and the Economic and Social Committee, may decide on specific measures in support of action taken in the Member States to achieve the objectives set out in paragraph 1."

Add at the end of paragraph 3 :

This title does not provide a basis for the introduction by the Community of any measure which may distort competition.

Title XV - Public health (page 58)

1st paragraph second alinea: add after "health scourges" "including drug dependence"

New Title XVIII - Consumer protection

1. The Community shall contribute to the attainment of a high level of consumer protection through :

   (a) measures adopted pursuant to Article 100a in the context of the completion of the internal market ;

(b) specific action which supports and supplements the policy pursued by the Member States to protect the health, safety and economic interests of consumers and to provide adequate information of consumers.

2. The Council, acting in accordance with the procedure referred to in article 189 b and after consulting the Economic and Social Committee, shall adopt the specific action referred to in paragraph 1(b).

3. Action adopted pursuant to paragraph 2 shall not prevent any Member State from maintaining or introducing more stringent protective measures. Such measures must be compatible with this Treaty. The Commission shall be notified of them.

Article 138
(page 70)

(second paragraph of the EEC Treaty unchanged) (1)

Articles 157

(present EEC Treaty unchanged) (1)

Title XVI : Culture

189 B procedure with unanimity

Article 158 (Length of the mandate of the Commission)
(page 73)

Add new paragraph 1a):

"From 1 January 1995 the term of office of the Commission shall be five years."

(1)
Declaration:

The Member States agree to examine the questions relating to the number of members of the Commission and the number of members of the European Parliament no later than at the end of 1992, with the view to reach agreement which will permit the establishment of the necessary legal base for the fixing of the number of members of the European Parliament in good time for the 1994 elections. The decisions will i.a. be taken in the light of the need to establish an overall size of the European Parliament in an enlarged Community.

The German Delegation has made an oral statement to the protocol on the question of the number of German Members of the.. European Parliament.

(Consequential changes will have to be made for existing treaty provisions on the duration of the term of office of the Commission to be appointed in January 1993 and on procedure for dismissing the Commission (article 144). It will have to make clear that the Commission appointed to replace a dismissed Commission would only serve until the regular renewal date and not for a full term of office.)

Article 161

Delete second alinea (Deputy Commissioners)

Article 167 (Election of President of the Court)
(page 76)

Present EEC Treaty article unchanged.

.../...

COMMON FOREIGN AND SECURITY POLICY

Article C
(page 107)

Replace first sentence in paragraph 2 by:

"The Council shall, when adopting the joint action and at any stage during its development, define those matters on which decisions are to be taken by a qualified majority."

Add declaration of the Conference:

"Member States will, with regard to Council decisions requiring unanimity, to the extent possible avoid to prevent a unanimous decision where a qualified majority exists in favour of that decision".

Paragraph 6: Replace present text by

"In cases of imperative need arising from changes in the situation and failing a Council decision, Member States may take the necessary measures as a matter of urgency having regard to the general objectives of the joint action. The Member State concerned shall inform the Council immediately of any such action."

Article D
(page 109)

1. The common foreign and security policy shall include all questions related to the security of the European Union, including the eventual framing of a common defence policy, which might in time lead to a common defence.

.../...

2. The Union requests the Western European Union, which is an integral part of the development of the European Union, to elaborate and implement decisions and actions of the Union which have defence implications. The Council shall, in agreement with the institutions of the WEU, adopt the necessary practical arrangements.

3. Issues having defence implications dealt with under this Article shall not be subject to the procedures set out in Article C.

4. The policy of the Union in accordance with the present Article shall not prejudice the specific character of the security and defence policy of certain Member States and shall respect the obligations of certain Member States under the North Atlantic Treaty and be compatible with the common security and defence policy established within that framework.

5. The provisions of this Article shall not prevent development of closer co-operation between two or more Member States on a bilateral level, in the framework of the WEU and the Atlantic Alliance provided such co-operation does not run counter to or impede that provided for in this Title.

6. With a view to furthering the objective of this Treaty, and having in view the date of 1998 in the context of Article 12 of the Brussels Treaty, the provisions of this article may be revised as provided for in Article W (2) on the basis of a report to be presented in 1996 by the Council to the European Council, which shall include an evaluation of the progress made and the experience gained until then.

.../...

Article G
(page 110)

Replace 1st paragraph by the following:

"The Presidency shall consult the European Parliament on the main aspects and the basic choices of the common foreign and security policy and shall ensure that the views of the European Parliament are duly taken into consideration. The European Parliament shall be kept regularly informed by the Presidency and the Commission of the development of the Union's foreign and security policy."

Footnote to Article K
(page 113)

Replace by the following text:

"Use of languages shall be in accordance with the rules of the European Community.

For COREU communications, the current practice of European Political Co-operation will serve as a guide for the time being.

All Common Foreign and Security Policy texts which are submitted to or adopted at meetings of the European Council and of the Council as well as all texts which are to be published are immediately and simultaneously translated into all the official Community languages."

Declaration by the Member States which are members of the WEU

(page 114)

(see Annex V)

PROVISIONS ON CO-OPERATION IN THE SPHERES OF JUSTICE AND HOME AFFAIRS

Article A

(page 116)

Add new point 2. which reads as follows:

"The rules governing the crossing by persons of the external borders of the Member States and the exercise of controls thereon"

The present point 2 becomes point 3 with deletion of the words: "for long periods of residence" in subparagraph (a).

Points 3, 4, 5, 6, 7 and 8 of Article A become respectively points 4, 5, 6, 7, 8 and 9. References to this points are to be adapted.

Declaration re article A(1)
(page 122)

In paragraph 1 replace "by the end of 1993" by "by the beginning of 1993".

In paragraph 2 replace "by the end of 1994" by "by the end of 1993".

Declaration re article A(8)
(page 124)

In last paragraph change "during 1995" to "during 1994".

FINAL PROVISIONS

Article W
(page 127)

Read paragraph 2 as follows:

"A Conference of representatives of the governments of the Member States shall be convened in 1996 to examine those provisions of this Treaty for which revision is planned, in accordance with the objectives set out in Article A and B of the Common Provisions."

.../...

ANNEX I

PROTOCOL ON
ECONOMIC AND SOCIAL COHESION

The Commission and the Member States,

Recalling that the Union has set itself the objective to promote economic and social progress i.a. through the strengthening of economic and social cohesion;

Recalling that the EC Treaty, Article 2 includes the task of promotion of economic and social cohesion and solidarity between Member States and that the strengthening of economic and social cohesion figures among the activities of the Community listed in Article 3,

Recalling that the provisions of title X on economic and social cohesion as a whole provide the legal basis for consolidating and further developing the Community's action in the field of social and economic cohesion including the possibility of creating new funds,

Recalling that the provisions of title XII on Environment XIII and on Trans-European Networks provide for a cohesion Fund to be set up before the 31.12.1993,

Stating their belief that progress towards Economic and Monetary Union will contribute to the economic growth of all Member States,

Noting that the Community's Structural Funds are being doubled in real terms between 1987 and 1993, implying large transfers especially as a proportion of GDP of the less prosperous Member States,

.../...

Noting that the EIB is lending large and increasing amounts for the benefit of the poorer regions,

Noting the desire for greater flexibility in the modalities for allocations from the Structural Funds,

Noting the desire for modulating the levels of Community participation in programs and projects in certain countries,

Noting the proposal to take greater account of the relative prosperity of Member States in the system of own resources.

?

? ?

Reaffirm that the promotion of social and economic cohesion is vital to the full development and enduring success of the Community, and underline the importance of the inclusion of social and economic cohesion in the articles 2 and 3 of the Treaty,

Reaffirm their conviction that the Structural Funds should continue to play a considerable part in the achievement of Community objectives in the field of cohesion,

Reaffirm their conviction that the EIB should continue to devote the majority of its resources to the promotion of social and economic cohesion, and declare their willingness to review the capital needs of the EIB as soon as this will be necessary for this purpose,

Reaffirm the need for a thorough evaluation of the operation and effectiveness of the Structural Funds in 1992, and the need to review, on that occasion, the appropriate size of these funds in the light of the tasks of the Community in the area of social and economic cohesion,

Agree that the Cohesion Fund to be set up before the 31.12.1993 will provide Community financial contributions to projects in the field of Environment and Trans-European Networks in Member States with a GNP per capita of less than 90% of Community average who have a programme leading to the fulfillment of the conditions of economic convergence as set out in Article 104 B of the Treaty,

Declare their intention to allow a greater margin of flexibility in allocating financing from the Structural funds to specific needs not covered under the present structure Funds regulations,

Declare their willingness to modulate the levels of Community participation in the context of programs and projects of the Structural funds, with a view to avoiding excessive increases in budgetary expenditures in the less prosperous Member States,

Recognize the need to monitor regularly the progress made towards achieving social and economic cohesion and their willingness to study all necessary measures in this respect, Declare their intention to take greater account of the contributive capacity of individual Member States in the system of own resources, and to examine means of correcting for the less prosperous Member States degressive elements existing in the present own resources system.

ANNEX II

REFERENCE IN THE TREATY TO EUROPEAN PARTIES

The Conference agrees that an appropriate reference will be made in the Treaty to the consideration that European parties are important as a factor for integration within the Union. They shall contribute to forming consensus and to expressing the will of the citizens of the Union.

The precise formulation and place in the Treaty will be determined later.

ANNEX III

PROTOCOL
ON SOCIAL POLICY

The High Contracting Parties

noting that eleven Member States wish to continue along the path laid down in the Social Charter of 1989; that they have adopted among themselves an Agreement to this end;

1. Agree to authorize those eleven Member States to have recourse to the Institutions, procedures and mechanisms of the European Community for the purposes of taking among themselves and applying as far as they are concerned the necessary decisions.

2. The United Kingdom shall not take part in the deliberations on and the adoption of Commission proposals relating to fields covered by the above-mentioned Agreement.

   By way of derogation from Article 148(2) of the Treaty establishing the European Community, acts of the Council which are made pursuant to this Protocol and which must be adopted by a qualified majority shall be deemed to be so adopted if they have received at least forty-four votes in favour. Unanimity of all members of the Council, with the exception of the United Kingdom, shall be necessary for acts of the Council which must be adopted unanimously and for those amending the

Commission proposal.

Acts thus adopted by the Council and any financial consequence of measures taken in application of *the last indent of Article 118(3)@ shall not be applicable to the United Kingdom.

ANNEX IV

AGREEMENT
CONCLUDED BETWEEN THE MEMBER STATES OF THE EUROPEAN COMMUNITY WITH THE EXCEPTION OF THE UNITED KINGDOM

The undersigned eleven HIGH CONTRACTING PARTIES, WISHING to implement the 1989 Social Charter on the basis of the "acquis communautaire", TAKING INTO CONSIDERATION the Protocol on social policy:

Have AGREED as follows:

Article 117

The Community and its Member States shall have as their objectives the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion. To this end the Community and its Member States shall implement measures which take account of the diverse forms of national practices, in particular in the field of contractual relations, and the need to maintain the competitiveness of the Community economy.

Article 118

1. With a view to achieving the objectives of Article 117, the Community shall support and complement Member States' activities in the following fields:

   - improvement in particular of the working environment to protect workers' health and safety;
   - working conditions;
   - the information and consultation of workers;

   - equality between men and women with regard to labour market opportunities and treatment at work;
   - the integration of persons excluded from the labour market, without prejudice to the provisions of Article B of Chapter 3.

2. To this end, the Council may adopt, by means of directives, minimum requirements for gradual implementation, having regard to the conditions technical rules obtaining in each of the Member States. Such directives

avoid imposing administrative, financial and legal constraints in a way w would hold back the creation and development of small and medium-sized undertakings.

The Council shall act in accordance with the procedure referred to in Article 189c after consulting the Economic and Social Committee.

3. However, the Council shall act unanimously on a proposal from the Commiss after consulting the European Parliament and the Economic and Social Committee, in the following areas:

- social security and social protection of workers;
- protection of workers where their employment contract is terminated;
- representation and collective defence of the interests of workers and employers, including co-determination, subject to paragraph 6;
- conditions of employment for third-country nationals legally residing i Community territory;
- financial contributions for promotion of employment and job-creation, without prejudice to the provisions relating to the Social Fund.

4. A Member State may entrust management and labour, at their joint request, the implementation of directives adopted pursuant to paragraphs 2 and 3.

In this case, it shall ensure that, no later than the date on which a Directive must be transposed in accordance with Article 189, management a labour have introduced the necessary measures by agreement, the Member St concerned being required to take any necessary measure enabling it at any to be in a position to guarantee the results imposed by that Directive.

5. The provisions adopted pursuant to this Article shall not prevent any Mem State from maintaining or introducing more stringent preventive measures compatible with this Treaty.

6. The provisions of this Article shall not apply to pay, the right of association, the right to strike or the right to impose lock-outs.

Article 118a

1. The Commission shall have the task of promoting the consultation of manag and labour at Community level and shall take any relevant measure to facilitate their dialogue by ensuring balanced support for the parties.

2. To this end, before submitting proposals in the social policy field, the Commission shall consult management and labour on the possible direction Community action.

3. If, after such consultation, the Commission considers Community action advisable, it shall consult management and labour on the envisaged propos Management and labour shall forward to the Commission an opinion or, wher appropriate, a recommendation.

4. On the occasion of such consultation, management and labour may inform th Commission of their wish to initiate the procedure provided for in Article 118b. The duration of the procedure shall not exceed nine months

unless the management and labour concerned and the Commission decide join
to extend it.

Article 118b

1. Should management and labour so desire, the dialogue between them at Comm
level may lead to contractual relations including agreements.

2. Agreements concluded at Community level shall be implemented either in accordance with the procedures and practices specific to management and l and the Member States or, in matters covered by Article 118, at the joint request of the signatory parties, by a Council decision on a proposal fro Commission. (1)

The Council shall act by qualified majority, except where the agreement i question contains one or more provisions relating to one of the areas ref to in Article 118(3), in which case it shall act unanimously.

Article 118c

With a view to achieving the objectives of Article 117 and without prejudice the other provisions of this Treaty, the Commission shall encourage co-opera between the Member States and facilitate the co-ordination of their actio social policy fields under this Title.

Article 119

1. Each Member State shall ensure that the principle of equal pay for male a female workers for equal work is applied.

(1) Declaration in the Final Act of the Conference
" The Conference declares that the first of the arrangements for application of the agreements between management and labour Community-wide - referred to in Article 118b(2) - will consist in developing, by collective bargaining according to the rules of each Member State, the content of the agreements, and that consequently this arrangement implies no obligation on the Member States to apply the agreements directly or to work out rules for their transposition, nor any obligation to amend national legislation in force to facilitate their implementation."

(a) that pay for the same work at piece rates shall be calculated on the of the same unit of measurement;

(b) that pay for work at time rates shall be the same for the same jol

3. This Article shall not prevent any Member State from maintaining or adopt measures providing for specific advantages in order to make it easier for women to pursue a vocational activity or to prevent or compensate for disadvantages in their professional careers.

Articles 120 and 121

Deleted

Article 122

The Commission shall draw up a report each year on progress in achieving the objectives of Article 117, including the demographic situation in the Commun It shall forward the report to the European Parliament, the Council and the Economic and Social Committee.

The European Parliament may invite the Commission to draw up reports on particular problems concerning the social situation.

ANNEX V

Declaration of the Member States of Western European Union which are also members of the European Union on the role of WEU and its relations with the European Union and with the Atlantic Alliance

Introduction

1. WEU Member States agree on the need to develop a genuine European security and defence identity and a greater European responsibility on defence matters. This identity will be pursued through a gradual process involving successive phases. WEU will form an integral part of the process of the development of the European Union and will enhance its contribution to solidarity within the Atlantic Alliance. WEU Member States agree to strengthen the role of WEU, in the longer term perspective of a common defence policy within the European Union which might in time lead to a common defence, compatible with that of the Atlantic Alliance.

2. WEU will be developed as the defence component of the European Union and as the means to strengthen the European pillar of the Atlantic Alliance. To this end, it will formulate common European defence policy and carry forward its concrete implementation through the further development of its own operational role.

   WEU Member States take note of Article D relating to the common foreign and security policy of the Treaty on European Union which reads as follows:

   "1. The common foreign and security policy shall include all questions related to the security of the European Union, including the eventual framing of a common defence policy, which might in time lead to a common defence.

   2. The Union requests the Western European Union, which is an integral part of the development of the European Union, to elaborate and implement decisions and actions of the Union

which have defence implications. The Council shall, in agreement with the institutions of the WEU, adopt the necessary practical arrangements.

3. Issues having defence implications dealt with under this Article shall not be subject to the procedures set out in Article C.

4. The policy of the Union in accordance with the present Article shall not prejudice the specific character of the security and defence policy of certain Member States and shall respect the obligations of certain Member States under the North Atlantic Treaty and be compatible with the common security and defence policy established within that framework.

5. The provisions of this Article shall not prevent development of closer co-operation between two or more Member States on a bilateral level, in the framework of the WEU and the Atlantic Alliance provided such co-operation does not run counter to or impede that provided for in this Title.

6. With a view to furthering the objective of this Treaty, and having in view the date of 1998 in the context of Article XII of the Brussels Treaty, the provisions of this article may be revised as provided for in Article W (2) on the basis of a report to be presented in 1996 by the Council to the European Council, which shall include an evaluation of the progress made and the experience gained until then."

A. WEU's relations with European Union

3. The objective is to build up WEU in stages as the defence component of the European Union. To this end, WEU is prepared, at the request of the European Union, to elaborate and implement decisions and actions of the Union which have defence implications.

To this end, WEU will take the follow)nn measures to develop a close working relationship with the Union:

- as appropriate, synchronization of the dates and venues of meetings and harmonization of working methods;

- establishment of close cooperation between the Council and Secretariat-General of WEU on the one hand, and the Council of the Union and Secretariat-General of the Council on the other;

- consideration of the harmonization of the sequence and duration of the respective Presidencies;

- arranging for appropriate modalities so as to ensure that the Commission of the European Community is regularly informed and, as appropriate, consulted on WEU activities in accordance with the role of the Commission in the Common Foreign and Security Policy as defined in the European Union Treaty;

- encouragement of closer cooperation between the Parliamentary Assembly of WEU and the European Parliament.

The WEU Council shall, in agreement with the competent bodies of the European Union, adopt the necessary practical arrangements.

B. WEU's relations with the Atlantic Alliance

4. The objective is to develop WEU as a means to strengthen the European pillar of the Atlantic Alliance. Accordingly WEU is prepared to develop further the close working links between WEU and the Alliance and to strengthen the role, responsibilities and contributions of WEU Member States in the Alliance. This will be undertaken on the basis of the necessary transparency and complementarity between the emerging European security and defence identity and the Alliance. WEU will act in conformity with the positions adopted in the Atlantic Alliance.

   - WEU Member States will intensify their coordination on Alliance issues which represent an important common interest with the aim of introducing joint positions agreed in WEU into the process of consultation in the Alliance which will remain the essential forum for consultation among its members and the venue for agreement on policies bearing on the security and defence commitments of Allies under the Washington Treaty.

.../...

   - Where necessary, dates and venues of meetings will be synchronized and working methods harmonized.

   - Close cooperation will be established between the Secretariats-General of WEU and NATO.

C. Operational role of WEU

5. WEU's operational role will be strengthened by examining and defining appropriate missions, structures and means covering in particular:

   - WEU planning cell;

   - closer military cooperation complementary to the Alliance in particular in the fields of logistics, transport, training and strategic surveillance;

- meetings of WEU Chiefs of Defence Staff;

- military units answerable to WEU.

Other proposals will be examined further, including:

- enhanced cooperation in the field of armaments with the aim of creating a European armaments agency;

- development of the WEU Institute into a European Security and Defence Academy

Arrangements aimed at giving WEU a stronger operational role will be fully compatible with the military dispositions necessary to ensure the collective defence of all Allies.

D. Other measures

6. As a consequence of the measures set out above, and in order to facilitate the strengthening of WEU's role, the seat of the WEU Council and Secretariat will be transferred to Brussels.

7. Representation on the WEU Council must be such that the Council is able to exercise its functions continuously in accordance with Article VIII of the modified Brussels Treaty. Member States may draw on a double-hatting formula, to be worked out, consisting of their representatives to the Alliance and to the European Union.

8. WEU notes that, in accordance with the provisions of Article D(6) concerning the common foreign and security policy of the Treaty on European Union, the U;Dreview the provisions of this furthering the objective to be set by it in accordance with the procedure defined. The WEU will re-examine the present provisions in 1996. This re-examination will take account of the progress and experience acquired and will extend to relations between WEU and the Atlantic Alliance.

Mapping the road to monetary union

This is a summary of the treaty on economic and monetary union agreed at Maastricht:

"THE activities of the Member States and the Community shall...include:

- the irrevocable fixing of exchange rates leading to the introduction of a single currency, the Ecu;
- the definition and conduct of a single monetary policy and exchange rate policy the primary objective of both of which shall be to maintain price stability;
- and, without prejudice to this objective, to support the general economic policies in the Community, in accordance with the principle of an open market economy with free competition."

"These activities of the Member States and the Community shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions, and a sustainable balance of payments."

NATIONAL ECONOMIC POLICIES IN EMU

"Member States shall regard their economic policies as a matter of common concern and shall co-ordinate them within the Council."

"The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council...The Council shall, acting by qualified majority, adopt a recommendation setting out these broad guidelines."

"Where it is established...that the economic policies of a Member State prove to be not consistent with the broad guidelines referred to" above, or "risk jeopardizing the proper functioning of economic and monetary union, the Council may, acting by a qualified majority on a recommendation from the Commission, make the necessary recommendations to the Member State concerned."

MONETARY POLICY IN EMU

"A European System of Central Banks (ESCB) and the European Central Bank (ECB) shall be established in accordance with the procedures laid down in this Treaty."

"The primary objective of the European System of Central Banks shall be to maintain price stability."

"Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community."

Tasks of the ESCB: "The basic tasks to be carried out through the ESCB shall be:

- to define and implement the monetary policy of the Community;
- to conduct foreign exchange operations consistent with the provisions (outlined below);
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation of payment systems."

"The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system."

The structure of the ESCB: "The ESCB shall be composed of the European Central Bank (in this Treaty called ECB) and of the central banks of the Member States (in this Treaty called national central banks)."

"The decision-making bodies of the ECB are the Governing Council and the Executive Board. The Governing Council shall comprise the members of the Executive Board and the Governors of the national central banks."

"The President, the Vice-President and the other (four) members of the Executive Board shall be appointed by common accord of the Governments of the Member States at the level of Heads of State or of Government, on a recommendation from the Council and after consulting the European Parliament and the Governing Council of the ECB. Their term of office shall be 8 years. The mandate shall not be renewable."

Independence of the ESCB: "When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body."

"The Community institutions and bodies and the Governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB and of the national central banks in the performance of their tasks."

"Each Member State shall ensure that its national legislation including the Statutes of its national central bank is compatible with this Treaty and the Statute of the ESCB."

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EXTRACTS FROM THE STATUTES OF THE ESCB

"Only members of the Governing Council present in person shall have the right to vote." although, "members...may cast their vote by means of teleconferencing."

"Each member shall have one vote...the Governing Council shall act by a simple majority. In the event of a tie, the President shall have the casting vote."

"The Executive Board shall comprise the President, the Vice-President and four other members. The members shall perform their duties on a full-time basis."

"The Governing Council shall formulate the monetary policy of the Community including...decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB. The Executive Board shall implement monetary policy.

"The Governor may be relieved from office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct. A decision to this effect may be referred to the Court of Justice by the Governor concerned or the Governing Council."

"The national central banks are an integral part of the ESCB and shall act in accordance with the guidelines and instructions of the ECB."

"The statutes of the national central banks shall...provide that the term of office of a governor...shall be no less than 5 years."

The ECB may offer advice to and be consulted by the Council, the Commission and the competent authorities of the Member States in the scope and implementation of Community legislation relating to the prudential supervision of credit institutions and to the stability of the financial system... The ECB may fulfil specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings."

"Before the end of 1992, the decision where the seat of the ECB will be established shall be taken by common accord of the governments of the member states at the level of Heads of State or of Governments."

EXCHANGE RATE POLICY IN EMU

"The Council may, acting by unanimity on a recommendation from the ECB or from the Commission, and after consulting the ECB... conclude formal agreements on an exchange rate system for the ECU vis-a-vis non-Community currencies..."

exchange rate system vis-a-vis one or more non-Community currencies...the Council may, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, on a recommendation from the ECB, formulate general orientations for exchange rate policy vis-a-vis these currencies."

"These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability."

NATIONAL FISCAL POLICIES IN EMU

"The Member States shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from this Treaty. The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission.

The Treaty prohibits overdraft facilities or any other type of credit facility with the European Central Bank or with the national central banks to Community institutions or bodies, Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of Member States and the purchase directly from them of debt instruments.

Excessive deficits procedure: "Member States shall avoid excessive government deficits. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with the budgetary discipline on the basis of the following two criteria:

- whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, and if so, whether the ratio has not declined substantially and continuously and has not reached a level that comes close to the reference value, or alternatively whether the excess over the reference value is only exceptional and temporary and the deficit remains close to the reference value;
- whether the ratio of government debt to gross domestic product exceeds a reference value, and if so, whether the ratio is not sufficiently diminishing and not approaching the reference value at a satisfactory pace.

"If a Member State does not fulfil the requirements under one of these criteria, the Commission shall prepare a report. The report of the Commission shall also take into account whether the government deficit exceeds the government investment expenditure, and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State."

"The Council shall, acting by a qualified majority on a recommendation from the Commission, and having considered any observations which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists."

"In cases where a Member State persists in failing to put into practice the Council's recommendations, the Council may decide to give notice to the Member State concerned to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation."

"As long as a Member State fails to comply....the Council may decide to apply or, as the case may be, intensify one or more of the following measures:

- to require that the Member State concerned shall publish additional information, to be specified by the Council, before issuing bonds and securities;
- to invite the EIB to reconsider its lending policy towards the Member State concerned;
- to require that the Member State concerned makes a non interest-bearing deposit of an appropriate size with the Community until the excessive deficit has, in the view of the Council, been corrected;
- to impose fines of an appropriate size.

"The Council shall abrogate any or all of its decisions...if, in the view of the Council, the excessive deficit in the Member State concerned has been corrected."

"When taking the Council decisions...the Council shall act on a recommendation from the Commission by a majority of two-thirds of the weighted votes of the Member States, excluding the votes of the Member State concerned."

PROTOCOL ON EXCESSIVE DEFICIT PROCEDURE

The reference values referred to above are:

- *"3 per cent for the ratio of the planned or actual government deficit to gross domestic product at market prices;*
- *60 per cent for the ratio of government debt to gross domestic product at market prices."*

In the treaty:

- *"Government" means General Government, that is Central Government, regional or local funds, to the exclusion of commercial operations;*
- *"Deficit" means net lending;*
- *"Investment" means gross fixed capital formation;*
- *"Debt" means total gross debt at nominal value outstanding at the end of the year.*

MONETARY POLICY IN TRANSITION TO EMU

"The second stage for achieving economic and monetary union shall begin on 1 January 1994."

Before that date, each Member State shall:

- abolish "all restrictions on the movement of capital between Member States, and between Member States and third countries";
- "adopt, if necessary, multi-annual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union, in particular with regard to price stability and sound public finances."

"The Council shall, on the basis of a report from the Commission, assess the progress made with regard to economic and monetary convergence, in particular with regard to price stability and sound public finances and the progress made with the completion of the implementation of Community law concerning the internal market."

"In the second stage Member States shall endeavour to avoid excessive government deficits."

"During the second stage each Member State shall, as appropriate, start the process leading to the independence of its central bank."

The Ecu: "The currency composition of the ECU basket shall not be changed. From the start of the third stage the value of the ECU shall be irrevocably fixed."

Functions of the European Monetary Institute: "At the start of the second stage, the European Monetary Institute (in this Treaty called E [illegible]) shall be established and take up its duties."

"It shall...be directed and managed by a Council, consisting of a President, a Vice-P[illegible]dent and the Governors of the Central Banks of the Member States. The President shall be appointed by common accord of the Governments of the

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Member States at the level of Heads of State or of Government, on a recommendation from...the Committee of Governors or the Council of the EMI, and after consulting the Council and the European Parliament."

"The EMI shall:

- strengthen co-operation between the central banks of the Member States;
- strengthen the co-ordination of the monetary policies of the Member States, with the aim of ensuring price stability;
- monitor the functioning of the European Monetary System;
- hold consultations concerning issues falling within the competence of the central banks and affecting the stability of financial institutions and markets;
- take over the tasks of the European Monetary Co-operation Fund, which shall cease to exist;
- facilitate the use of the Ecu and oversee the development, including the smooth functioning of the Ecu clearing system."

Its other duties include to: "prepare the instruments and the procedures necessary for carrying out a single monetary policy in the third stage"; "promote the harmonisation...of the collection, compilation and distribution of statistics in the areas within its field of competence"; "prepare the rules for operations to be undertaken by the national central banks in the framework of the ESCB."

"At the latest by 31 December 1996 the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage."

"The EMI may, acting by a qualified majority, formulate opinions, or recommendations on the overall orientation of monetary policy and exchange rate policy as well as on the respective measures introduced in each Member State."

"The EMI may, acting unanimously, publish its opinions and its recommendations."

PROTOCOL ON OPERATION OF EMI

"The opinions and recommendations of the EMI shall have no binding force."

"The EMI shall be entitled to hold and manage foreign exchange reserves as an agent for and at the request of national central banks...transactions with these reserves shall not interfere with the monetary policy and exchange rate policy of the competent monetary authority of any Member State."

"The operations of the EMI shall be expressed in Ecu."

"Before the end of 1992, the decision where the Seat of the EMS will be established shall be taken by common accord of the Governments of the Member States at the level of Heads of State or of Governments."

CONVERGENCE CRITERIA FOR ENTRY TO EMU

"The Commission and the EMI shall report to the Council on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union."

"The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment of each Member State of the following criteria:

- the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of at most the three best performing Member States in terms of price stability;
- the sustainability of the government financial position; this will be apparent from having achieved budgetary positions without a government deficit that is excessive as determined above;
- the observance of the normal fluctuation margins provided for by the Exchange Rate Mechanism of the European Monetary System, for at least two years, without devaluing against any other Member State currency;
- the durability of convergence achieved by the Member State and of its participation in the Exchange Rate Mechanism of the European Monetary System being reflected in the long-term interest rate levels.

"The reports of the Commission and the EMI shall also take account of the development of the Ecu, the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the developments of unit labour costs and other price indices."

PROTOCOL ON CONVERGENCE CRITERIA

The details of the convergence criteria are:

- *"price stability" means that a Member State has a price performance that is sustainable, and an average rate of inflation, observed over a period of one year before the examination, that does not exceed that of at most the three best performing Member States in terms of price stability by more than 1½ percentage points. Inflation shall be measured by means of the consumer price index (CPI);*
- *the "government budgetary position" condition means that at the time of the examination the Member State is not the subject of a Council decision...that an excessive deficit exists for the Member State concerned;*
- *convergence of interest rates means that observed over a period of one year before the examination, a Member State has an average nominal long-term interest rate that does not exceed that of at most the three best performing Member States in terms of price stability by more than 2 percentage points. Interest rates shall be measured on the basis of long-term Government bonds or comparable securities.*

pg 3 of 4 cont.

TIMING OF MOVE TO EMU

"On the basis of these reports, the Council shall, acting by a qualified majority on a recommendation from the Commission, assess:

- for each Member State whether it fulfils the necessary conditions for the adoption of a single currency;
- whether a majority of the Member States fulfils the necessary conditions for the adoption of a single currency; and recommend its findings to the Council, meeting in the composition of the Heads of State or of Government."

"The Council, meeting in the composition of Heads of State or of Government, shall, not later than 31 December 1996, acting by a qualified majority, decide on the basis of the recommendations of the Council referred to:"

- "whether a majority of the Member States fulfils the necessary conditions for the adoption of a single currency;
- whether it is appropriate for the Community to enter the third stage of economic and monetary union, and if so, set the date for the beginning of the third stage."

"If, by the end of 1997, the date for the beginning of the third stage has not been set, the third stage will start on 1 January 1999."

"Before 1 July 1998, the Council, meeting in the composition of Heads of State or of Government... shall, acting by a qualified majority, and on the basis of the recommendations of the Council, confirm which Member States fulfil the necessary conditions for the adoption of a single currency."

In this case, "the Council... acting by a qualified majority on a recommendation from the Commission, shall decide whether any, and if so which, Member States will need a derogation as defined (above).

"At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB shall report to the Council...(to)...decide which Member States with a derogation fulfil the necessary conditions based on the criteria set out (above)."

"The voting rights of the Member States with a derogation shall be suspended for the Council decisions referred to."

"Immediately after the decision on the date for the beginning of the third stage has been taken...the Governments of the Member States without a derogation shall appoint...the President, the Vice-President and the other members of the *Executive Board of the ECB.*"

"The full exercise of their powers will start from the first day of the third stage...the EMI shall go into liquidation upon the establishment of the ECB."

" At the starting date of the third stage, the Council shall, acting with the unanimity of the Member States without a derogation...adopt the conversion rates at which their currencies will be irrevocably fixed and at which irrevocably fixed rate the Ecu shall be substituted for these currencies, and the Ecu will become a currency in its own right."

PROTOCOL ON TRANSITION TO STAGE 3 OF EMU

This protocol declares "the irreversible character of the Community's movement to the third stage by signing the new Treaty provisions on Economic and Monetary Union."

"Therefore all Member States shall, whether they fulfil the necessary conditions for the adoption of a single currency or not, respect the will for the Community to enter swiftly into the third stage of Economic and Monetary Union, and therefore no Member State shall prevent the entering into the third stage."

PROTOCOL REFERRING TO THE UK (the "opt-out clause")

"The United Kingdom shall not be obliged or committed to move to the third stage of economic and monetary union without a separate decision to do so by its government and Parliament."

" The United Kingdom shall notify the Council whether it intends to move to the third stage of economic and monetary union before the Council makes its assessment under Article 109 F...unless the United Kingdom notifies the Council that it intends to move to the third stage, it shall be under no obligation to do so."

"The United Kingdom shall not be included among the majority of Member States which fulfil the necessary conditions to move to Emu".

"The United Kingdom shall have the right to move to the third stage provided only that it satisfies the necessary conditions."

PROTOCOL RELATING TO DENMARK

"The Danish Constitution contains a provision which may imply a referendum in Denmark prior to Danish participation in the third stage of Economic and Monetary Union."

"In case of a notification that Denmark will not participate in the third stage, Denmark shall have an exemption."

"In such case, Denmark shall not be included among the majority of Member States which fulfil the necessary conditions."

pg4 end.

A step towards 'ever closer union'

These articles are a summary of the treaty on political union.

"By this Treaty, the High Contracting Parties establish among themselves a European Union."

"This Treaty marks a new stage in the process creating an ever closer Union among the peoples of Europe, where decisions are taken as closely as possible to the citizens".

OBJECTIVES, PRINCIPLES AND CITIZENSHIP

(The phrase "ever closer union" replaces the words "Union with a federal goal" which were in the last draft of the treaty by the Dutch presidency).

"The Union shall be founded on the European Communities, supplemented by the policies and cooperation established by this Treaty.

"Its task shall be to organize, in a manner demonstrating consistency and solidarity, relations between the member States and their peoples."

Objectives (articles B & 2)

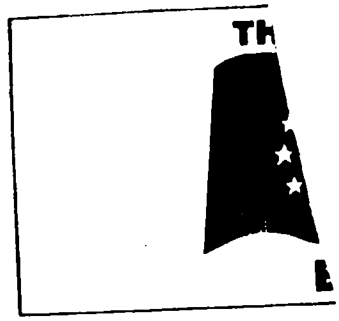
"The Community shall have as its task, by establishing a common market, an economic and monetary union and by implementing the common policies or activities referred to . . .the promotion, throughout the Community, of a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard and quality of living, and economic and social cohesion and solidarity between Member States."

This "task" replaces that declared by the Treaty of Rome, namely "to promote . . .a harmonious and balanced expansion [of economic activities], an increase in stability, an accelerated standard of living and closer relations between the States belonging to it."

Five specific objectives are set out:

● "To promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and the establishment of economic and monetary union including, finally, a single currency".

● "To assert its identity on the international scene, in particular through the implementation of a common foreign and security policy, which shall include the eventual framing of a common defence policy".



● "To strengthen the protection of the rights and interests of the nationals of its Member States, through the introduction of a citizenship of the Union".

● "To develop a close co-operation on home affairs and in the judicial field."

● "To maintain in full the *'acquis communautaire'* and build on it".

Principles (articles F, 3, 3b)

"The Union shall provide itself with the resources necessary to attain its objectives and carry through its policies", but with two specific limitations: "The Union shall have due regard to the national identity of its Member States, whose systems of government are founded on the principles of democracy".

"The Union shall respect the rights and freedoms as guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms, and as they result from the constitutional traditions common to the Member States as general principles of Community law".

"In the areas which do not fall within its exclusive jurisdiction, the Community shall take action, in accordance with the principle of subsidiarity".

Defining subsidiarity for the first time, article 3b states that, in such cases, "the Community shall take action . . .only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

"Any action by the Community shall not go beyond what is necessary to achieve the objectives of the Treaty."

The "activities of the Community" referred to are those set out in the Treaty of Rome, as amended by the Single European Act, with the following significant additions and changes:

● "Measures concerning the entry and movement of persons in the internal market".

● "The strengthening of economic and social cohesion".

● "A policy in the sphere of the environment".

● "The promotion of research and technological development".

● "Measures in the spheres of energy, consumer protection, civil protection and tourism".

● "Encouragement for the establishment and development of trans-European networks".

● "Contribution to the attainment of a high level of health protection".

● "Contribution to education and training of high quality, and to the flowering of the cultures of the Member States".

Citizenship (part II, parts A-E)

"Citizenship of the Union is hereby established. Every person holding the nationality of a Member State shall be a citizen of the Union.

"Every Union citizen shall have the right to move and reside freely within the territory of the Member States", and to receive consular support.

Union citizens resident in Member States of which they are not nationals will have the right to to vote and stand as a candidates at municipal and European elections.

Detailed arrangements for the exercise of these rights are to be adopted by the Council, acting unanimously, before the end of 1994.

Union citizens will be able to petition the European Parliament, and apply to the new Community ombudsman.

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Co-ope at on key to relations with others

"THE Union and its Member States shall define and implement a common foreign and security policy."

"The objectives of the common foreign and security policy shall be:

- to safeguard the common values, fundamental interests and independence of the European Union;
- to strengthen the security of the Community and its Member States in all ways;
- to preserve peace and strengthen international security ...
- to promote international co-operation;
- to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms."

Foreign and security policy will be dealt with by "systematic co-operation" between member governments, and "gradually implementing" joint action between them.

It will not formally be subject to Community institutions or brought within the Treaty of Rome.

FOREIGN AND SECURITY POLICY

"Member States shall inform and consult one another within the Council on any matter of foreign and security policy of general interest in order to ensure that their combined influence is exerted as effectively as possible by means of concerted and convergent action.

"Whenever it deems it necessary, the Council shall define a common position. Member States shall ensure that their national policies conform to the common positions.

"Member States shall co-ordinate their action in international organisations and at international conferences...at international conferences where not all the Member States participate, those which do take part shall uphold the common positions."

When the Council of minister decides – by unanimity – that "an area or matter covered by the foreign and security policy should be the subject of joint action, it shall lay down the specific scope, the Union's general and specific objectives in carrying out such action, and if necessary its duration, and the means, procedures and conditions for its implementation," and specific objectives in carrying out such action and the conditions, means and procedures for and, if necessary, the duration of its implementation.

"The Council shall, when adopting the joint action and at any stage during its development, define those matters on which decisions are to be taken by qualified majority."

However, an accompanying declaration adds: "Member States will, with regard to Council decisions requiring unanimity, to the extent possible avoid to prevent a unanimous decision where a qualified majority exists in favour of that decision.

"If there is a change in circumstances having a substantial effect on a question subject to joint action, the Council shall review the principles and objectives of that action and take the necessary decisions. As long as the Council has not acted, the joint action shall stand.

"Joint actions shall be binding upon the Member States in the positions they adopt and in the conduct of their activity."

The presidency of the Council will represent the Union for matters coming within the common foreign and security policy.

It will "be responsible for the implementation of common measures; in that capacity it shall in principle express the position of the Union in international organisations and international conferences."

In such tasks "the Presidency shall be assisted if need be by the previous and next Member State to hold the Presidency. The Commission shall be fully associated in these tasks."

Member states' diplomatic and consular missions, and Commission delegations in third countries and international conferences, "shall co-operate in ensuring that the common positions and common measures adopted by the Council are complied with and implemented.

"They shall step up co-operation by exchanging information, carrying out joint assessments and contributing to the implementation of the [common foreign policy]."

Heads of government, meeting in the European Council, "shall define the principles of and general guidelines for the common foreign and security policy."

The Council of Ministers "shall take the decisions necessary for defining and implementing common foreign and security policy on the basis of the general guidelines adopted by the European Council.

"It shall ensure the unity, consistency and effectiveness of action by the Union.

"The Council shall act unanimously, except for procedural questions", and in the arrangements described above for joint action.

"Any Member State or the Commission may refer to the Council any question relating to the common foreign and security policy and may submit proposals to the Council. In cases requiring a rapid decision, the Presidency, of its own notion, or at the request of the Commission or a Member State, shall convene an extraordinary Council meeting within forty-eight hours or, in an emergency, within a shorter period."

The Western European Union will be developed as the defence component of the European Union and as the means to strengthen the European pillar of the Atlantic Alliance.

Decisions taken by the Western European Union "shall not affect the obligations of certain Member States under the North Atlantic Treaty and be compatible with the common security and defence policy established within that framework."

The Euro 1 Court of Justice will have no powers to oversee the common foreign and security policy, and the Commission little direct role beyond ensuring consistency between the Community's external economic policy and its common foreign policy, and referring inconsistencies to the council.

The European Parliament will be consulted on the "main aspects and the basic choices of the common foreign and security policy.

"The European Parliament shall be kept regularly informed by the Presidency and the Commission on the development of the Union's foreign and security policy."

In a separate "declaration", member states a affirm that the following topics may be the subject of a joint action: industrial and technological co-operation in the field of armaments; the transfer of military technology to third countries and the control of arms exports; non-proliferation issues; arms control, negotiations on arms reduction and confidence-building measures, particularly in the context of the Conference on Security and Co-operation in Europe (CSCE); involvement in peace-keeping operations in the United Nations context; involvement in humanitarian intervention measures; questions relating to the CSCE; relations with the Soviet Union; and transatlantic relations.

Watchdog role for parliament

THE European Parliament will be allowed to set up committees of inquiry to investigate . . .alleged contraventions or maladministration in the implementation of Community law, except where the case is already sub judice.

INSTITUTIONS

Parliament will appoint an Ombudsman to hear complaints concerning instances of maladministration in the activities of Community bodies.

It will also have extra powers to scrutinise Community finances.

The parliament will have new powers to amend and veto certain Council acts.

European Commission: The Commission's membership will be reduced from 17 to 12. The president shall be appointed by governments "by common accord, after consulting the European Parliament", and once appointed the entire commission will be subject to a vote of confidence from the Parliament.

From 1 January 1995 the Commission's term of office will be extended from four to five years.

Committee of the Regions: The committee, a new Community institution, will comprise representatives of regional and local authorities. It was have an advisory role. Members will be appointed by their respective governments for four-year terms.

Se ɔarate protocol on the quality of life

A SEPARATE protocol on social policy is agreed by the 11 member states besides Britain, and the treaty authorises them "to have recourse to the institutions, procedures and mechanisms of the European Community" for the purpose of formulating and implementing policy.

The 11 commit themselves to "the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combatting of exclusion".

SOCIAL POLICY

Action will be taken, by qualified majority, to "support and complement" governments' activities in the following fields:

- improvement in the working environment to protect workers' health and safety;
- working conditions;
- the information and consultation of workers;
- equality between men and women with regard to labour market opportunities and treatment at work;
- the integration of persons excluded from the labour market.

However, directives on these issues "shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings".

Unanimity among the 11 will be required for action over: social security and social protection; protection of workers where their employment contract is terminated; representation and collective defence of the interests of workers and [illegible]loyers; conditions of [illegible]loyment for third-country [illegible]nals legally present in [illegible]munity territory; financial [illegible]ributions for the employ[illegible]t promotion.

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'European dimension' in educa on s enco raged

THE Community will encourage cooperation on education policy between Member States, supplementing their action "while respecting the responsibility of the Member States for the content of teaching, the organization of education systems and their cultural and linguistic diversity."

The Council, acting by qualified majority, will issue non-binding recommendations to encourage student, teacher and youth mobility and exchanges; to encourage distance learning; and to develop the "European dimension in education."

"The Community shall implement a vocational training policy which shall support and supplement the action of the Member States, while fully respecting the responsibility of the Member States for the content and organization of vocational training."

Regional development

"The Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions."

The EC's structural funds, the European Investment Bank and other existing financial instruments will be used to this end. Every three years the Commission will report to the Council, Parliament and the Committee of the Regions "on the progress made towards achieving economic and social cohesion and on the manner in which the various means prescribed in this Article have contributed to it. This report shall, if necessary, be accompanied by appropriate proposals."

Under a protocol on economic and social cohesion, the Twelve agree that the Cohesion Fund to be set up by the end of 1993 will support environmental and infrastructure projects "in Member States with a per capita GNP of less than 90 per cent of Community average".

Public health

"The Community shall contribute towards ensuring a high level of human health protection by encouraging cooperation between the member States and, if necessary, lending support to their action."

Member States will "coordinate among themselves their policies and programmes" in this area." There will be no direct Community competence.

Culture

"The Community shall contribute to the flowering of the cultures of the Member States, while respecting national and regional diversity, and bringing the common cultural heritage to the fore."

Community action shall support and supplement national action in the following areas: "improvement of the knowledge and dissemination of the culture and history of the European peoples"; "conservation and safeguarding of the cultural heritage of European significance"; "cultural exchanges"; "artistic and literary creation, including in the audiovisual sector".

Research and development

The Community's aim shall be "to strengthen the scientific and technological bases of Community industry and to encourage it to become more competitive at international level."

"A multiannual framework programme, setting out all the activities of the Community, shall be adopted by the Council", acting unanimously.

Environment

The Community's will act to "protect human health", "to preserve, protect and improve the quality of the environment", "to protect human health", "to ensure prudent and rational utilisation of natural resources", and "to promote measures at international level to deal with regional or worldwide environmental problems."

Policy "shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay. Environmental protection requirements must be integrated into the definition and implementation of other Community policies."

Energy

Community action will be aimed at the following objectives "within the framework of a market economy": promoting security and regularity of supplies under satisfactory economic conditions; ensuring an effective internal market in this sphere; ensuring a "suitable reaction in the event of a crisis, particularly in the oil sector"; "promoting the rational use of energy and the development and use of potentially profitable new and renewable energy sources."

Trans-European networks

Further to integrate the internal market, "the Community shall contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures."

"Within the framework of a system of open and competitive markets, action by the Community shall aim in particular at promoting the interconnection and inter-operability of national networks as well as access to such networks." It shall take account in particular of the need to link island, landlocked and peripheral regions with the central regions of the Community."

The Council may, by qualified majority, establish guidelines "covering the objectives, priorities and broad lines of measures envisaged in the sphere of trans-european networks".

Industry

The Community "shall ensure that the conditions necessary for the competitiveness of the Community's industry exist.". Its action will be aimed at "speeding up the adjustment of industry to structural changes; encouraging a favourable environment for initiative and the development of undertakings throughout the Community, particularly small and medium-sized undertakings; encouraging a favourable environment for co-operation between undertakings; fostering better exploitation of the industrial potential of policies of innovation, research and technological development."

POLICIES

Overseas development

Community policy shall foster "the lasting economic and social development of the developing countries, and most especially the most disadvantaged among them, the gradual smooth integration of the developing countries into the world economy, and the campaign against poverty in the developing countries." It shall also contribute to the general objective of developing and consolidating democracy and the rule of law." The Council, by qualified majority, "shall adopt the measures necessary to further" these objectives.

Judicial and home affairs

Like foreign and security policy, these fields will not come within the formal Community structure. But member states "shall regard as matters of common interest": asylum policy; immigration policy and policy regarding the entry, movement and residence of third-country nationals; measures to combat drug addiction; the combat of international fraud; judicial cooperation in civil and criminal matters; customs cooperation; police cooperation for the purposes of preventing and combating terrorism, unlawful drug trafficking and other ous forms of international crime, including the organization of a Union-wide system for exchanging information within a European police force."

A common visa policy will be agreed by the Council acting by unanimity until January 1996, and by qualified majority thereafter. In the event of "an emergency situation in a third country posing a threat of an inflow to the Community of "nationals from that country", the Council may introduce visa requirements for up to six months.

Future development

Another inter-governmental conference will meet in 1996 to review the treaty. "Any European State may apply to become a Member of the Union." Applications will be decided by the European Council, acting unanimously after consulting the Commission and after receiving the assent of the European Parliament.

HAPPY BIRTHDAY Hans van den Broek: the Dutch foreign minister, with raised glass, and Commission president Jacques Delors celebrate the end to the summit

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European Community: The 1992 Plan
IP 408E

Since the 1957 Treaty of Rome creating the European Economic Community, the member states have been moving slowly in the direction of greater unification. In 1985 the European Economic Community (or European Community as it is now usually called) adopted a plan to abolish the last remaining internal barriers to trade among member states by 1992 and create a single market in Europe. While the original goal was a single market, conceived in terms of eliminating or reducing the regulatory differences that hampered the free flow of goods, capital, and people among the European Community's 12 member states, the aims have now been broadened to include both monetary and political integration.

While many proposals relating to the single market have already been adopted as Community law, progress through the legislatures of member states has varied considerably. However, the integration of the European market should be seen as a continuing process, and 1992 is not regarded as an absolute deadline in any sense.

The United States, while welcoming the further integration and consequent economic stability and prosperity of Western Europe, has been concerned that its interests not be compromised. U.S. political and business circles have sought both to be fully informed and to have input into the unification process.

Given the potential economic and political power that the European Community possesses, other European countries, such as those belonging to the European Free Trade Association (EFTA), and the newly-emerged democracies of Eastern Europe, are also anxious to work out new relationships with the European Community.

This Info Pack contains CRS reports and newspaper and magazine articles which provide historical background on the creation of the European Community, discuss the current situation, and assess the possible implications for the United States of the European single market and the newly-emerging, more powerful European Community.

Members of Congress who want further information on this topic may contact CRS at 7-5700. Additional CRS Reports may be identified by looking in the current *Guide to CRS Products* (for congressional use only) under "European Economic Community" and in the latest *Update* under "Trade and International Finance."

Constituents may find additional information on this topic in a local library through the use of *Readers' Guide to Periodical Literature*, Public Affairs Information Service *Bulletin* (PAIS), and various newspaper indexes. Books on this subject may be identified through the library's catalog or the most recent edition of *Subject Guide to Books in Print*.

We hope this information will be helpful.

Congressional Reference
Division

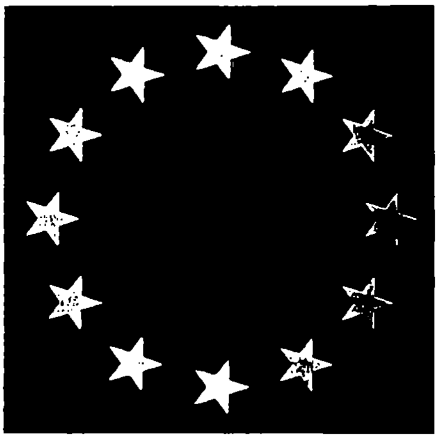
891

background notes

European Community

United States Department of State
Bureau of Public Affairs

April 1990



Official Name:
European Community (EC)
Also referred to as the European Communities

PROFILE

Background

Headquarters: Brussels, Belgium.

Established: On April 18, 1951, when the European Coal and Steel Community (ECSC) Treaty was signed in Paris, and on March 25, 1957, when the treaties for the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) were signed in Rome.

Purposes: To build foundations for peace through economic and political cooperation and to make possible an eventual federation of Europe.

Members: The Six—Belgium, Federal Republic of Germany, France, Italy, Luxembourg, Netherlands. The Nine—in 1973, Denmark, Ireland, and the United Kingdom joined the Six. The Ten—on January 1, 1981, Greece joined. The Twelve—Spain and Portugal joined the Ten on January 1, 1986.

Official Languages: Danish, Dutch, English, French, German, Greek, Italian, Portuguese, and Spanish.

Population (1988): 325 million.

Gross National Product (GNP) (1988): $4.71 trillion.

Average Per Capita GNP (1988): $14,500.

Organization

Principal Organs: Council, Commission, Parliament, Court of Justice.

Principal Areas of Community Competence: Internal and external trade, common industrial and commercial policies, agriculture, monetary coordination, fisheries, assistance, science and research, the environment, common social and regional policies.

Budget (1990): $56 billion, financed by a customs duty, a 1.4% value-added tax collected on the goods and services consumed in member countries, and a percentage donation based on member countries' gross domestic product.

Trade

Imports (1988): *Worldwide*—$458.6 billion. *From US*—$79.6 billion (23.7% of US exports).

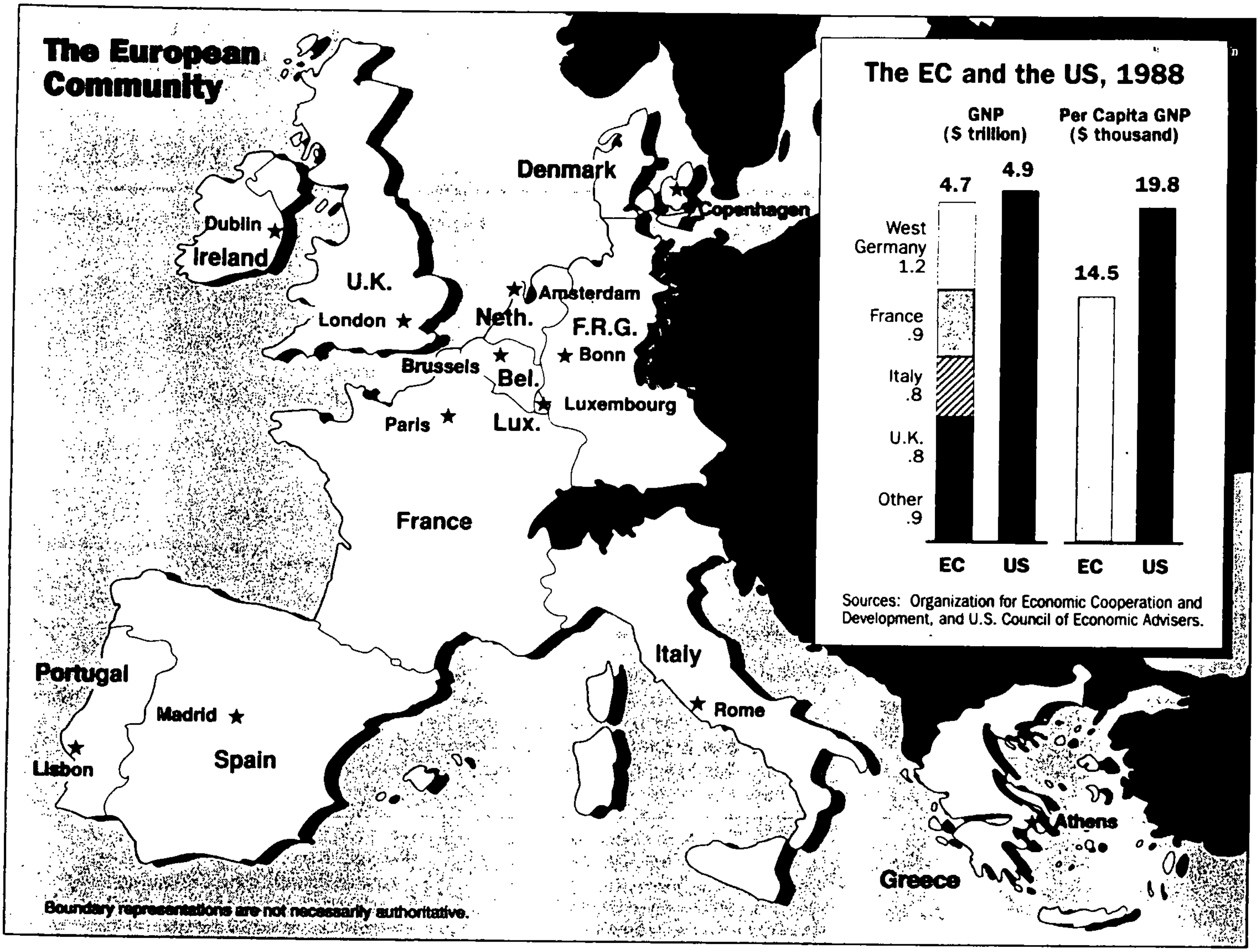
Exports (1988): *Worldwide*—$430.8 billion. *To US*—$84.4 billion (19.6% of EC exports).

EC and US Officials

Commission President: Jacques Delors, France

US Representative to the EC: Ambassador Thomas M.T. Niles, 40 Boulevard du Regent, B-1000, Brussels, Belgium; Tel. 32-2-513-4450.

EC Representative to the US: Ambassador Andreas Van Agt, 2100 M St., NW, Suite 707, Washington, D.C. 20037; Tel. 202-862-9500.



HISTORY

Peaceful union of European countries had been a dream for centuries, but not until the devastation of World War II was unity perceived as a necessity. Postwar economic chaos and the descent of what he called the "Iron Curtain" led Winston Churchill to declare in 1946: "We must create a sort of United States of Europe." Although they thought that unity was necessary for the reconstruction of the continent, national governments remained reluctant to cede any authority to a supranational body.

The primary aim of the Paris and Rome treaties establishing the European Communities (EC) was to remove the economic barriers that divided the member countries as the first steps toward political unity. To accomplish this, the treaties call for members to establish a common market, a common customs tariff, and common economic, agricultural, transport, and nuclear policies. The institutions and policies established by the treaties provide a framework within which the 12 EC members have agreed to integrate their economies and eventually consider forming a political union.

The Brussels Pact of 1948 created the first postwar European intergovernmental organization. Britain, France, Belgium, the Netherlands, and Luxembourg agreed to mutual military support and political cooperation. The military aspects of the pact were quickly overshadowed when the five signatories joined others in the NATO (North Atlantic Treaty Organization) alliance with the United States.

In the political sphere, the Council of Europe was organized by the pact members along with Ireland, Denmark, Norway, Italy, and Sweden. The Council was designed to be more than a simple forum for discussion, but the British and the Scandinavian Governments thwarted federalist attempts to give the Council any supranational powers. All decisions were to be made by unanimous agreement of the ministers of each member state, effectively weakening the Council.

The establishment of an administrative framework for European economic cooperation was stimulated by US Secretary of State George Marshall's offer of vast aid in a joint recovery program. Federalists, led by French Foreign Minister Robert Schuman and Jean Monnet (now considered the "father" of a united Europe), thought that Europe would never regain its status in world affairs, effectively solve its domestic problems, or be able to protect itself unless national governments were integrated. They proposed a supranational authority to make decisions in the interest of the whole continent. The British and the Scandinavians, again preferring international cooperation rather than formal integration, prevented the incorporation of a federal element in this new body, the Organization for European Economic Cooperation (OEEC). The OEEC, established in 1948 and transformed in 1961 into the worldwide Organization for Economic Cooperation and Development (OECD), was very effective in channeling US aid throughout the continent, but it had no supranational authority of its own.

Continuing their effort to develop a federal European authority, Schuman and Monnet proposed establishing the European Coal and Steel Community (ECSC) in 1950 "to place the entire Franco-German production of coal and steel under a common High Authority, in an organization open to other European countries." The French and German heavy industries urgently needed rebuilding, and the ECSC would facilitate growth as well as make war between the two countries "not merely inconceivable but physically impossible." Ratified by the Governments of France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg (the Six), the ECSC began functioning in 1952 and was the world's first international organization with an integrated federal governing body. The High Authority was empowered to act independently in the narrow but important economic fields of coal and steel production. The ECSC had limited financial independence, raising funds through levies on the coal and steel industries and the sale of bonds.

With Europe's immediate defense problem solved by NATO, efforts were concentrated on political and economic questions. Under the direction of Belgian Foreign Minister Paul Henri Spaak, the foreign ministers of the Six met to discuss proposals for an integrated economic system and a common structure for the development of nuclear energy. In 1957, the Six agreed to establish the European Economic Community (the EEC or Common Market) and the European Atomic Energy Community (EURATOM). The two treaties formally establishing the new communities to work with the ECSC were signed by the Six in Rome on March 25, 1957. The EEC and EURATOM began operating in January 1958. The wide-reaching EEC was given less supranational authority than the ECSC, although the economic union was viewed as a prerequisite for eventual political integration.

British ties to its Commonwealth and its desire to create a larger free trade area, as opposed to a customs union consisting only of the Six, resulted in the United Kingdom rejecting EEC and EURATOM membership. Britain, Austria, Denmark, Norway, Portugal, Sweden, and Switzerland later formed the European Free Trade Association (EFTA). EFTA was designed to boost nonagricultural trade among its members and to provide a united platform for relations with the EEC.

In the 1960s, Commonwealth ties were becoming less important for Britain, and UK economic growth was slower than the impressive growth rate of the Six. The British, therefore, decided to join the Community, even though membership would result in a substantial increase in British food prices. A French veto temporarily blocked British membership, but in 1973, the United Kingdom, Denmark, and Ireland were admitted, creating the EC Nine. The Government of Norway also had agreed to accession, but membership was rejected in a referendum. A further enlargement took place on January 1, 1981, when Greece joined the Community, making it the EC Ten. The most recent expansion occurred with the addition of Spain and Portugal on January 1, 1986, creating the current EC Twelve.

INSTITUTIONS

The three communities—the ECSC, EEC, and EURATOM—had separate executive commissions and councils of ministers until their 1967 merger into the European Communities; a joint commission and a joint council of ministers were then established. The other major EC institutions are the European Parliament, the Court of Justice, and the Economic and Social Committee.

The Commission

The Commission, headquartered in Brussels, is made up of 17 commissioners appointed by common agreement of the 12 governments. Each country is represented, with the largest five—France, West Germany, Italy, Spain, and the United Kingdom—supplying two commissioners. According to the treaties, members of the Commission act independently of their governments and of the Council; they represent the interests of the Community as a whole.

The Commission's major responsibility is to oversee the implementation of the EC treaties. It initiates EC policy by making proposals and steers its proposals through the legislative process. The commissioners also conduct the EC's negotiations with nonmember states on behalf of the Community. The collection and disbursement of EC funds is another important Commission responsibility. The Commission's independence and its "right of initiation" of policy account for much of its supranational authority. To balance that independence, the Commission is subject to censure by the Parliament, which can force the entire Commission to resign as a body by a two-thirds majority vote.[1] A European civil service divided into 23 Directorates-General plus Commission services assists the Commission. The Commission president is appointed to a renewable 2-year term by the Council.

The Council

The Council, which has its secretariat in Brussels, represents the national governments of the 12 member states and is the primary decisionmaking body of the Community. The foreign ministers of the member states deal with the most important and wide-reaching topics, while more specific decisions are made by the respective councils of the ministers of agriculture, finance, industry, energy, social affairs, and others. The 1987 Single European Act created a less restrictive decisionmaking process by allowing m voting in the Council by qualified majority, rather than unanimity.[2] Exceptions include certain health and safety proposals that individual states can veto. At the same time, the act mandated an increased role for the European Parliament in the decisionmaking prc

The various ministerial groups meet monthly. Formal biannual European Council meetings discuss intra-Community and foreign policy issues. Each country assumes the Council presidency for a 6-month term. The Committee of Permanent Representatives, consisting of member country ambassadors to the Community in Brussels, assists the Council.

The European Parliament

The European Parliament (EP), the only EC institution that directly represents European citizens, has gained a greater role in EC decisionmaking in recent years. The Parliament has significant power over budgetary matters (except agricultural spending) because it can amend or reject the budget and approve its adoption. The Parliament also considers the Commission's proposals on their way to the Council of Ministers. Since 1987, the Parliament also has had the right to amend or reject certain legislation approved by the Council, which can overrule the Parliament only by a unanimous vote. The Parliament also has gained the right to approve or d pprove applications of nonmember countries to join the Community, as well as new association agreements.

The 518 deputies are elected to 5-year terms. The first direct elections were held in 1979. The Parliament was enlarged to its present size in January 1986, when 60 members from Spain and 24 members from Portugal took their s. The members sit in transnational political groupings ranging across the political spectrum, including Socialists, Christian Democrats, Liberals, Conservatives, Communists, and Greens.

Many of the Parliament's specialized committees have emphasized development of truly "European" policies in areas such as the internal market, energy, industrial restructuring, and regional development funding. Direct elections ensure full public representation in the Community, and important tasks for the deputies include promoting the Community's work within their constituencies and increasing public support for an integrated Europe.

The Parliament meets monthly in week-long sessions in Strasbourg. The EP's Secretariat is located in Luxembourg; most Committee and Political Group meetings are held in Brussels.

The Court of Justice

The role of the EC Court of Justice is very similar to that of the US Supreme Court. The EC Court is the final authority for the interpretation of EC laws, as embodied in the treaties, regulations, and directives. Complaints about member-state treaty violations may be lodged by other members or by the Commission. Member governments, EC institutions, and individuals also can contest Commission and Council actions and member state implementation of EC legislation in the Court. The Court resolves conflicts between Community and national laws, and the Justices have played a major role in the process of removing barriers to the movement of goods, services, capital, and people among members. The Court's decisions are binding on all parties. Court decisions generally have tended to strengthen EC institutions and promote integrated EC policies.

The 13 Justices are appointed by the EC member governments and serve renewable 6-year terms. Court decisions are reached by a simple majority. All decisions are announced unanimously, but votes never are announced. The Court sits in Luxembourg.

The 1987 Single European Act introduced a new Court of First Instance, which essentially serves as a lower court. In addition, member state courts are obligated to directly enforce the Community treaties, thus creating a multi-layered judicial system.

The Economic and Social Committee

This consultative body of 156 members represents employers and unions as well as special interest groups such as consumers and farmers. The Committee enables a broad spectrum of interested producer and consumer groups to be actively involved in EC decisionmaking. Through a mandatory consultation process, the Committee submits its opinions to both the Councils of Ministers and the Commission.

BUDGET

Initially, the EC budget was funded by member-state contributions based on varying percentages of their gross domestic product (GDP). In 1977, those contributions were supplemented by revenue from agricultural levies and customs duties on EC imports. The GDP-based contributions were eliminated in 1979, as each state began paying 1% of the value-added tax (VAT) it collected on manufactured goods. Starting in 1986, the VAT contribution increased to 1.4%.

The Commission prepares the preliminary draft of each year's EC budget. The Council discusses the preliminary report and then issues a draft budget for EP approval. The Parliament can amend or reject the budget and is responsible for its final adoption.

The preliminary EC budget for 1990 is about $56 billion. The largest budget item, accounting for about two-thirds of the total, is agricultural expenditures. Other major budget items are energy and industrial programs, research, and development assistance to poorer regions of the Community, central and Eastern Europe, and Third World nations.

TRADE

The Customs Union

The authors of the EC treaties recognized that the economic keystone of unity would be a customs union permitting the free movement of goods, services, capital, and people within Western Europe. In 1958, the Community began the difficult process of eliminating all trade barriers among its members. Ten years later, all member-to-member duties were abolished, and a common external tariff of the Six was established. By 1977, this union was extended to include the new EC members—the United Kingdom, Denmark, and Ireland. Spain and Portugal, which joined in 1986, must dismantle their customs duties with other EC members before 1992 and must abolish their quantitative restrictions on intra-EC trade according to a timetable laid down for each.

The common external tariff is a key element in the customs union. Each EC member charges the same duty on a given import from a nonmember country. Agricultural imports are subject to the Common Agricultural Policy (CAP). The CAP places variable levies on agricultural imports to raise their prices to those of EC-produced commodities.

Although tariffs have been eliminated within the Community, several kinds of nontariff barriers still exist. Some member states maintain protectionist measures that the Community has not yet been able to eliminate entirely, such as limiting public works contracts and adopting unilateral technical or safety standards that restrict trade. Numerous health and safety barriers to agricultural trade still exist. Individual firms and governments can register trade restriction complaints with the Commission, which attempts to eliminate the barriers through binding judicial action.

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President Bush supports European efforts, led by EC Commission President Jacques Delors, to achieve economic and political integration. (White House photo)

External Trade

In 1988, trade among Community members was $1.24 trillion, while external trade was $890 billion, accounting for about 16% of world commerce, and making the EC the world's largest trading unit. Its total imports from third countries in 1988 were $459 billion, roughly the same amount as that of the United States. Most EC imports are raw materials and unprocessed goods. EC exports, most of which are processed goods such as machinery and vehicles, totaled $431 billion in 1988, compared with total US exports of $320 billion.

As provided for in Article 113 of the Treaty of Rome, the Community operates a common commercial policy adhered to by all member states. The Community's trade policy is based on the principles and obligations of the General Agreement on Tariffs and Trade (GATT) to which all Community members are contracting parties. EC countries are active participants in the current Uruguay Round of multilateral trade negotiations, which are scheduled to be completed with a concluding conference in Brussels in December 1990.

In 1972-73, the Community concluded free trade agreements with the member states of EFTA—Austria, Finland, Iceland, Norway, Sweden, and Switzerland. These agreements provide for the elimination of barriers to trade on almost all industrial products between the member countries of the two trading blocs. Only products originating within the free-trade area receive preferential treatment. EFTA members maintain quotas and tariffs on agricultural products.

The Community has reached preferential trade agreements with Turkey, Yugoslavia, and Mediterranean countries and separately with 68 African, Caribbean, and Pacific countries. Nonpreferential agreements have been signed with Canada, India, Romania, Sri Lanka, Pakistan, Bangladesh, China, and major Latin American countries. Most recently, the EC has concluded trade and commercial agreements with Poland, Hungary, the German Democratic Republic, the Soviet Union, and Czechoslovakia.

The Community is the United States' largest trading partner. In 1989, total US-EC trade was $171.7 billion. The 1989 trade balance with the EC was in the US favor for the first time since 1982. In 1988, almost 24% of all US exports were purchased by the EC, which, in turn, provided almost 24% of US imports.

The United States and the EC are each other's most significant source of direct investment. By the end of 1988, the EC had $194 billion invested in the United States (the British are the largest foreign investors in America), and the United States had about $127 billion in the EC.

SINGLE MARKET PROGRAM

Recently, the EC has made remarkable progress toward achieving a goal it set for itself more than 30 years ago—a unified West European market without national barriers to the movement of goods, services, capital, and people. The 12 EC member states have committed themselves to the historically important policy initiative of creating a single market by the end of 1992. The EC is expected to have adopted most of its single market proposals by that time and to have made significant progress on related efforts toward more complete economic integration.

The EC is, to a great extent, still a set of 12 separate markets, with different regulations for banks, insurance companies, medicinal products, lawnmowers, and cheese, to name just a few areas. The single market program will create a single set of rules for doing business in Europe. Where EC-wide rules are not practical, the single market will ensure mutual recognition of other members' regulations so that technical standards and procedures no longer pose barriers to trade across national borders. This creates potentially vast economies of scale and should expand the size and wealth of the EC market.

The renewed effort to create a single market began in 1985, when member countries approved an ambitious plan outlining almost 300 legislative proposals. The 1987 Single European Act committed government leaders to adhere to the timetable and made passage of legislation easier. Since then, the EC Commission has finished its work in proposing more than 90% of the proposals (now 279), and the EC Council has adopted more than half of them into Community law. Member states must pass legislation to implement the directives, usually within 2 years of final agreement at the EC level.

Difficult areas remain in the single market program, notably in attempting to allow the free movement of people across national borders and in harmonizing policy on indirect taxation. However, momentum has been sustained, largely because most of the European public and businesses strongly support the program. When the major proposals are fully implemented, the Commission will have authority to control large mergers and acquisitions; will make a European company statute available throughout the Community; will enforce open procurement, allowing foreign participation (with some limitations) in all sectors except defense; and will provide a host of product and regulatory standards ranging from containers to automobiles to biotechnology. Many, but not all, of these standards will be based on existing international standards.

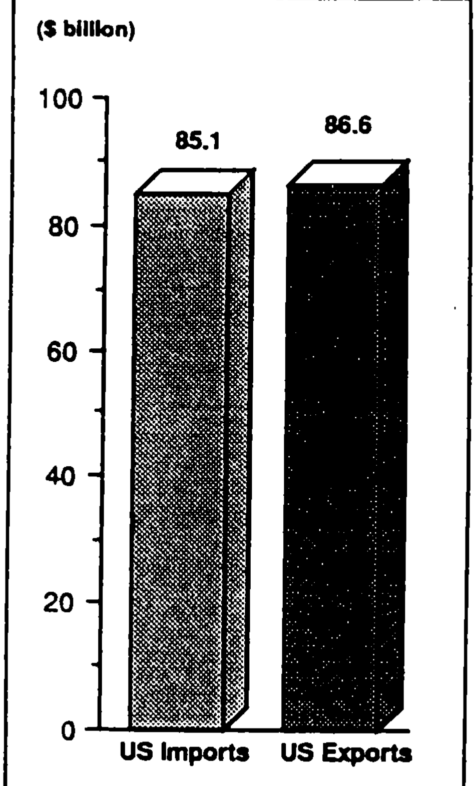
Further economic integration beyond trade and investment issues is under consideration. The Community already has sought or will pursue common policies on environmental protection, immigration, labor law, monetary and fiscal issues, and law enforcement against narcotics and terrorism. Questions of national sovereignty have exacerbated tension among some members and EC institutions. The debate indicates the difficult course ahead, and it is clear that many of these issues will be decided well after 1992.

AGRICULTURAL POLICY

Instituted in 1962, the Common Agricultural Policy (CAP) has allowed the EC to become more than self-sufficient in many agricultural commodities and has provided stable incomes to the European farming population. The CAP, however, consumes about two-thirds of the EC budget and—through its complicated network of protection, price supports, and subsidies—has created large surpluses of many agricultural products. EC export subsidies, traditionally used to dispose of some of these surpluses, have helped to create a distorted and unstable market in agricultural commodities. Over the years, EC products benefiting from the CAP have displaced some US farm exports, particularly grains.

Since the EC already has a single agricultural market in many respects, the 1992 program will not have as great an effect as in other areas. The single market program aims to harmonize agricultural health rules for animals and plants, thereby reducing barriers that have kept the EC's agricultural markets somewhat segmented. As the Community eliminates border controls, it must act on the taxes or subsidies currently levied on agricultural trade at national borders. Further monetary harmonization is likely to result in the elimination of the special agricultural exchange rates which also have served to protect markets from intra-EC competition.

US Trade With EC, 1989



Sources: US Department of Commerce

An EC budget package adopted in February 1988, aimed at balancing the budget and reducing growth in agricultural expenditures over a 4-year period, to a great extent has removed agriculture as a contentious internal EC issue. The agreement resolved short-term budgetary problems by basically resorting to supply management techniques. Although the package is reducing somewhat agricultural oversupply within the EC and is helping to limit new pressures on international agricultural markets, it does little to increase the market orientation of EC agriculture. The global reform of agricultural policies remains an important US objective and a major task of the current round of multilateral trade negotiations.

ENERGY

The European Community is sensitive to the need for reducing foreign energy dependence, particularly on oil imports, through conservation and other measures. In September 1986, the Council set EC targets for 1995 which would limit oil consumption to 40% of total energy consumption and maintain net oil imports at less than one-third of total energy consumption. The Community has an active program of research into alternate energy sources, including biomass, synthetic fuel, solar, and geothermal development. Nuclear energy also is widely used in certain EC member states, but there is intense and growing public concern about nuclear safety issues, particularly following the Chernobyl accident in the Soviet Union.

EURATOM, established following the first European energy crisis in 1956, is responsible for the procurement and distribution of nuclear fuels in the Community. It also undertakes research in nuclear development, provides financing for nuclear energy projects, and exercises safety and security responsibilities over member-country facilities.

THE EUROPEAN MONETARY SYSTEM

In 1979, the Community inaugurated the European Monetary System (EMS). The EMS replaced the "snake" in an effort to reduce exchange fluctuations.[3] The EMS provides for frequent discussions among central bankers and for intervention in foreign exchange markets to maintain the value of each EC currency within a narrow range vis-a-vis the European Currency Unit (ECU) and each other currency. All Community members belong to the EMS. However, the United Kingdom, Greece, and Portugal do not participate in the system's exchange rate mechanism, which represents a commitment by the participants to maintain their exchange rates within a very narrow band. The founders of the EMS maintained that exchange rate stability was essential to increase trade and also would provide impetus for better coordination of monetary and fiscal policies. In addition to currency swap arrangements for defense of currency parities, the EMS includes a reserve fund. The ECU, a combination of 12 member currencies, is the Community's budget and accounting unit.[4]

Jacques Delors, the Commission President, has drawn up a three-phase plan for broadening the EMS into an economic and monetary union (EMU).

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Under Phase I, all EC governments are committed to join the exchange rate mechanism, and finance ministers and entral bank governors would cooperate more closely on policy decisions. Later phases of the Delors Plan envisage a central bank and a common currency, but several EC members, particularly the United Kingdom, have opposed aspects of the plan. In 1989, Community leaders decided that on July 1, 1990, the EC will begin implementing Phase I of the Delors Plan. An intergovernmental conference will convene in late 1990 to consider what changes to the EC treaties would be required for EMU. Treaty changes must be approved by all 12 of the member countries.

POLITICAL COOPERATION

Coordination of the foreign policies of the EC members was not included in the three treaties but was undertaken voluntarily in 1970. In 1987, European political cooperation was formalized in the Single European Act. Recently, this cooperation has increased to a wider range of foreign policy issues. Topics included under the act are such key areas as Eastern Europe, the Middle East, Central America, nuclear and conventional disarmament, and nuclear nonproliferation. A secretariat to administer the act has been established in Brussels.

The 12 foreign ministers meet at least quarterly to discuss political coordination. The foreign ministers attempt at these meetings to coordinate the broad lines of the members' international policies and to issue joint statements of policy. In addition to these formal meetings, the foreign ministers gather informally twice a year, unaccompanied by staff. The ministers also discuss political cooperation during the twice-yearly meetings of the European Council, at which the 12 EC heads of government meet.

The meetings of the foreign ministers are prepared for by the EC Political Committee, comprising senior officials from the 12 foreign ministries, who meet monthly to prepare specific issues for ministerial discussion. The Political Committee also meets in New York in September at the opening of the UN General Assembly.

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RELATIONS WITH EUROPE

The success of the European Community has encouraged other countries to seek membership. Turkey and Austria have applied, but the EC has indicated that it will put off consideration of new applications until after the completion of the single market. In addition, the EC has association agreements with Yugoslavia, Turkey, and Cyprus. EC leaders expect to negotiate association agreements with a number of East European countries in response to recent developments there.

Recently, the EC has developed closer ties with the EFTA countries, which already have many of the same industrial and technical standards that apply in the Community. The two groups have agreed to negotiate a closer relationship, to be known as the European Economic Space. This may involve EFTA agreement to implement many EC directives while the EC would give EFTA a role in the development of future rules.

Although EC countries have long-standing political and economic ties with the countries of Eastern Europe, the EC itself only recently has established diplomatic relations with most states of central and Eastern Europe. In 1988, the EC and the Council of Mutual Economic Assistance (CEMA), an economic organization of communist countries, agreed to recognize each other. Trade agreements have been signed with Hungary, Poland, Czechoslovakia, Romania, Bulgaria, and the Soviet Union.

In July 1989, the EC Commission was designated by the seven economic summit partners to play a coordinating role for Western assistance to Poland and Hungary. Since then, major political and economic reforms taking place throughout Eastern Europe have caused a reevaluation of the Community's relationship to that region. The EC has been a major contributor of assistance to the region and has eased access to its markets for these countries. A European Bank for Reconstruction and Development has been established to assist economy recovery and reform in Eastern Europe. Trade and investment flows between the EC and Eastern Europe are expected to increase as market forces play a greater role in East European economies. The United States has worked with the European Community in mobilizing economic and financial support for the reforming nations in Eastern and central Europe.

THIRD WORLD RELATIONS

Improving relations with the Third World long has been a high priority for the Community. In addition to its desire to contribute to the economic and social advancement of less developed countries, the Community seeks reliable supplies of primary products and markets for its exports. The Community has become one of the major providers of Third World assistance with programs such as food aid, rural development, and refugee relief. In 1987, aid disbursements were $1.9 billion, but EC aid commitments have been substantially higher in 1988 and 1989. The EC program is separate from assistance programs provided by the member states.

The Community's most notable accomplishment has been the Lome Convention, a framework for development cooperation with 68 African, Caribbean, and Pacific (ACP) countries. Signed in 1975 and renewed in 1979, 1985, and 1989 for a 10-year period beginning in 1990, the agreement provides aid for development projects, free access to EC markets for almost all manufactured imports from ACP countries, and incentives to promote European investment in the developing states. The most recent agreement (Lome IV) puts greater emphasis on market-oriented economic reform in recipient countries and on human rights. About 65% of EC aid goes to the ACP states. Since 1978, 40% of ACP exports have gone to the Community, which imports about 10% of its raw materials from the Lome signatories.

One innovative aspect of the Lome Convention is the Stabex system. A kind of insurance policy against poor trade years, Stabex (export receipts stabilization system) provides currency transfers to countries heavily dependent on a small number of commodities for export earnings in years when export receipts drop significantly because of poor harvests or low world prices. Lome IV is designed to encourage diversification to other crops. The Lome Convention provides a similar scheme, Sysmin, to cover mineral export earning losses.

US-EC RELATIONS

The United States has supported and welcomes European efforts to achieve economic and political integration. As Europe moves toward its goal of a common internal market, and as its institutions for political cooperation evolve, the link between the United States and the EC will become even more important. The United States wants this transatlantic cooperation to keep pace with European integration and institutional reform.

The United States and the Community have a continuing dialogue on all political and economic issues of mutual interest, and they engage in direct negotiations on trade issues. The US Government is following the progress of the EC's single market program and is working with the European public and private sectors to ensure that American interests are not discriminated against in post-1992 Europe. The United States seeks a European Community open to cooperation with others.

The US Government consults with the Commission regularly throughout the year, often at the Cabinet level. In the past there have been annual US-EC meetings in Brussels on a ministerial level, but there are plans to hold these meetings twice a year beginning in 1990. On February 27, 1990, President Bush and Irish Prime Minister Haughey, representing the Community, agreed to biannual US-EC summit meetings and to biannual meetings between the US Secretary of State and the 12 EC foreign ministers. The United States also is enhancing its relationship with the European political cooperation process.

Delegations from the US House of Representatives and the European Parliament also meet twice a year. Close relationships are further maintained through the US Mission to the European Communities, headed by an ambassador in Brussels, and through the Delegation of the European Communities in Washington, D.C., headed by the EC ambassador.

DIPLOMATIC REPRESENTATION

The US Mission to the EC is directed by Ambassador Thomas M.T. Niles and is located at 40 Boulevard du Regent, B-1000, in Brussels, Belgium; Tel. 32-2-513-4450; Telex 846-21336. The EC Delegation to the United States, headed by Ambassador Andreas Van Agt, and its Information Services Office are at 2100 M Street, NW, 7th floor, Washington, D.C. 20037; Tel. 202-862-9500. The EC Information Services in New York City is at One Dag Hammarskjold Plaza, 245 East 47th Street, New York, NY 10017; Tel. 212-371-3804. ■

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1 This action has never been taken.

2 EC member states have the following votes in the Council: West Germany (10), France (10), Italy (10), United Kingdom (10), Spain (8), Belgium (5), Greece (5), Netherlands (5), Portugal (5), Denmark (3), Ireland (3), and Luxembourg (2). Total=76. Qualified majority=54; blocking minority=23.

3 The "snake" was a set of upper and lower limits of currency exchange rates; the central banks of the participating European countries pledged to intervene in the currency market to keep the value of their currencies within fixed limits.

4 The ECU value against the US dollar was $1.21 at the end of March 1990. During 1989, the average ECU value against the US dollar was $1.10.

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8

As unity date approaches, Europeans stand divided

Bringing 12 nations together as one

A look at the European Commmunity:

▶ **ORIGIN:** As a way to rebuild their war-ravaged economies, six European countries agreed to pool coal and steel industries in 1951, forming the European Coal and Steel Community. Its success led them to form the European Economic Community. The EEC's goal: creating a "common market" for goods. They merged into the 12-nation European Community in 1967.

▶ **PURPOSE:** To form a United States of Europe by the end of 1992 — a unified, economic giant whose members enjoy a 6% drop in prices, up to 5 million new jobs, a 4% to 7% increase in productivity.

▶ **GOALS:** A "borderless Europe" by the end of 1992, eliminating all free-trade barriers, standardizing trade duties and value-added taxes, eliminating border controls and customs checks, creating a new European currency. Ruling body: the European Council, made up of members' leaders.

By Marilyn Greene
USA TODAY

The deadline for European unification looms less than 18 months away, but the European Community remains divided, lurching instead toward a showdown over differences among its 12 members.

And while few doubt the community will eventually gel, it's also fairly certain line day will be just the beginning of a long, rough road toward economic and political agreement.

Problems can range from the tough to the very difficult: standardized electrical plugs, a single currency and Europe-wide banking. Common defense and legislative systems are still further off.

Today's beginning of a crucial Luxembourg summit — designed to work out the details on political and monetary treaties — promises to highlight areas of dispute in the move toward a single, barrier-free market by Jan. 1, 1993.

Among the sticking points:

▶ A single currency. Germany and Britain are hesitant, while large differences exist among the strengths of individual economies.

▶ Power of the EC Parliament. Germany wants more; France and Britain, worried about their own sovereignty, want limits.

▶ Sales tax. Eleven members agreed this week on a 15% value-added tax, effective Jan. 1, 1993. But Britain blocked legalizing the tax by refusing to sign on. Tax issues require unanimity.

▶ Use of the term "federal" in describing the EC's long-term objectives. European Commission President Jacques Delors insists it means only that Brussels would take over tasks that individual nations can't do more effectively. Denmark and Britain see it as another blow to sovereignty.

Britain — a latecomer to the EC — remains the "least enthusiastic" of the 12 members, says analyst Gregory Treverton of the New York-based Council on Foreign Relations.

Under former prime minister Margaret Thatcher, Britain's attitude toward the EC was chilly, at best. Her successor, John Major, is now trying to warm relations with Europe while soothing nationalist-minded conservatives at home.

Despite British complaints, it's not likely to leave the EC.

"They want to stay in to control the process," says George Washington University's George Stambuk.

"They want to slow down the process. If they got out, the process of unification among the others would quicken. So the British policy is to stay in to share control."

Treverton predicts a long haul to real unity. Monetary union is "inevitable," he says, "but slower than we'd hoped. My guess is it won't be before the year 2000."

Steps toward union:

▶ Treaties supposedly ironed out last weekend are scheduled for December signing.

▶ In 1993, negotiations begin on admitting new members. Austria, Sweden, Norway, Finland, Iceland and Switzerland top the list.

▶ After 1993 members will tackle the issues of defense and security. Almost certain: major clashes between those who want to keep security in the hands of NATO and individual militaries; and those who want EC control.

Meanwhile, other headaches are popping up.

The very symbol of the union — the EC Commission building in Brussels — is condemned. Health inspectors say the four-winged Berlaymont is so steeped in asbestos it has to come down.

Until a replacement is built, already-scattered commissioners will have to make do with temporary quarters.

Other troubles persist:

▶ Language differences. The EC has nine official languages, meaning all official documents are translated and copied nine times.

▶ Unrest among the 25,000 "Eurocrats" who staff EC headquarters in Brussels. More than 90% of those civil servants staged their second 48-hour strike in two weeks on Tuesday. They want the current pay system — linking pay raises to inflation — renewed for another decade when it expires in July. A third strike is planned.

▶ Enforcing EC rules within member nations. Members have a list of 279 "directives" that bring national laws in line with union rules on issues ranging from lawnmower noise to the configuration of electrical plugs, to labor laws and incorporation guidelines.

Italy has been the biggest laggard, implementing only half of the changes required.

▶ Free movement of people across borders. Members are ignoring the EC's recommendation to begin loosening border controls. Holdouts cite the threat of terrorism and illegal immigration as reasons not to move faster.

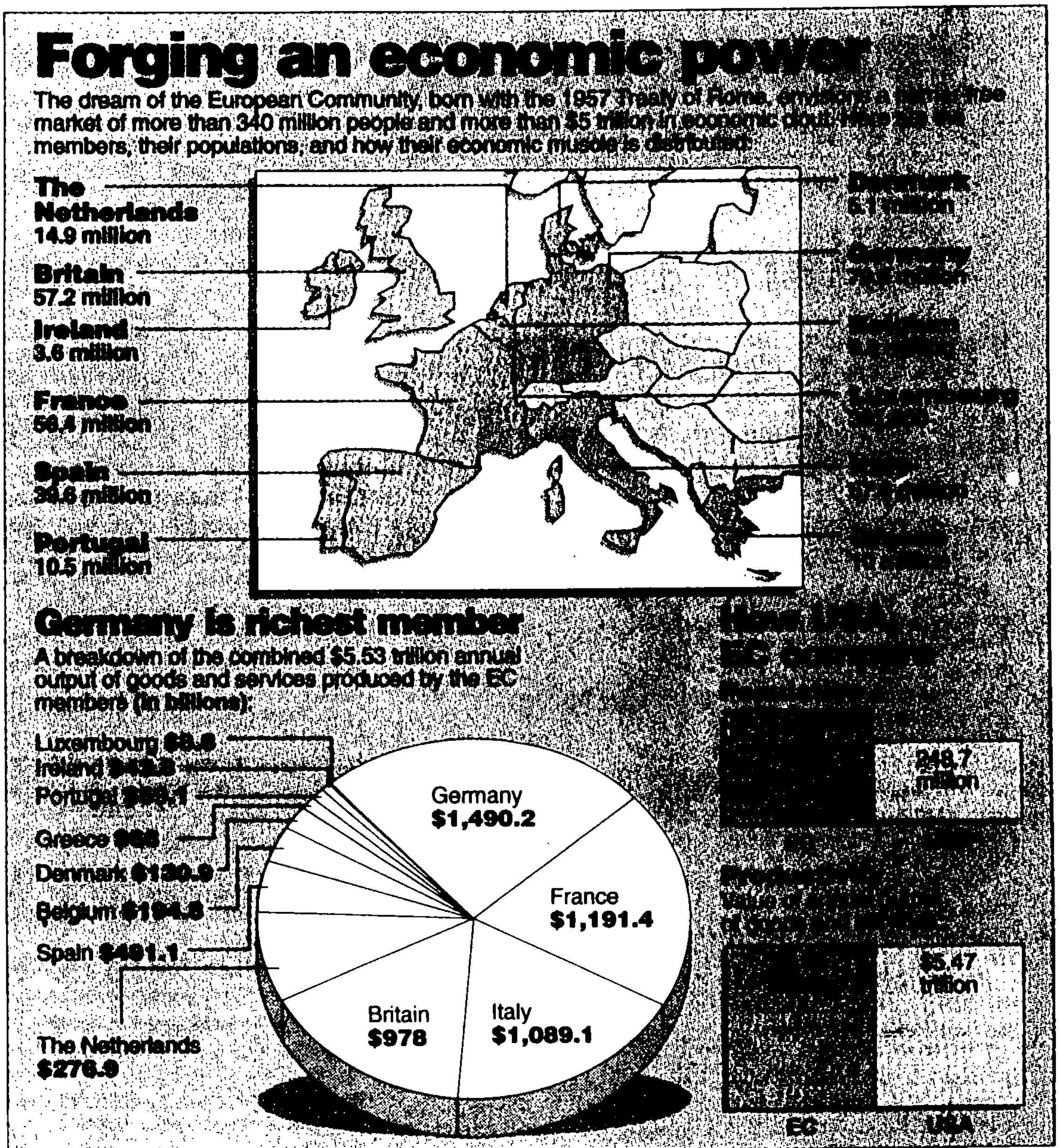
Regardless of speed, the unification process is inexorable, says Stambuk.

"This date, 1992, is paid too much attention. It (union) is not going to happen very dramatically on Dec. 31, 1992 so that on Jan. 1, 1993 we'll have a European Federation. What's going to happen is a gradual negotiation of different aspects, item by item."

The big question, he adds, is one the early EC dreamers never envisioned: "The problem is Central Europe."

The new democracies in that region want in, notes Stambuk, but they don't have the required credentials.

"To qualify, they have to have liberalized economies, and they have to be democratic states," he says. "And this is somewhat doubtful; none of them is sufficiently stable. These are problems that are not going to be solved easily. So I see very little (EC) effect on the new world order."



Source: USA TODAY research

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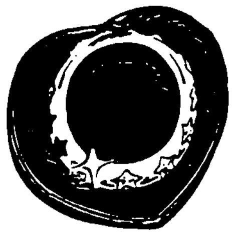
The Economist, "A Survey of Business in Europe," June 8, 1991, pp.5-6, 9-10, 20-24



On the defensive

Businessmen lobbied hard for a single market, writes Martin Giles. Now some of them wish they hadn't

THE Gulf crisis, a heated debate on a common European foreign policy and a gaggle of conferences about EC political and monetary union have conspired to keep Project 1992 out of the headlines. Now the plan to create a single European market is edging its way back into the news. With fewer than 600 days to go before January 1st 1993, when the market is supposed to be ready, the project is falling behind schedule. Worse, a backlash against 1992 is growing. The resistance comes from the very people who were supposed to be the single market's firmest friends: captains of European industry.

That seems odd given that 1992 looked tailor-made for business. Wisse Dekker, chairman of Philips, even helped to draft the European Commission's 1985 white paper, which laid out its plans to abolish EC frontier controls, harmonise product standards and prise open the markets for public procurement (the buying of goods and services by governments and utilities). Other industrialists, such as Jacques Solvay, head of Belgium's biggest chemicals company, and Giovanni Agnelli, boss of Italy's FIAT, also lobbied hard for the single market.

One reason for their enthusiasm was that Project 1992 appeared an ideal antidote to Eurosclerosis, a nasty European disease whose symptoms included relatively low levels of investment and rapidly rising labour costs (see chart 1 on next page). This was blamed for Europe's lack of clout in fast-growing industries such as electronics. But there was another reason, one which held the seeds of today's discontent. Many such business leaders assumed that European mega-projects in R&D and infrastructure would form part of the project. Few assumed that Europe's internal openness would be matched by openness to competitors from outside.

Jean-Jacques Servan-Schreiber, a French journalist, publisher and radical politician, had called for a European market that was both whole and supportive in his book "Le Défi Américain" (The American Challenge), published in 1967. At the time, Europe was being invaded by American multinationals like Ford and IBM. In Mr Servan-Schreiber's view, this invasion was a sign of Europe's industrial weakness, not the cause of it. To repel the invaders, he recommended the creation of a common market and pan-European companies big enough to take on the Americans.

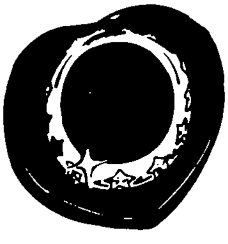
The Cecchini report, published in 1988, promised that a single market would be a liberal bonanza for business. Co-ordinated by Paolo Cecchini, a senior EC official, the study examined the costs of Europe's fragmented markets. Among its tantalising (if somewhat dubious) estimates, the report calculated that sweeping away red tape at EC border posts would create one-off savings for companies of some 8 billion ecus in administrative costs and customs delays; generate up to 15 billion ecus-worth of new business as a result; and save businesses billions of ecus more by getting EC states to accept one another's product standards.

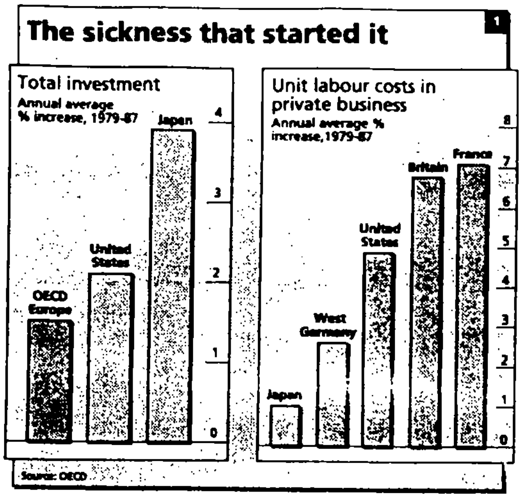
Lured by the prospect of such rewards, European companies have been getting ready for the market. Some have refocused their businesses, selling off their stakes in marginal activities. Others have expanded at home and abroad. In some of the biggest cross-border deals, Siemens of Germany and Britain's GEC jointly acquired Plessey; Carnaud of France and Britain's Metal Box merged to form CMB Packaging; and FIAT and France's Alcatel-Alsthom (formerly CGE) announced plans to swap shares and some businesses.

Exchange rates

per dollar

	1990 average	1991 mid-May
Ecu	0.79	0.82
D-mark	1.62	1.70
FFr	5.45	5.76





This wheeling and dealing was the easy part of 1992. Now they have signed on the dotted line, businessmen face the task of closing plants, axing jobs and cutting costs. That is hard to do at the best of times; slower economic growth and falling sales will make it harder now. So will stiff competition. "Europe is still a pretty cosy place in many industries", says Richard Giordano, the boss of Britain's BOC, an industrial gases company. Not for much longer. If Project 1992 overturns barriers according to plan, European businessmen are in for a shock.

David Ernst of McKinsey, a management consultancy, reckons that America's airline industry experienced a foretaste of what is to come in Europe. After the American market was flung open to competition in the 1970s, over 200 new carriers piled into it. Of these, less than a third are still flying. Airlines that were already operating before deregulation suffered too, as ticket prices plunged and the cost of advertising skyrocketed. Less than half of them survived the following decade; the rest either went bust or were taken over by other carriers.

Deep divisions

Project 1992 will make this shakeout look like a pyjama party. After decades of cossetting, many European companies have grown fat and lazy. That will make them vulnerable to new firms whose costs and prices are a fraction of their own. Moreover, whereas American deregulation was largely a domestic affair, the European version promises to be an international free-for-all. Powerful American and Japanese firms like Philip Morris, IBM, Fujitsu and NEC are already limbering up to do battle.

With chilly new draughts of competition wafting through boardrooms across the EC, some European companies wonder wistfully about the cosier other half of Project 1992. They are as keen as ever about the nuts and bolts of the single market—harmonised standards, open procurement markets and suchlike. But a growing number want the Community to reconsider its liberal position on key issues closely linked with 1992 like competition, industrial policy and trade. Their lobbying shows that European business has yet to cure itself of a craving for subsidies and support; if these cannot come from a national government, firms want them from Brussels.

Governments are divided over how to respond. Broadly speaking, those of France and Italy incline a sympathetic ear to companies' cries for help, whereas the German and British governments are usually deaf to special pleading. The European Commission is split, too. A group of free-marketeers, including Sir Leon Brittan, the EC's British competition commissioner, and Martin Bangemann, a German in charge of industrial matters, think that the market should determine the fates of firms. Ranged against the hard men is a shifting alliance of French, Italian and other commissioners and Eurocrats who favour intervention.

The battle between the two camps swings back and forth, but over the past few months the free-marketeers have been on the defensive. Some companies have frustrated the EC's attempts to cut state aid to industry. In April, for example, Groupe Bull, an ailing French state-owned computer-maker, won the promise of a FFr4 billion hand-out after losing nearly FFr7 billion last year.

Pressure is also mounting for an interventionist industrial policy to support Europe's biggest electronics companies. Some firms argue that Europe needs to copy Japan and America, both of which have nurtured their high-technology industries with huge public orders. And they say that it is up to the commission to think up (and help pay for) ambitious European projects.

Europe's commitment to free trade is also being tested by car-makers and semiconductor manufacturers. The car companies have lobbied for continued restrictions on Japanese imports for at least another six years. That is the breathing space they claim they need to get themselves ready for battle. Some chip-makers want higher tariffs.

All of these industries claim they are special cases deserving exemption from the rigours of the single market. This survey weighs up their claims. But first it looks at the commission's progress on the nuts and bolts of 1992—or at the lack of it.

Market failure

1992 is not living up to some businessmen's expectations

JACQUES DELORS, the president of the European Commission, once said that it was hard to fall in love with a single market. He had a point. After all, detailed directives for pressure vessels, gas cookers and toys are dull. Yet after the publication of the commission's 1985 white paper, thousands of businessmen set their hearts on such things. Some of them are already disappointed. Although the January 1st 1993 deadline is flexible, they think that the EC has not moved fast enough to open up public-purchasing markets or fix product standards.

There are still some areas where business gives the architects of 1992 the thumbs-up. They include:

• **Customs controls.** At the end of next year, the "Single Administrative Document", a straightforward questionnaire that has already replaced reams of frontier-bumf, will be scrapped. From then on, companies will be able to ship goods anywhere in the EC with minimal delay. That is bad news for Europe's small army of customs officers, but good news for firms like Marks & Spencer and BMW that run pan-European distribution systems.

• **Freight transport.** Restrictions on *cabotage*—the right of foreign hauliers to pick up and deliver goods within another member state's borders—should be abolished by the end of 1992. That could reduce the cost of haulage within the EC by 10-15%.

• **Exchange controls.** Most countries have lifted restrictions on foreign-exchange transactions on or ahead of the schedule laid down by the Community. Only Portugal, Ireland and Greece still have exchange controls in place.

In other matters, though, businessmen feel cheated. Take value-added tax. Firms grumble about the commission's decision to put off devising a VAT system that treats the Community as a single market until at least 1996. Instead, countries will continue to collect VAT on the full price of an item bought inside their borders. To make matters worse, widely varying tax rates in Europe are still causing headaches for firms (see table on next page). FIAT says that its Alfa Romeo subsidiary has to produce two different versions of one model simply to avoid getting caught in luxury VAT bands.

Companies also feel that progress in opening up public procurement has been slow. Worth perhaps 15% of the EC's combined GDP—4.7 trillion ecus in 1990—procurement markets are often closed to companies from other member states, thanks to a combination of chauvinism, political pressure and cosy relationships between contractors and bureaucrats. Only 2% of big public-sector contracts flow across EC frontiers.

In the 1970s several directives were adopted by the EC in an attempt to prise open procurement markets in the fields of public works (construction) and public supplies (investment goods and equipment). But these had several handicaps. First, there was no effective means of ensuring that purchasers played by the rules. Second, key industries like telecommunications, energy, water and transport were excluded from the regime. Lastly, public authorities used all sorts of wheezes to ensure they could still favour local firms. These included splitting contracts to keep them small enough to escape the directives, and specifying national rather than European product standards in tenders.

To put a stop to these shenanigans, the commission has revamped the old directives and produced some new ones. The revised versions already in force cover supplies and works for public authorities. They insist that information about tenders be widely publicised and that standards stipulated be, where possible, European ones. A supplies and works directive covering the previously excluded industries will come into effect at the start of 1993 (a bit later for Spain, Portugal and Greece). The snag with all of these is that they still leave plenty of scope for favouritism. Buyers are required to accept the "most economically advantageous bid". That means decisions could be made on the basis of price, delivery dates, after-sales service or any other variable that favours national bidders.

In order to ensure fair play, the commission has drawn up two compliance directives: one which is due to come into effect in December, covering purchasing by public authorities, and another covering utilities, which is still in the legislative pipeline. These will establish uniform complaint procedures for companies that suspect discrimination. Though the commission will not be able to freeze disputed contracts, it will be able to notify member states of clear cases of rule-breaking. If governments ignore its warnings, the commission could then take them to the European Court of Justice.

This is no empty threat. Take the case of a big Danish bridge-building contract awarded in 1989. Convinced it was the victim of discrimination, Bouygues, a French construction firm that was one of the bidders, complained to the commission. The commission then took the case to the European Court, demanding that construction work be stopped and tenders re-opened. Faced with legal action, the Danes admitted they had broken the rules and allowed unsuccessful bidders to seek damages in Danish courts.

In spite of this episode, most businessmen reckon that procurement will remain almost exclusively a national affair. That is one reason why engineering companies have been spinning pan-European webs of alliances. In two of the biggest deals, Sweden's ASEA merged with Brown Boveri, a Swiss engineering firm, and GEC and France's Alsthom put together their power and railway businesses. By passing themselves off as insiders in as many EC states as possible, these companies hope to sidestep remaining barriers to cross-border procurement.

Other bidders will have to put their faith in the compliance directives. Companies are sceptical about whether these will have much effect. Some claim that it is unrealistic to expect them to launch legal action against potential clients. They think the commission should have the power to suspend contracts on its own initiative. Others, like Germany's Siemens, which relies on procurement for a third of its sales, say that until local politicians are prevented from awarding contracts, the tempta-

The toy-standards subcommittee

Overrated

Vat rates, March 1991

	Standard %	Luxury/ higher %
Ireland	23.0	
Denmark	22.0	
Italy	19.0	38.0
Belgium	19.0	25.0*
France	18.6	22.0
Holland	18.5	
Greece	18.0	36.0
Britain	17.5	-
Portugal	17.0	30.0
Germany	14.0	
Spain	12.0	33.0
Luxembourg	12.0	

* excludes 8% luxury tax on restricted selection of goods.
Source: UK Treasury

tion to give them to national firms in return for political favours will be irresistible. And there are other barriers to open procurement: one of the biggest is still a dearth of European standards.

Lowering its standards

Sweeping away different national product standards and replacing them with a set of Euro-norms would be a Herculean task: Germany alone has some 20,000 standards, France 8,000 and Britain 12,000. Instead, the Community is using the principle of "mutual recognition". According to this, a standard developed in one European country should be accepted in another providing it meets certain basic requirements in matters such as health and safety. These are laid down in EC legislation. So far the Community has agreed several directives on minimum standards for products like toys, pressure vessels and gas cookers.

For some products, national standards are so diverse that European ones are clearly required. These are being thrashed out by Europe's two big standard-making institutes, CEN and CENELEC, which include representatives from national standards bodies. CEN and CENELEC published 293 standards in 1990. But many more may be needed. John Farnell, who heads the commission's standards office, reckons that another 1,000 Euro-norms—an average of about two a day until the end of 1992—are required to create a fully-fledged single market.

Businessmen are doubtful. Dr Peter-Michael Asam of Siemens complains that the commission is wasting time on unimportant standards—like those for medical systems, which should be set by health authorities. He reckons Eurocrats need to listen more carefully to industry's advice about what is needed and what is a waste of effort. Mr Giorgio Bodo, the head of economics at FIAT, has another gripe. He argues that by taking years to come up with standards, the commission makes it hard for European companies to plan ahead. One example: car firms that spent large sums developing "lean-burn" engines subsequently discovered that the EC was working on an environmental standard that such engines cannot meet.

The commission has listened to its critics. In a document published last October, it outlined proposals to speed up standard-setting. These include:

- the creation of European standards in their own right. At present, Euro-norms have to be translated into national ones before they can be used—a process that can take more than six months;
- the creation of a single European conformity mark; and
- shorter public enquiries to mull over draft standards.

Top of the list was a strong recommendation that European businesses become more involved in standard-setting. Some companies, it seems, are reluctant to provide experts to advise the standards bodies. Why? Probably because they fear that harmonised European standards will make it easier for foreign rivals to attack their home markets. The longer the invaders are delayed, the better.

Unsocial Europe

Another bone of contention between businessmen and Eurocrats is the EC's Social Charter, which outlines basic rights for European workers. The Charter itself is non-binding, but the commission is preparing a set of 47 directives which, if enacted, would add up to a comprehensive system of pan-European industrial relations, courtesy of Brussels. Among the measures—which were added after the 1985 white paper was published—are ones that would restrict night work, give part-time and temporary workers the same rights as normal staff, and force EC companies to consult workers about decisions like plant closures and the sale of businesses.

These proposed directives have met with a storm of protest. "If they are enacted, they will ruin Europe's companies", says Zygmunt Tyszkiewicz, the head of UNICE, the European employers' federation. Jean-Louis Beffa, the chief executive of Saint-Gobain, a French conglomerate, agrees. He complains that the texts are "excessively rigid" because they have been drafted by lawyers not bosses. They are right to complain. One key to competitive advantage is a flexible labour force; the commission's plan could put companies in a straitjacket.

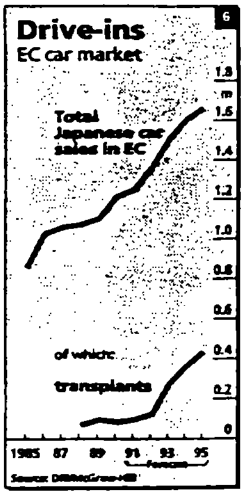
Fortunately for business, progress on these social measures has been slow. In most other areas of the single-market programme, firms moan about delays. Yet much of the blame lies with some national governments that are painfully slow at translating Community directives into national law. At the end of March 1991, member states were supposed to have implemented 122 EC measures. Italy, the worst offender, had managed just 45. This is not the only problem that the commission has with unruly governments. Another is the battle to stop them propping up their national industrial champions.

Tomorrow the bosses will be marching

Pulling up the drawbridge

rtress-building is back in fashion

WHEN Europe is finally open for business, will it be open to foreign companies as well as EC ones? Given the free-market philosophy of Project 1992, the answer should be yes. But Europe's stubborn refusal to compromise in a row with America over farm subsidies has revived the spectre of a Fortress Europe. A fudged decision on Japanese car imports and calls for protection from Europe's electronics industry are signs that some businessmen want moats and drawbridges too.



So far, the EC's record on trade has been mixed. A report published in April by the GATT dismisses claims of a Fortress Europe. Yet some of the GATT's criticisms of the Community suggest its verdict may be a trifle optimistic. It accuses the EC of striking bilateral trade deals which delay restructuring in European industry. It notes that the commission has been unhealthily fond of anti-dumping actions, implementing some 256 of them between 1980 and 1989. And it warns that the EC's institutions are not strong enough to resist demands from member states for protection of their pet industries.

This last criticism is particularly worrying. Now that European companies are closing plants and cutting jobs, the commission is under increasing pressure to protect them. French and Italian firms are shouting loudest for help. That is hardly surprising. The GATT report notes that both Italy and France still have a wide range of national quotas on products. But the single market programme means that these must be dismantled. So Italian and French companies that have grown fat and lazy thanks to coddling at home, now want the EC to protect them instead.

The British, German and Dutch governments are sceptical. But the French government, which is unhappy with the anti-dirigiste bent of the commission, backs its companies' demands. Edith Cresson, France's new prime minister, has already criticised the EC for being soft in trade talks. That has encouraged bosses who hope she will fight hard to stop the EC becoming what Roger Fauroux, France's former industry minister, called "a land that is open to all the winds".

The wind that bothers politicians and businessmen most blows from the East. Europe's trade deficit with Japan now runs at about $25 billion a year. That makes Japanese firms the targets both of barbed comments and many of the Community's anti-dumping actions. But these have had the opposite effect to the one intended. Instead of discouraging Japanese companies from doing business in the Community, the anti-dumping measures encouraged many of them to set up factories in Europe in the hope that they will be treated as locals. One sign of this trend: the stock of Japanese direct investment in the Community rose from $6.6 billion at the end of March 1987 to $42 billion at the end of March 1990.

Car wars

Much of this money has been used to set up "transplants" producing Japanese cars in Europe. For European car-makers, that is a worrying prospect. Although some transplants are not yet up and running, Japanese producers already control 10% of the European market and their exports to the EC have been rising fast (see chart 6 on previous page). They would have risen even faster were it not for restrictions on Japanese imports, limiting these to about 4% of the French market and 2% in Spain and Italy. In unfettered European markets like Ireland, the Japanese account for about two-fifths of sales.

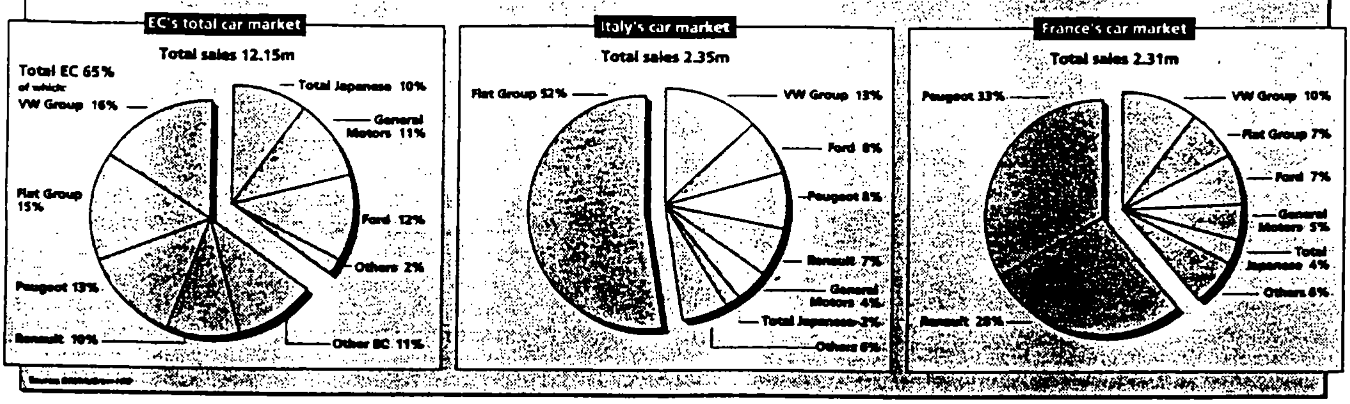
Faced with this threat, some of Europe's biggest car companies have been fighting a rearguard action. Though German firms like BMW and Mercedes Benz, which export cars to Japan, were in favour of opening up Europe's market quickly to Japanese imports, others like FIAT wanted a longer "breathing space". Jacques Calvet, the forceful chairman of Peugeot, a French car firm, wanted Japanese imports blocked altogether. But last November, his European counterparts isolated him by forming a new industry lobby. Its demands for controls limiting Japanese firms' share of the European market to 15% until 1999 still looked extreme. Yet in April the commission proposed a scheme that met most of them. Starting from 1993, those EC countries that still have quotas on Japanese car imports will lift them gradually until the end of 1998. Meanwhile, Japanese producers will voluntarily restrain sales so that by the end of the century they control no more than about 17% of the European market. After that, all barriers are supposed to come down.

This is the worst kind of Euro-fudge. First, it sets the stage for another battle between the commission and the car lobby at the end of the century, when the protectionists may again try to wriggle out of the agreement. Second, if it includes the output of Japanese transplants in its calculations, the commission will discourage Japanese firms from investing in Europe. And it could get into a row with America over the thorny problem of how to treat Japanese cars made in American transplants and then shipped to Europe. Third, by buying the agreement of European car-makers with a promise of more cash for R&D, the commission has set a dangerous precedent that other industries will remember when they ask for help.

Japanese car-makers do not like the EC's plan. However, perversely, they may benefit from it. To see why, look at America's experience with voluntary restraint agreements (VRAs). After more than a decade of similar protection, America's big three car companies—Ford, General Motors and Chrysler—are still bleeding red ink. Instead of using the time to achieve Japanese-style efficiency, they have stayed that much more complacent. At the same time, Japanese car-makers have been minting money. For the daftest thing of all about such schemes is that by restricting the sale of a product consumers want, they push up prices and profits. This money then floods back to Tokyo, making the Japanese even more formidable competitors.

Another reason for not coddling Europe's car-makers is that they have already had plenty of time to restructure. The competitive threat posed by the Japanese has been around for years, yet many European companies are as weak as ever. Some are still

Staying small, and at h EC car market, 1990



too small. Of the region's car-makers, only Volkswagen has more than 15% of the European market. And while American firms like Ford and GM went multinational decades ago, many European ones like FIAT and Renault remain dangerously wedded to their home markets (see chart 7).

Worse, European firms still lag far behind Japanese ones in productivity. According to "The Machine that Changed the World", a study of the world car industry by the Massachusetts Institute of Technology, Japanese plants can, on average, assemble cars in less than half the man-hours of a European plant.* The Japanese also build cars with fewer defects than the Europeans and can put new models into production faster. Other recent studies have shown that European car manufacturers still have too many suppliers, and that many of these have yet to master the technique of just-in-time production that is one of the keys to Japan's competitive advantage. By shielding European companies with quotas, the commission will help them to paper over these weaknesses rather than correct them.

Chips and blocks

Though European car-makers are still many countries' largest employers and a source of national pride, the strength of national electronics industries has become the new test of industrial virility. Nowhere is this high-tech jingoism easier to see than in the semiconductor business. Dominated by three companies—Philips, the Italian-French SGS-Thomson and Germany's Siemens—the European industry is struggling. True, its share of world sales rose from 9.5% in 1989 to 10.5% last year thanks to football's World Cup, which boosted demand in Europe for television sets and video recorders. But this was a mere blip. Big Japanese firms like NEC and Toshiba, and American ones like Motorola and Intel, have been pinching business from EC firms left, right and centre. Philips, the hardest hit, has already cut back its commitment to European semiconductor research.

To stop the rot, some European businessmen want the commission to raise semiconductor tariffs. At present the Community has a common 14.9% tariff on all chip imports. Alain Gomez, the head of Thomson, thinks this is not high enough. He wants tariffs for semiconductors and consumer electronics alike lifted to between 30% and 50% for a limited period of five years, to give the European industry time to recover. "If we lower our guard now", he says, "the result will be zero industry".

However, if the EC raised tariffs on semiconductors it would simply hurt itself. Remember that the biggest customers of Europe's chip-makers are European computer companies like ICL, Olivetti and Bull. If tariffs force up the price of European chips, these companies will have to raise the price of their computers. That in turn will lead to fewer sales and, consequently, even less demand for locally-produced chips. Computer firms are worried by the prospect. "We want a world class European chip industry so we can pit it against our American and Japanese suppliers", says one ICL executive, "but we are not ready to pay 50 cents more per chip to get one".

If they cannot have higher tariffs, Europe's chip-makers would like the commission to insist that other countries, notably Japan, open up their markets to European chips. At present, EC firms control just over a third of the European market, while Japanese chip companies dominate nearly 90% of theirs. Calls for reciprocity have been echoed in Brussels. Michel Carpentier, of the commission's information-technology directorate, says that there should be "mutual access to opportunity" for EC firms in foreign markets. In plain English, this means that European firms should be given access to foreign markets, and should get the same treatment as national firms.

Reciprocity sounds reasonable. But in practice, it is often a protectionist ploy. Some commission officials point out that in public procurement, there is a Buy American Act and what they call an unwritten Buy Japanese Act too. So, they say, the question of whether there should be a Buy European Act for projects like the European Nervous System is a legitimate topic for discussion.

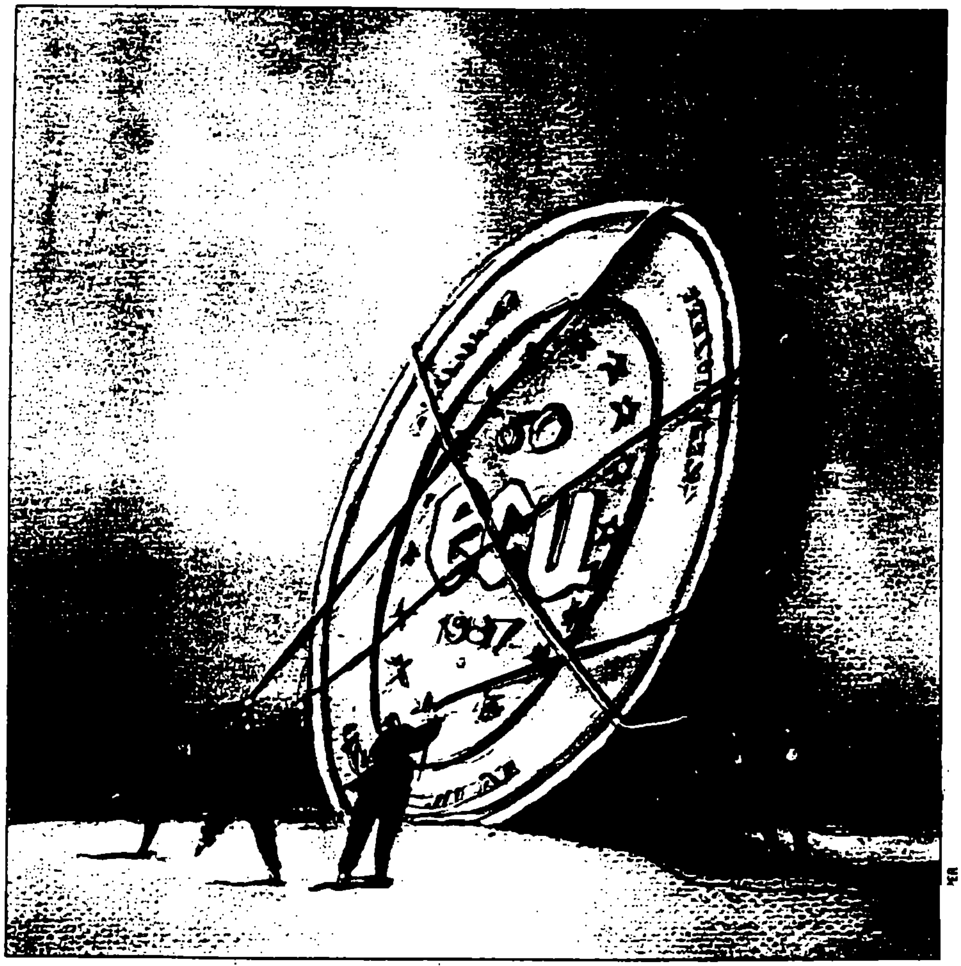
Such talk is worrying given the present fragile state of the international trading system. Europe, whose share of world exports is greater than America's and Japan's, has most to lose in any tussle over trade. So the Community should think hard before it gives in to the demands of a small but noisy group of businessmen that has yet to learn that protectionism does not pay.

* The Machine that Changed the World. James P. Womack, Daniel T. Jones and Daniel Roos. Rawson Associates, 323 pages, $22.50.

FEATURE

The Emerging Ecu

Tracing the History of Europe's Future Currency



LOOK UP THE WORD "ECU" IN MOST BIG DICtionaries and you will find two entries, both derived from the French. The first is "a shield carried by knights in the Middle Ages;" the second, "any of several gold and silver coins of France from the 14th century onward." This monetary connotation stayed around for a long time. There are references to ecus in Molière's plays and the term was fairly common as late as 1800.

Barry D. Wood

Fast forward to 1978. The post-war Bretton Woods system, which linked currencies to a dollar that, in turn, was redeemable in gold, had been dead for several years. With high inflation, sluggish growth, and a weak U.S. president, the dollar was in a free fall on currency markets. Determined to restore monetary stability in Europe, West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing devised a fixed exchange rate system for the European Community.

They needed a unit of account, a denominator for the weighted average of the currencies that would be linked and float together within a narrow band in the European Monetary System (EMS). What better name than "ecu," which had authentic monetary antecedents and could also be an abbreviation for European Currency Unit (ECU). Thus, in 1979, the modern ECU was born. Currently worth about $1.39, the ECU is a basket of all the E.C. currencies linked in the EMS.

Nearly 12 years after its birth, however, the ECU has not yet become a household word or a bank note you can hold in your hand. Think of a European currency and you think of the German mark, which is the anchor for the EMS and comprises 30 percent of the ECU's value. Bundesbank President Karl Otto Pöhl observed in late October that "the ECU has never been able to assume the role for which it was originally designed." In a London speech, he conceded that "the ECU has had an impressive career, but only in the private financial markets" (ECU bonds and commemorative coins), and "almost exclusively in the Euromarket and in countries with relatively high rates of inflation .... Its contribution to the proper functioning of the EMS has remained negligible ... [and] although there have been some attempts to encourage its use, the ECU is of very little significance today as a reserve and intervention instrument of central banks." No sooner had Pöhl uttered these remarks than the October European Council in Rome issued the clearest sign yet that the age of the ECU may be upon us—and soon—by agreeing to a starting date for Stage Two of EMU, the establishment of a European central bank on January 1, 1994 (see article, page 13).

During this critical second stage, the following preconditions for monetary union must be met:

- internal free trade (the 1992 single market program) with full freedom of movement of goods, services, labor, money, and capital;
- a convergence of economic performance and policies, and the stabilization of exchange rates—meaning inflationary disparities among members must greatly diminish;
- the acceptance of binding rules for the transfer of monetary policy to the new central bank, which would then issue a single E.C. currency, the ECU.

A single currency could save $25 billion annually in exchange rate transactions and boost economic growth by up to 5 percent.

The 1989 Delors Committee Report on economic and monetary union set out the three-stage blueprint that is to lead to a single, common E.C. currency. Critics initially chuckled at the idealistic thrust of the report, claiming that member governments would never abandon their monetary policies and national currencies to an E.C. entity. Now, even Committee member Niels Thygesen of the University of Copenhagen concedes that "the idea of monetary union has caught on faster than we expected." He predicts that the ECU will probably replace the national currencies within seven years. A senior E.C. official thinks it possible to have a common currency in 1997 or 1998.

Pat Choate, the author and corporate researcher in Washington, is even more optimistic. He flatly predicts a "common currency within five years." He adds that former British Prime Minister Margaret Thatcher's opposition was irrelevant and that, to safeguard London's position as a financial center, Britain will ultimately embrace monetary union just as it belatedly brought the pound into full participation in the EMS last October. Choate argues that, by promoting stable economic relations in Europe, the ECU is good for the dollar and the United States.

But skeptics remain. One not easily dismissed is Nobel economics laureate Milton Friedman, who asks rhetorically: "Do you really think that E.C. governments will hand over control of their economies to the German Bundesbank or a new central bank it would essentially control? It just isn't going to happen. When it gets right down to it, despite all the lofty commitments, [the member states] just won't give up the power. Those who support [monetary union] do so because they assume they'll control it."

On the Continent, meanwhile, public sentiment appears to be swinging in the ECU's direction. The Paris-based Association for the Monetary Union of Europe recently polled 6,000 adults in all 12 E.C. countries and found that, of those who had an opinion, 61 percent favored the replacement of their national currencies by the ECU within six years. Seventy-six percent approved the creation of a European central bank. In the major countries, pro-ECU sentiment was strongest in France (73 percent) and weakest in Britain (37 percent). Germany was divided, 51 percent in favor, 49 percent opposed.

So, assuming all goes according to plan, what will the ECU look like? There are many ideas. Bertrand De Maigret of the Association of Monetary Union says school children will compete to design the currency, which is likely to differ from country to country, with only one side identical everywhere. "The Dutch," says De Maigret, "can have lots of color on their notes, and the British can still have the Queen." Thygesen of the Delors Committee suggests that eminent Europeans of the past, like Dutch philosopher Erasmus, adorn the ECU, while Choate and others point to Jean Monnet as the most logical and least controversial candidate.

There is, of course, a persuasive economic argument in favor of the ECU. The recent E.C. report ***One Market, One Money*** argues that a single currency will save up to $25 billion annually in exchange transactions, and that economic growth will be boosted by 5 percent as investors are no longer put off by the risk of exchange-rate fluctuations. A single currency would also make it easier for the E.C. to weather outside economic shocks, like the latest oil price rise, with smaller fluctuations in inflation and output.

Finally, in seeking an explanation for this apparent sudden rush toward monetary union, experts identify the collapse of the Berlin Wall and the unification of Germany as a key impetus. It was, says one expert, "as if France and the others saw monetary union as a way to tame a big Germany and assure that it does not completely dominate Europe. We Germans—sensitive to our past—see our future as part of Europe and that our only way forward is with the Community." €

Barry D. Wood is economics editor at the *Voice of America*. His opinions are his own and not those of his organization.

Europeans Are Lining Up for Applications to Join the EC

■ Nearly every country on the Continent wants to either be a member or establish economic ties with the Community.

By JOEL HAVEMANN
TIMES STAFF WRITER

BRUSSELS—Sweden wants in: It hopes membership in the European Community will help cure its double-digit inflation. Austria wants in: As a member of the EC, it believes it could sell more of its products to the 12 EC nations. Even tiny Cyprus wants in: Membership in the EC, according to its predominantly Greek-Cypriot government, would give it an added measure of security from Turkey.

In fact, for a host of reasons, practically every non-EC European country from wealthy Scandinavia to fast-changing Eastern Europe is seeking to join or at least to establish some sort of special relationship with the community.

"More and more countries are thinking in terms that they shouldn't miss the train," says Frans Andriessen, vice president of the European Commission, the EC's executive branch.

The end result, although it might be decades away, could be a Continent tied together both economically and politically—not only an economic colossus but also a major diplomatic force in the post-Cold War world.

"The community, now 340 million strong, sees itself as the cornerstone of the new architecture of Europe," declares Jacques Delors, president of the European Commission. "It is therefore forging closer links with the rest of Europe, tailoring its approach to each individual situation."

Yet Delors worries that the EC's cumbersome decision-making procedures might become unmanageable with many more than the 12 current members. When Sweden applied to join on July 1, he asked: "Must we throw into the wastebasket of history an experience that works in favor of a new intergovernmental organization that might turn out to be a disaster?"

Delors says the EC will not even consider membership applications until Jan. 1, 1993, the target date for turning its 12 member nations into a single market with no national barriers to the movement of goods, services and people.

A further concern is the EC's painstaking search for a formula allowing it to speak with a single voice on matters of foreign and defense policy. If the EC succeeds—and it is by no means certain that it will—such neutral countries as Switzerland and Sweden could find that full EC membership was not for them.

Delors says Sweden will have to choose between neutrality and the European Community, "unless we give up the idea of the EC having a common defense policy. I am not ready to give that up."

The EC has only itself to blame for its magnetic popularity. Its astonishing economic success since it launched its single-market project in 1986 has made it the envy of Europe.

Economic growth in the EC reached 10.4% during the three years from 1988 through 1990, substantially higher than the U.S. rate of 8.1%. (The 12 EC nations are Britain, France, Germany, Italy, Ireland, Denmark, the Netherlands, Belgium, Luxembourg, Spain, Portugal and Greece.)

Spain, whose economy has soared since it joined the EC in 1986, has become a role model for poorer non-EC countries.

Likewise, the Scandinavian countries outside the EC like most of what they have seen in Denmark, the only one on the inside. Denmark, by linking the value of its krone to that of the other EC currencies, has squeezed its inflation rate from double digits to barely more than 2%. Its chronic balance-of-payments deficit with the rest of the world has turned into a surplus for the first time since 1963.

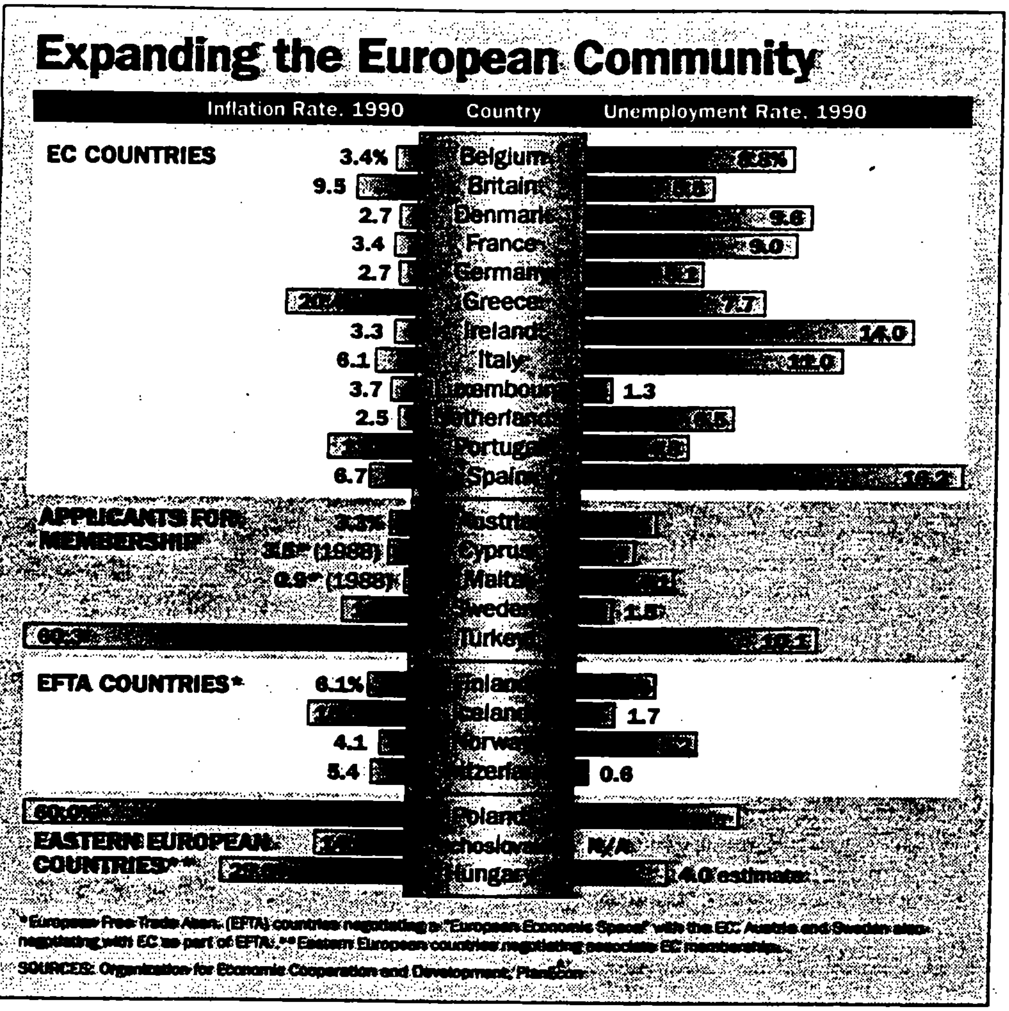
"We expect that the beginning of the EC single market in 1993 will give economic growth another boost," says Joergen Birger Christensen, chief economist of Den Danske Bank.

EC membership does not come cost-free. In Denmark, for example, the unemployment rate had been 2% before it hitched its star to the European Community in 1973. Now it is 10.3%.

Christensen argues that Danish unemployment is a product of that country's inefficient labor markets and does not set a pattern that other Scandinavian countries must follow. "There is no horror story waiting for Sweden," he says.

Maybe not for Sweden's overall economy. But in Sweden, as in most of the other countries seeking a home in the European Community, an assortment of special interests is lining up on the other side.

Swedish feminists are one. Their argument goes like this: EC membership would force Sweden to adopt EC-style economic policies. That in turn would emasculate Sweden's welfare-state benefits, which include publicly financed child care and 15 months of paid leave for new mothers. Without those benefits, many women would have to l ve the work force.



LIGAYA GRITZ / Los Angeles Times

"Women do not want to be sent back to their kitchens," says Swedish trade union leader Kristina Persson.

Then there are Swedish devotees of chewing tobacco—an estimated 800,000 of them in a nation of more than 8 million. To their alarm, the European Community is co dering banning chewing tobacco as a public health menace.

"Of course we are worried," says Lars Kronquist, production manager for Gothia Tobacco in Goteborg. "There are 800,000 consumers in Sweden who want this product."

They will have their say. Swedish Prime Minister Ingvar Carlsson has promised a nationwide referendum on EC membership.

In the other direction, there is strong public support within the EC for letting Sweden and other relatively rich nations join. According to the EC polling agency Eurobarometer, support among EC residents for Sweden is 89%, followed closely by that for Norway (88%), Austria (86%), Switzerland (85%) and Finland (85%).

Only Sweden and Austria have applied for membership so far, and they have grounds for hoping that they can join as early as 1995. "We would welcome them because these are European countries with similar history and culture," says Belgian Economics Minister Willy Claes.

Norway and Finland are edging closer to submitting their formal applications. Only Switzerland, with its history of neutrality, still plans to go it alone—for now.

These five countries plus Iceland (and, as of September, tiny Liechtenstein) constitute the European Free Trade Assn., which is nearing the final stages of negotiating a "European Economic Area" with the EC. The goal is to allow the unimpeded movement of goods, services, money and people across the entire 19-nation area.

Negotiators have yet to resolve some thorny issues. Iceland and Norway are seeking full opportunity to sell their fish to the EC, for example, and EC nations Spain and Portugal are demanding greater fishing rights near Iceland and Norway.

Switzerland wants to impose its strict weight limit on trucks from the EC, a Austria wants EC vehicles to meet st antipollution tests. None of the issues, however, seems likely to block the establishment of a European Economic Area as early as the beginning of 1992.

From another direction, three of the new democracies of Eastern Europe—Poland, Czechoslovakia and Hungary—are individually seeking a sort of associate membership in the EC. They would be excluded from the EC decision-making process but included, to an as yet undetermined extent, in some sort of a lowering of barriers to the exchange of goods and services.

To a surprising degree, EC public opinion favors eventual membership for th three countries—73% for Czechoslovakia and Hungary and 72% for Poland.

But French President Francois Mitterrand is not so sure. So different are the Eastern European countries, he says, that they would impede his dream of common EC foreign and defense policies. "For decades and decades," he said in a recent radio interview, Eastern Europe should be content with economic arrangements with the EC that exclude them from a role in EC decision-making.

Even Turkey, which has applied for full EC membership, is supported by 55% of the EC public (although in Greece, sent ment runs 99% opposed). EC rules stip late that decisions to admit new members must be unanimous, and Greece has no intention of letting its enemy into the club.

Also on the list of formal applicants are the Mediterranean island nations of Cyprus and Malta. Neither can look forward to membership soon.

The Cyprus government is looking over its shoulder at Turkey as it seeks entry into the EC. "We believe the best security is to be part of a bigger international entity," says Nicos Agathocleous, Cyprus' ambassador to the EC. "That means a loss of sovereignty for us, but we gain from being part of a big, secure entity."

Malta's ruling National Democratic Party has its own reason: to gain duty-free access to Western European markets for goods that it imports from third countr particularly in Africa. The opposition Labor Party, however, wants to orient the island not toward Western Europe but toward nearby Libya.

Nor does the list of countries knocking on the EC's door end there. Tiny Andorra, surrounded by EC members France and Spain, completed a customs union with the EC on July 1 by adopting a regime of import tariffs that square with the EC's That allows for the free flow of goo between Andorra and the EC.

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AMERICA AND
THE EUROPEAN COMMUNITY

PARTNERS OR RIVALS?

BY ROBERT A. POLLARD

Amid the "Europhoria" surrounding EC 1992, many Americans have lost sight of a momentous and potentially disturbing development: the European Community has become not only our best economic partner, but also one of our chief economic rivals. After World War II, the United States enthusiastically supported the rise of a strong and prosperous Europe: an integrated Europe underpinned the Atlantic Alliance, and the European Community was (and is) our best customer. Yet in recent years, the EC has been second only to Japan as a source of trade friction with the United States, notably over agriculture in the Uruguay Round of negotiations under the GATT. Even if the Round concludes favorably, America and the Community are likely to see more, not less, conflict over trade issues in the 1990s.

The United States generally did not press Europe on trade issues because of the overriding importance of our security relationship. For instance, the highly protectionist Common Agricultural Policy (CAP) has cost the United States billions of dollars in lost farm exports. With each enlargement of the EC, the figure grew, yet until 1986 (when Spain and Portugal joined), the United States did very little about it. This perhaps made sense when Europe was still recovering from the Second World War and faced a formidable security threat from the East.

Yet now that Western Europe has become an economic giant—and as Cold War structures are crumbling—some skepticism about the benefits of a united Europe is in order. Thanks in part to congressional pressure, the U.S. government has become increasingly aggressive in defending U.S. trade interests. Still, American policy is constrained by a reluctance to let trade disputes spoil our special relationship with Europe, as well as by a fear that aggressive trade action against the EC could jeopardize a successful outcome to the Uruguay Round. This is counter-productive, because the EC interprets an accommodating response as weakness and rarely offers trade concessions in response to moral suasion alone. Europeans complain loudly about the "unilateralism" of U.S. trade policy, but they are accomplished practitioners of the art themselves—and no saints when it comes to living up to their own GATT obligations.

Problems that won't go away

Conflict over trade is not inevitable, and both the United States and the EC have much to lose from a trade war. After all, both sides are committed in principle to freer trade and the GATT system, and the trade in question in most disputes is small compared with the overall volume of transatlantic commerce. Yet continued friction over trade with the EC is likely for several reasons:

- The dollar amounts, especially on agricultural trade, are significant.
- The EC tends to erect barriers to imports in precisely those areas—agriculture, entertainment (film), and high-tech (aerospace, semiconductors, telecommunications)—where the United States enjoys its greatest comparative advantage.
- The EC, even more than the United States, increasingly uses non-tariff and technical barriers to trade in order to protect beleaguered or "infant" industries.

- The GATT system has failed to provide a satisfactory mechanism for dispute settlement between the transatlantic economic superpowers.
- Members of Congress have become acutely sensitive to protectionism by the EC (and Japan) at a time when the trade deficit is threatening jobs and growth in their home districts.

Blessings of uniformity

What, then, are the sources of tension? Happily, the much ballyhooed European Single Market program—"EC 1992"—poses fewer problems than first thought. By removing barriers to the free movement of goods, services, capital, and labor, EC 1992 makes it easier for U.S. businessmen to enter European markets. For example, the EC's new system for the mutual recognition of industrial and agricultural standards, covering technical norms on everything from lawn mower noise limits to machine safety, will make it possible for a manufacturer in Indiana to sell his goods in Europe without having to meet the specifications of 12 different countries. Likewise, uniform laws on banking and financial services will permit a U.S. (or other non-EC) bank, insurance company, or stock brokerage to open up a subsidiary in one EC country, and then set up branches in all the others—a system even more liberal than that of the United States.

Though not formally part of the EC 1992 program, other related programs, notably Economic and Monetary Union and the proposed "Social Charter," may eventually establish a single European currency and central banking system and a common body of social legislation that should simplify the operations of U.S. firms based in Europe. At the same time, the EC Commission is committed to cutting massive member state subsidies to smokestack industries (shipping, coal, steel, autos). Otherwise, these "state aids" could negate positive benefits from the reduction of trade barriers in the emerging "United States of Europe."

In addition to the trade liberalizing effects of EC 1992, the United States supports European integration because, as the president has said, "A strong Europe means a strong America." Europe is our best ally, most EC members are NATO members, and the better off they are, the more likely it is that Europe can help shoulder our common defense burden. Europe is also our best customer. In 1990, we had a small trade surplus: $6.1 billion, out of two-way trade worth $190 billion. Including sales by U.S. multinationals in Europe (1988: $620 billion) and by European multinationals in the United States, plus two-way investment, ours is over a $1 trillion relationship.

Finally, the administration has embraced the Single Market because it serves as a model for Eastern Europe. The EC offers leadership in funneling aid and encouraging reforms in Eastern Europe. Since 1989, the Community has coordinated Western aid to the region via the "G-24" process.

Stacking the deck

What, then, is at the bottom of the U.S.-EC trade problem? First, certain aspects of the Single Market are discriminatory. Some fear that the EC is setting industrial standards using established European norms, instead of international ones, disadvantaging U.S. suppliers. EC testing and certification rules, under which U.S. goods qualify to meet European standards, could prove time-consuming and costly for American exporters. The EC has also used anti-dumping laws in conjunction with "rules of origin" (which determine the nationality of a product) to send a signal to non-EC firms that they must invest in the Community just to do business there. In one case, a U.S. semiconductor maker allegedly built a big plant in Ireland for that very reason. In government procurement, the EC has passed legislation that, in the absence of a revision of the GATT procurement code, could be far more protectionist than U.S. "Buy America" legislation.

Our most protracted and bitter disagreements with the EC concern agriculture. European intransigence on agricultural reform at the December 1990 Brussels Ministerial almost killed the Uruguay Round. The cancerous growth of EC price supports and import barriers has gradually squeezed U.S. farmers out of both the lucrative EC market and third markets where the EC routinely dumps its surplus farm goods. Recently, Brussels has proposed replacing price supports with income supports—paying farmers to take land out of production rather than paying them to grow more and more unwanted goods—but even if adopted, the reforms may come too little and too late to save the Round.

The expansion of the EC to include new members could mean the extension of pernicious agricultural subsidies to much of the rest of Europe in the 1990s. With the creation of the Common Market in 1957, and its subsequent expansions in 1973, 1981, and 1986 to its present membership, U.S. farmers lost billions of dollars of export markets in Europe. This happened even though GATT rules clearly state that the creation or enlargement of a customs union shall not disadvantage third parties, and that in the event it does, such parties are due compensation.

Not until 1986 (with the accession of Spain and Portugal) did the United States seriously seek and win compensation (about $400 million) from the EC on enlargement, and then only after going to the brink of a trade war. In December 1990, when the original EC Enlargement Agreement expired, the U.S. government again was forced to threaten the EC with trade action (against $420 million of agricultural imports from the EC) just to win a one-year extension of the agreement. (Negotiations will resume this June.) Aside from the substantive elements of the case, what is disturbing about the EC Enlargement case is that, until we threatened to take action against EC trade, Brussels refused to engage in serious negotiations.

The list of agricultural disputes with the EC goes on.

In January 1990, the GATT Council approved a GATT panel report finding that EC subsidies to oilseed crushers violated the EC's commitments to permit imports of soybeans and other oilseeds to enter its market duty-free. The U.S. industry estimates it is suffering up to $2.1 billion annual trade damage. Yet the EC, after promising to act upon the GATT ruling this year, so far has refused to do so on the grounds that it had conditioned implementation upon completion of the Uruguay Round. Since last fall, the Community has also banned all imports of U.S. pork, because American slaughterhouses are allegedly unsanitary. This happened at roughly the same time that U.S. regulatory agencies were accelerating testing of a European fungicide to permit timely imports of French Beaujolais.

Spirited fighting

U.S. willingness to compromise has not won good will, however. Since March 31, Brussels no longer permits marketing of American blended whiskey as "whiskey" in the EC: it must now bear the charming appellation "spirit drink." The United States protects numerous European wines and liquors (e.g., Bordeaux, cognac) against competition in the U.S. market, yet the EC to date has refused to provide similar recognition to American bourbon and Tennessee whiskeys. Consultations have not been fruitful.

Perhaps the worst instances of EC unilateralism are new non-tariff barriers in the product approval field, which U.S. Trade Representative Carla Hills identified as one of the major trade problem areas of the 1990s. For years, the EC has banned imports of U.S. beef (worth about $90 million) treated with hormones on spurious health grounds; U.S. regulatory authorities, who are generally tougher at screening health risks than their European counterparts, have detected no threat to human health from such substances. The EC also prohibited, pending further examination, marketing of a synthetically reproduced, but naturally occurring, substance called BST that increases milk production in cows. Brussels acted partly because of alleged public fears about BST's healthfulness, but mostly because of "socio-economic" reasons: in particular, that BST may favor big, "factory" farmers over small, family farmers. (Clearly, the EC also fears that productivity gains from BST could mean new additions to the EC's "*butterberg*," with serious implications for the EC budget.)

What is worrisome about the EC's socio-economic argument is not so much the repercussions for U.S. manufacturers of BST, although those would be serious, but rather the implications for all new products, especially bio-engineered ones. Socio-economic criteria could be used to ban almost anything. Washington favors the development of international norms to settle product approval issues. Fortunately, we have allies in the EC Commission who understand the Pandora's box that could be opened if countries resort to non-scientific excuses for trade discrimination, and some compromise should be possible.

Eurochauvinism at the movies

Not so with the EC's cultural protectionism. The Community's new broadcasting directive specifically targets U.S. industry by requiring that at least half of entertainment television shows consist of EC productions. Preservation of "European culture" is commonly cited as the directive's rationale, yet under the EC's definition, a spaghetti Western filmed in Italy and dubbed in English counts as a "European work" while a drama on

Henry the VIII filmed in Hollywood does not. Clearly, the main motivation behind the EC's (especially French) offensive against American "cultural imperialism" is to shore up its troubled TV and film industry, which has a dreadful track record winning over native audiences with its tired fare—while Hollywood's offerings are enormously popular.

The administration challenged the legality of broadcasting directives under the GATT, but the negotiations are deadlocked. (The United States claims the directive violates the GATT by restricting trade in film—a good—but the EC insists broadcasting is a service not covered by the GATT; there the matter rests.) Meanwhile, despite repeated assurances that the directive would have no practical effect on U.S. industry, three major EC countries—France, Italy, and the United Kingdom—have in place or are about to enact quotas against non-EC (read: U.S.) films that are even stricter than the EC mandates. The Community has also sought a "cultural carve-out" (exemption) to the proposed services agreement of the Uruguay Round that would permit the EC to discriminate against imports of virtually all "cultural" goods. Fearful of losses in its most lucrative overseas market, the Motion Picture Export Association of America has asked USTR to take action against the EC under the "Special 301" provision of the 1988 Trade Act.

The EC's cultural exceptionalism is profoundly disturbing because, first, the stakes are so big: U.S. audiovisual exports totaled $5 billion in 1989, of which television programming sales to the EC accounted for $880 million. The EC directive limits the degree to which U.S. film producers can share in the growing European audiovisual market. Consider, too, the example that the directive sets for developing countries when the EC, representing some of the richest countries on earth, invents new categories of protectionism. The EC's "cultural" argument, like the socio-economic criterion for product approval, opens the door wide open to more and more protectionism on arbitrary grounds.

High-protection

Yet another area of contention is the massive subsidies that the EC member states give to high-tech industries, notably Airbus Industrie. Since the consortium's birth two decades ago, the Airbus governments (France, Germany, Britain, and Spain) have offered the consortium's member companies $13.5 billion in grants and soft loans to develop civil aircraft and maintain European competitiveness in this cutting edge industry. The EC Commission, representing the Airbus governments in negotiations with the United States, argues that development aid is necessary for the struggling European "infant industry" to compete with its giant American competitors. But in the international trade arena, Airbus behaves more like a gangling, threatening teenager than a babe in arms.

According to the U.S. government, subsidies to Airbus pose a major long-term risk to the health of the U.S. civil aircraft industry. It is true that neither McDonnell Douglas nor Boeing is in imminent danger of bankruptcy. Yet Airbus' share of new orders for aircraft over 100 seats has soared from 16 per cent in 1988 to 35 percent in 1990 worldwide, largely because government supports make it possible for Airbus to sell its products below cost. Most important in the longer term, the American firms cannot count on handouts from the U.S. government when it comes time to "bet the company" on new models to replace today's 747s, DC-10s, and 767s—whereas Airbus can, knowing that in the end the Airbus governments' treasuries will bail it out if necessary.

Airbus representatives argue that government direct supports are necessary to counter the sizable "cross subsidies" that U.S. civil aircraft manufacturers receive from their highly profitable defense divisions. Yet the Airbus companies are even more dependent on military contracts than Boeing and surely take advantage of such support at least as much as their American counterparts. Moreover, to underwrite the privatization of MBB (the parent firm of Deutsche Airbus), the German government has so far paid exchange rate guarantees worth $262 million to Daimler Benz—a practice that the U.S. government is currently challenging before a GATT subsidies code panel.

None of this catalogue of complaints is meant to suggest that we face trade problems with the EC as serious as those with Japan, but for friends of the Atlantic community, that should be small comfort. First and foremost on the list of priorities for the EC should be quick and comprehensive agricultural reform. For its part, the United States clearly needs to get its fiscal house in order; most economists associate the massive budget deficits of the 1980s with America's chronic red ink on the trade ledger. Both the United States and the EC have a strong interest in strengthening the GATT system, the dispute settlement process in particular is pathetically inadequate, driving the U.S. government to rely increasingly on, various trade measures like Section 301 to protect its interests.

In the meantime, Brussels could improve relations by adopting a more forthcoming attitude toward bilateral consultations and negotiations on trade. Even if the U.S. administration were to become less demanding of its key European partner on trade matters—and that is unlikely—the Congress surely will not. With the Cold War no longer looming large in transatlantic relations, and with trade issues receiving increasing scrutiny on the Hill, the prospect in the 1990s may be for even more of the "unilateralism" in U.S. trade policy that European leaders profess to deplore. ■

Robert A. Pollard has covered EC 1992 and European trade issues in the State Department's Economic and Business Bureau for the last two years. The views expressed in this essay are solely those of the author and do not necessarily represent those of the Department of State or any other U.S. government agency.

STRONG EXPORT GROWTH RESULTS IN U.S. SURPLUS WITH CHANGING EUROPE

European Transformation Creates Wealth of New Opportunities

By Kevin R. Boyd

Dramatic change is under way on the European continent. A wealth of new opportunities for U.S. exporters has grown out of the continuing transformation within Europe. Reflecting these changes, *Business America* for the first time is presenting a single review article for Europe, rather than separate reviews for western Europe and eastern Europe.

The European Community's 1992 program continues apace, on target for the creation of a Single Internal Market by Dec. 31, 1992. The unification of Germany became a reality in October, less than a year after the fall of the Berlin Wall, and five new states are being assimilated into the Federal Republic. Profound political and economic changes ontinue to sweep through many of the ountries of central and eastern Europe, bringing democracy, the end of the Warsaw Pact, and the first steps toward the creation of market economies. There were signs of change within the Soviet Union as well.

Dynamic U.S. export growth to the European Community (EC) overcame renewed import strength to bring the U.S. merchandise trade position with the EC into surplus for the second consecutive year. The U.S. trade surplus with the EC for the year was $6 billion, a remarkable turnaround from the $21 billion deficit of only four years ago. The United States recorded a $3 billion deficit with the EFTA countries, and a virtual balance existed with the countries of central and eastern Europe (Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia). The U.S. trade surplus with the Soviet Union was $2 billion.

U.S. exports to the EC jumped 14 percent in 1990 to a record $98 billion. The top markets in Europe for U.S. exports remain the United Kingdom, the Federal Republic of Germany, France, and the etherlands. Countries registering the rgest dollar increases in imports from the United States were France and the United Kingdom, both with increases of more than $2 billion. U.S. exporters did not neglect the smaller European markets, however, as substantial percentage gains were evident in Iceland (30 percent), Denmark (25 percent), Norway (24 percent), and Cyprus (19 percent).

U.S. exports of manufactured goods to the EC once again reached a record level, increasing 13 percent over 1989 to $81 billion. Among the top U.S. exports to the EC were aircraft and aircraft parts, computers, medical and surgical instruments, and records, tapes, and other recorded sound media. Manufactured goods accounted for over 80 percent of U.S. exports to the region and almost all of the growth. U.S. exports of agricultural goods only increased by 3 percent in 1990 to just $6.7 billion.

U.S. exports to central and eastern Europe were up nearly 18 percent from the previous year to $1.7 billion, reflecting increased U.S. company interest in these nascent market economies. In one country, Romania, U.S. exports more than doubled! The composition of U.S. export growth to this region was just the opposite of trends with the EC. The growth in manufactured imports from the United States was small (only 5 percent), while agricultural goods imports from the United States were up 67 percent, reflecting a severe drought in many central and eastern European countries last year.

Growth in U.S. imports from western Europe showed renewed strength last year. Imports from the EC increased by nearly 8 percent last year, compared with less than one-half of 1 percent the previous year. U.S. imports from central and eastern Europe were down by nearly 6 percent.

European Economic Outlook

The 12-nation European Community (which accounted for 87 percent of U.S. exports to western Europe last year) had experienced several years of strong economic expansion, with growing levels of investment and brisk employment creation. This expansion slowed last year to 2.9 percent real GDP growth, below the 3.3 percent level that was the annual average for 1988-90. Weaker than expected growth in some EC member states was only partially compensated for by a strong German expansion, a result of unification and tax reform. Countries registering the strongest growth in 1990 were Ireland (4.5 percent), the Federal Republic of Germany (4.3 percent), and Portugal (4.2 percent). Greece (1.2 percent) and Denmark (0.9 percent) exhibited the weakest growth.

The Community expects a further deceleration of growth and employment in 1991, with an acceleration of consumer price inflation. EC-wide growth is expected to decline to 2.2 percent, but may regain some momentum in 1992. There will be significant divergences within the Community, however. Portugal should experience 3.2 percent growth this year, while growth of 1 percent or less is forecast for Greece, Denmark, and the United Kingdom. The pace of economic growth in Germany is expected to slow from the above-trend rate of last year. Although now a single country, Germany remains in practice two very separate economies, a booming western region mated to an eastern sector in recession.

Growth in investment has made a substantial contribution to overall EC growth over the last five years. While investment growth in the EC was very low, or even negative, in the first half of the 1980s, it had reached 5.5 percent by 1987, and was over 8 percent in 1988. This was the highest growth rate in more than two decades, and provided many opportunities for U.S. exporters of capital goods and related equipment. Although investment growth has been averaging 6.5 percent over the past three years within the EC, it is expected to slow to 2.9 percent in 1991.

The steady decrease in the unemployment rate observed in most of the EC countries over the past several years will probably halt in 1991. Employment growth, which had averaged over 1.5 percent during the period 1988-90, is forecast to drop to just over one-half of 1 percent in 1991, and to continue at that level in 1992. Unemployment, which had declined steadily from a 1985 high of 10.8 percent to 8.5 percent in 1990, will increase slightly to 8.7 percent in 1991.

The final quarter of 1990 saw a continued rise in consumer price inflation in all major economies, largely because of the jump in oil prices. Inflation in the EC in 1990 was 5.1 percent, and had averaged 4.6 percent for the period 1988-90. There is wide variation in inflation rates between the individual member states, with some reporting double-digit inflation. Wage costs have been rising relatively quickly in the larger Community countries over the last two years, and will undoubtedly be a major contributor to the 5.3 percent inflation rate forecast for 1991.

Political changes, accompanied by the breakdown or dismantlement of central planning, and the first steps in the necessary transformation from a planned to a market economy, have put heavy strains on the economies of central and eastern Europe. Output declined in all of these economies in 1990. Unemployment, almost totally unknown before, has begun to climb. The situation and outlook differs in each, however, depending in large degree on the pace of reform.

Poland has embarked on the most ambitious and comprehensive macroeconomic program. The necessary institutions and instruments for indirect macroeconomic control are being put in place. This transition is not without cost. Inflation has dropped sharply, but is still at a higher than desirable rate of approximately 5 percent per month. Unemployment is up, production is down, and the exogenous shock of rising energy costs has further complicated the adjustment process. There are positive signs as well. The recent agreement on debt forgiveness will free badly needed funds, and private enterprise is blossoming. As reforms proceed, Poland will become a lucrative market for U.S. exporters.

Reforms have been less rapid in Hungary and Czechoslovakia, although Hungary has surpassed Poland in its privatization program and foreign investment laws. Both countries face 30 percent inflation, rising unemployment, and falling output. However, while they have not chosen to follow the "Big Bang" example of Poland, both are committed to restructuring their economies and should provide solid opportunities for U.S. exporters. Hungary has mapped out a three-year reform program, and its relatively small economy has benefited from the most dynamic foreign direct investment in Eastern Europe. Czechoslovakia implemented a comprehensive economic reform effort this January, decontrolling 85 percent of all prices and establishing partial currency convertibility.

Stagnating economies and widely varied reform efforts characterize the southern tier. Bulgaria shows perhaps the best prospects, as the government moves to enact measures under the IMF's structural adjustment program. The outlook for Yugoslavia is clouded by political and ethnic rivalries which complicate the implementation of a coherent economic program. Romania, one of only two countries in the region not burdened by substantial foreign debt, is haltingly implementing economic and political reforms. Albania, the other comparatively debt-free country in the region, is just now opening to the West following a long period of self-imposed isolation.

The Soviet economy will probably remain in recession this year, with double-digit inflation also continuing. Only limited economic reforms have been adopted thus far, and there are discouraging signs that the Soviet government persists in pursuing administrative measures rather than market solutions. In addition, the continuing struggle over union versus republic control will likely diminish the effectiveness of any further reform measures that are enacted.

Outlook for U.S. Exports

U.S. exports to the EC should continue to grow in 1991, though not at the same rapid rate as the past several years. A moderate U.S. trade surplus should continue with the EC and develop with central and eastern Europe.

European Community imports increased, on a volume basis, by over 7 percent in 1990, following an increase of over 8 percent in 1989. Given the lower rate of real economic growth forecast for the coming year, import growth is expected to continue to taper off to roughly 6.5 percent in 1991.

The continued growth in U.S. exports to Europe last year was reflected in the United States regaining some lost market share in the European Community. The U.S. share of the EC market (including intra-EC trade) was 8 percent in 1983. Market share dropped to a low of 7 percent in 1987 as deficits with the EC grew. U.S. market share rebounded to 7.75 percent in 1989, however, and for the first five months of 1990 the U.S. share of the lucrative EC import market was 7.9 percent.

The countries of central and eastern Europe (and, to a certain extent, the Soviet Union) have made a conspicuous effort to re-orient their foreign trade away from traditional markets. They are seeking export opportunities in the developed market economies, and are opening themselves, in varying degrees, to trade and investment from the West as well. The key factor that U.S. companies must focus on in assessing these opr tunities is the commitment to, and p of, the reform process.

Governing, Jan. 1991, pp. 49 ff.

EUROPE AND THE STATES:

Free Trade, But No Free Lunch

A year from now, it will be a lot easier for us to sell things in Europe. It will be easier for them to compete with us, too.

By Penelope Lemov

Illinois is betting on Europe. It is betting that it can seize the moment next year as 12 European countries create a continent of opportunity for American businesses and the states that depend on them.

Last September, for instance, for the Automechanika show in Frankfurt, officials in Illinois put together a band of 18 small and medium-sized automobile accessory companies and subsidized up to 40 percent of their booth costs. The companies came home from Germany with sales of $3 million and projected sales of $9 million for the coming year. Meanwhile, from its trade mission base in Brussels, Illinois was sending its trade staff all over Europe to spread the word that it didn't just make things worth buying: It was a state worth investing in for the long run. Be it a French heart pacemaker producer, a German automobile parts plant—Illinois wants them all.

"You're either for free trade or you're not," James R. Thompson says. For the 14 years of Thompson's governorship, which ends this month, Illinois has been. And under new Governor Jim Edgar, Thompson's hand-picked Republican successor, it still will be.

Illinois differs from most other states only in degree. As the much-heralded open trade rules of the European Community go into effect (half of the nearly 300 proposed rules have been adopted; more than a dozen have already been implemented), at least 25 states are operating trade missions in an EC country. Several, like Illinois, have set up information networks to educate small and medium-sized companies. California and Connecticut have published workbooks that explain the export process and detail where in-state products will find a market in Europe.

Every governor in America knows that as EC 1992 becomes a reality, the 12 nations of the European Community will have one standard for any product. They know that American products will suddenly be quite a bit easier to market in Europe. And they know that the EC is a $4.5 trillion economy with 325 million consumers in Belgium, Britain, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

Most governors and state officials may have heard as well that the countries of the European Free Trade Association—Austria, Finland, Norway, Sweden and Switzerland—are harmonizing their standards with those of the EC. And that Eastern European countries, as they grow into economic viability, are likely to tune their products to EC standards. "You would have to be hiding in the 19th century not to realize what potential is there," says Illinois Senator Richard Luft.

What some free trade enthusiasts may not be focusing on, however, is the fact that EC 92 is not exactly a free lunch. It comes freighted with potential pitfalls and threatening structural changes for state and local governments—some immediate, others looming on the horizon.

The most important issue in the long run is this: Europe is going to be not only a market for American industry but a competitor. It will compete by selling more of its own products in places where American companies have had an edge, and by attracting investment dollars that would not have left American shores had EC 92 not come about.

In the short term, this is not a big problem. As the EC begins to function, Europe will be providing market opportunities certain to bring significant economic benefit to quite a few states. Not all

GUY BILLOUT ILLUSTRATION

THE STATES AND THE EC

State	1989 exports worldwide (in millions of dollars)	Percentage of state's exports that go to the European Community
Alabama	3,484	26
Alaska	2,721	5
Arizona	4,058	29
Arkansas	839	23
California	53,548	25
Colorado	2,527	40
Connecticut	4,473	34
Delaware	1,231	8
Florida	14,420	17
Georgia	6,055	28
Hawaii	263	4
Idaho	836	21
Illinois	13,160	28
Indiana	5,414	24
Iowa	2,583	24
Kansas	2,032	21
Kentucky	2,965	42
Louisiana	17,754	21
Maine	915	23
Maryland	3,174	29
Massachusetts	10,472	42
Michigan	21,207	9
Minnesota	5,310	32
Mississippi	1,760	28
Missouri	2,878	36
Montana	346	15
Nebraska	825	16
Nevada	322	33
New Hampshire	1,106	35
New Jersey	8,643	33
New Mexico	214	37
New York	26,790	29
North Carolina	8,162	31
North Dakota	383	15
Ohio	13,323	28
Oklahoma	1,638	26
Oregon	5,091	16
Pennsylvania	8,576	27
Rhode Island	650	33
South Carolina	3,531	30
South Dakota	158	35
Tennessee	3,623	28
Texas	38,093	15
Utah	1,244	22
Vermont	1,684	7
Virginia	8,718	47
Washington	23,965	26
West Virginia	1,413	48
Wisconsin	5,003	27
Wyoming	247	6

Source: Figures from Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst, based on U.S. Census Bureau data.

of them will be winners—states dependent on agriculture can expect no windfall—but many will be helped in some way.

The EC countries will continue to need industrial equipment, and that can only be good news for Illinois, Indiana, Michigan, Ohio and Wisconsin. There is a long-standing market niche in Europe for states that produce high-tech electronic or health-related products—such as California, Georgia, Maryland, Massachusetts, Minnesota and New York.

But as European companies that are currently struggling become more potent in these fields, some of the states with companies that depend on high-tech exports may find themselves displaced. The same is likely to be true for military hardware and civilian aircraft. "Europeans are going to begin emphasizing their own brand of products," predicts Gary Hufbauer, professor of international financial diplomacy at Georgetown University. Down the road, he says, California, Maryland, New York and Texas will find their military exports challenged, and Kansas, Missouri and Washington state will experience similar pressure on their civilian aircraft exports.

There are two sides as well to the coin of European investment. Here too, the short run is very promising. Many states now have permanent representation in Europe and send their governors to troll for investment in businesses and plants at home. Most of these governors come back excited about the prospects. As European companies merge, consolidate and become stronger in general, they are almost certain to take on a global perspective and want to enhance that image with a physical presence in the American market.

This European investment will lift a lot of boats along the East Coast. "There's a proximity factor," says Hufbauer. "Just as the economic boom in Japan and Korea was a very big contributor to California's prosperity, states from Massachusetts down to Georgia should benefit from the faster pace in Europe." Some of the Eastern states with a history of attracting European investment—such as Georgia and North Carolina—should be among the first to benefit. States outside the East with a similar tradition—California and Illinois—should be optimistic as well.

The troublesome question is not so much what the European companies will do in America, but what American companies may want to do in Europe. Some of the U.S. firms that seek to increase their trade with Europe will want to use their investment dollars to establish a European foothold rather than to expand in their home territory. It won't be done as a means of chasing cheap labor but rather as a way of insuring access to the EC market.

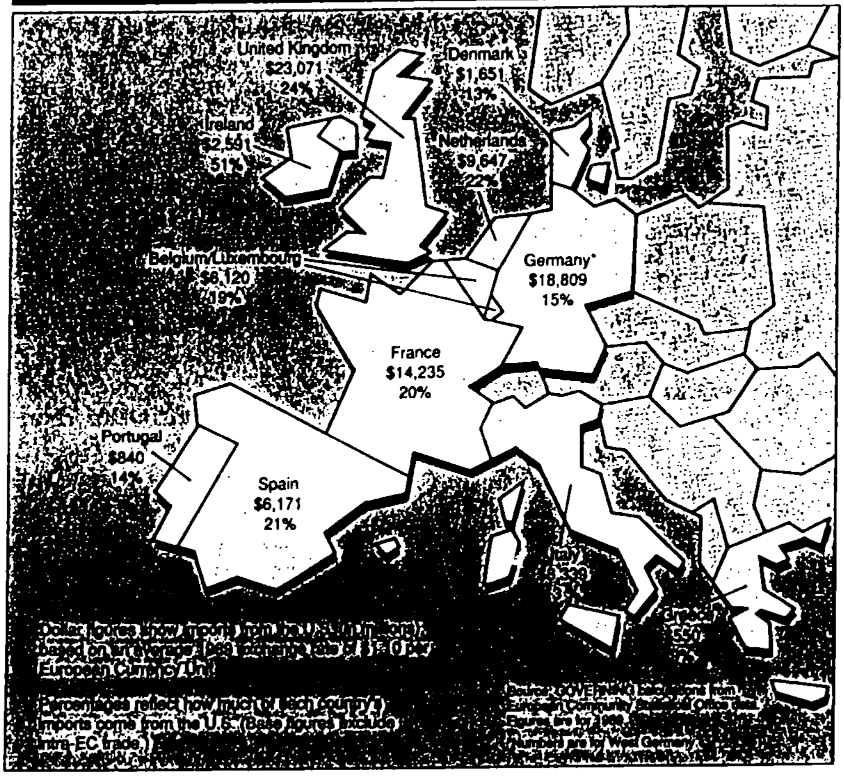
"That's the $10,000 question," concedes Luft. "Does EC 92 have the potential of siphoning off corporate America's investment in the U.S.?" Luft fears it may be so, that growing American companies will maintain plants here for domestic business but build or go into joint ventures in Europe for business there. That, he points out, may be good for the companies' bottom line but not for the development of jobs in the United States.

Not everyone buys that gloomy scenario. Gregory Mignano, who is executive director of California's World Trade Commission, argues that even if Europe siphons off some U.S. investment resources, "trade and investment isn't a zero-sum game. In a liberal business environment worldwide, everybody gains from trade and investment. We don't really see losers."

In recent years, many states have used subsidies to attract foreign investment, offering low-interest loans, low-cost land and tax breaks to attract Japanese automakers and other major companies. In the EC era, this may make less sense. The European Community has taken steps to prevent its member states from providing subsidies in competition with each other. American states that continue to do this may find that they end up spending public money unnecessarily.

In the opinion of Douglas Rosenthal, a trade law specialist, the better way to attract European investors is to use these public monies to create good schools, a pleasant environment and clean cities. As Mississippi Governor Roy Mabus sees it, states should begin to realize that "the competition for investment in Mississippi or Alabama is not necessarily going to be Kentucky or Tennessee, but Hungary or Poland."

WHAT THE EC BUYS FROM US



Besides offering markets to American business—and eventually providing competition for it—EC 92 is likely in the long run to have other important impacts. It is likely, for instance, to force changes in the way American governments are regulating their own industries. States will have to consider whether their regulations preclude the ability of those businesses—and by extension, the states themselves—to participate in the best EC opportunities. This gets down to the issue of reciprocity.

One major opportunity is in the massive purchasing power of the EC governments. EC countries may be opening more of their government purchasing to bids from American companies. European companies will then want to bid on government contracts in the 50 states of this country. That will be a sticky point for the 26 states that give purchasing preferences to American or local companies.

Those 26 states (as well as numerous localities with similar preference laws) may find themselves under pressure to repeal those laws. "States that don't jettison that stuff may find themselves penalized" by Europe, warns Gary Hufbauer.

"States have to recognize that the change is better for everybody in the long run," says Douglas Rosenthal. "But I doubt that issue excites political support." Repealing the trade preference laws certainly excites no political support from organized labor, which sees U.S. jobs as protected by preference policies.

The problem goes beyond the actual preference legislation. Even where buying American is not the law, it is often the politically correct thing to do. Indiana, for example, does not have a state preference statute. But there is always, says Lieutenant Governor Frank O'Bannon, "pressure to buy from people who pay taxes in your state." When he goes to Europe to talk about further Indiana exports, O'Bannon finds himself also having to assure Indiana trade officials and chambers of commerce that he isn't trying to crash the European market while freezing them out.

The Illinois legislature passed a buy-American preference bill during Governor Thompson's regime, but he vetoed it. It would have been the wrong signal to send trading partners, he says. "Other countries will take steps against your goods or services."

When it comes to free trade in financial services, the issue of reciprocity becomes even more complex. American and European financial service regulations have little in common, either in philosophy or practice. Policies in most EC countries have long encouraged big, centralized banks. Most of these banks, which are regulated solely by their central governments, have had a free hand to sell or underwrite securities and insurance, as well as lend money. As banking directives are implemented, banks in Europe will be able to branch out and offer all their services in any EC country.

But not in America. In this country, foreign banks have to play by both federal and state rules. Federally chartered banks are not permitted, for instance, to sell or underwrite securities (the Glass-Steagall Act) and are allowed to branch out in a given state only to the extent that state-chartered banks can legally do it (the McFadden Act).

Under the new rules, the EC will permit U.S. banks entering the European market to engage in any activities European banks engage in: branching across national borders, selling securities or underwriting insurance. But European banks that enter the U.S. market will be barred from the securities and insurance businesses and severely limited in their branching.

For a while, the EC members were taking a hard line on this lack of mirror-image reciprocity, suggesting that American banks would be kept out of their countries altogether if something were not done about it. The EC has backed off that position for now, but it clearly could choose to revisit it at any time. That creates some pressure from national banking interests to revise or repeal both the Glass-Steagall and McFadden acts.

Much of the state banking community will resist any effort to change the McFadden Act in particular, seeing such an effort as a threat to the whole concept of state control. "We want to prevent a weakening or removal of McFadden simply because we need to match what U.S. banks can do overseas," says Robert A. Richard, vice president for regulatory services for the Conference of State Bank Supervisors.

The most profound effect of EC 92 on state and local governments may be one that is only beginning to surface. States may find themselves under pressure to unify their tax codes.

Momentum is building within the EC to have tax rates in each of its 12 countries set within a restricted range of rates. The idea is that when the tax rates of one country are close to those of another, companies won't try to relocate in one country to avoid higher taxes across the border. "This is the last big hurdle in having a common market," Rosenthal says, adding that should it come about, it will present states in the U.S. with considerable pressure to unify their tax codes.

There is a general need to develop more uniform regulations among the states if they are to remain competitive vis-à-vis the EC, argues Robert P. Strauss, director of the Center for Public Financial Management at Carnegie Mellon University. He suggests the states move toward common definitions of taxable bases, with tax rates set by individual states. "An integrated Europe with uniform regulatory and fiscal institutions will make our situation an historical luxury we can no longer afford," Strauss has written.

On the other side are those who believe heterogeneity is what gives strength to individual states and the U.S. economy as a whole. "If we learn nothing else from the experience of what's going on in Eastern Europe, it's that centralization of policy is not an efficient or competitive way to go about things," says Robert Ebel, director of government finance research for the Advisory Commission on Intergovernmental Relations.

Even if there were agreement that state taxation structures should be harmonized, there is considerable doubt whether it would be possible. It's one thing to say that all states should have a sales tax; it is another to coordinate those sales taxes so that there is similarity in such aspects as exemptions, exclusions and definitions of transactions. "To suggest that the sales tax in California is like the sales tax in Iowa is bizarre," says John Mikesell, a professor at the School of Public and Environmental Affairs at Indiana University. He holds out little hope for the practicalities of such standardization.

It is too early to guess who is right. But it seems certain that a booming EC market and the competitive forces it unleashes will suggest greater federal preemption in several areas. This is an intriguing prospect to some of the governors who have their eyes on trade. It is less attractive to some legislators who are more concerned about opinion at home than the sentiment in European capitals.

Bringing up the subject of regulatory change begs the larger question that lurks behind the EC experiment for all 50 states: whether, in the long run, it will be more of an opportunity than a threat. So far, the optimists like Richard Luft are doing most of the talking. He admits that the potential exists for the EC to surpass the U.S. in almost every way. Still, he says, "that doesn't mean our potential to compete and pass them is thwarted. The EC market can accelerate our productivity and sales. The only reason that wouldn't happen would be our inability to recognize the potential that exists in Europe." ☐

National Journal, v. 23, May 25, 1991, pp. 1224-1228

Staking Out Europe

Europe and Japan have come a long way since the 1960s, when a French President dismissed Japan as a nation of transistor salesmen. It's a change bound to complicate the lives of Washington policy makers.

BY BRUCE STOKES

TOKYO—There is an old Japanese saying that whenever three people get together, two are naturally drawn to each other. So it has been for years in the triangular relationship between the world's major industrial centers: Europe, Japan and the United States.

For reasons of culture, geography and the legacy of World War II, the United States has had close but distinctly separate ties with Europe and Japan. But "the Japan-EC [European Community] relationship is not yet as developed as it should be, given the size and importance of the two parties," Hiroshi Hirabayashi, economics minister in the Japanese embassy in Washington, ruefully lamented in a recent speech.

Europe and Japan have come a long way since the 17th century, however, when the Tokugawa shogunate closed Japan's ports to most European ships, or since the 1960s, when French President Charles DeGaulle dismissed Japan as a nation of transistor salesmen.

This city's narrow streets are clogged with double-parked Mercedes. Their Burberry-clad owners duck into corner boutiques to buy Yves St. Laurent fashions or Givenchy perfume. Trendsetting Japanese yuppies have discovered imports, and they are labeled "Made-in-Europe."

Europeans, for their part, are thoroughly enamored of things Japanese these days. Grim eastern Germany is brightened by billboards extolling Panasonic's virtues. And towns in England's Midlands clamor for Japanese investment.

Beyond these visible signs of change, a once-conspicuously weak link among the trilateral global powers is being strengthened in ways that are almost certain to complicate life for Washington policy makers and for American business executives, especially those in the already hard-pressed automotive and electronic industries.

"Having nurtured this relationship," said Harald B. Malmgren, a former U.S. government trade official and now an international consultant, "Washington will have to learn to cope with all the difficulties that will inevitably be generated by closer European and Japanese cooperation."

Japan's growing investment in and exports to Europe are already crafting new commercial ties between the two economies. European entrepreneurs, emboldened by Europe's recent economic resurgence, have successfully established beachheads in the Japanese market, not unlike the Dutch merchants who first opened up the Japanese port of Nagasaki in the 16th century. The EC's attempt to confront the competitive challenge posed by Japan has forced Brussels and Tokyo into an unprecedented dialogue of ever-widening scope. In the process, many Europeans and Japanese are finding that they share kindred philosophies about the structure of a modern economy and similar views about their roles as global leaders.

The United States has long encouraged closer ties between Europe and Japan. Now, Washington must live with the match it helped arrange.

- Japanese commercial airlines have traditionally bought aircraft from Boeing Co. and McDonnell Douglas Corp. But last December, after unprecedented European government lobbying, Japan's All Nippon Airways placed a single order for 10 European-built Airbus A-340 aircraft. It was a marketing coup. Up to that point, only 16 of the 271 planes flown by Japan's carriers were European-built.
- In what may be the most far-reaching European-Japanese joint venture to date, Mitsubishi Corp. and Daimler-Benz AG are considering extensive cooperation in aerospace, automobile and defense production. "It's a dagger pointed at the heart of Boeing, GM and Pratt & Whitney," a U.S. industry analyst said.
- In 1987, 51 per cent of all Japanese purchases of foreign securities were American stocks and bonds, and 42 per cent were European or Euroyen securities (yen-denominated securities issued by Japanese firms in Europe). By 1990, U.S. securities accounted for only 16 per cent of Japanese buying, and the European

Daval Foundation (from the collection of Ambassador and Mrs. William Leonhart)

market handled 61 per cent of Japanese purchases. As Japan's external capital surplus dwindles, Japanese investors are increasingly placing their funds in Europe, exacerbating the capital crunch in the United States.

- With the end of the Cold War, European and Japanese security are less dependent on the United States than at other any time since World War II. During the Persian Gulf war, Bonn and Tokyo often agreed more with each other than with Washington about the conflict's goals and tactics. This divergence of interests suggests that the Gulf war coalition was the last gasp of the old world order, not the first example of an America-centered New World Order.

EC President Jacques Delors's May 22-25 visit to Tokyo symbolized the growing importance of EC-Japanese relations. Delors, long openly distrustful of the Japanese, was making his first visit to the island nation in five years. Emperor Akihito hosted a lunch for Delors, an honor traditionally reserved for heads of state. Until recently, Washington denied Delors this diplomatic recognition because his rank does not technically qualify him for such treatment. Tokyo, realizing the benefits of playing to Delors's vanity, shrewdly accorded him royal treatment.

During the visit, European and Japanese diplomats also worked on a joint statement of principles that Brussels and Tokyo hope to issue before the London economic summit in July. This pronouncement is modeled on a similar declaration Washington and Brussels released in November. That document was roundly criticized as little more than a restatement of the obvious. The Japan-EC declaration will be a similar pastiche

As Europe expands its commercial ties with Japan, America could lose its place at the head of the line.

of flowery diplomatic prose. But its symbolic value is far more profound. The declaration's establishment of periodic, high-level diplomatic consultations will, for example, force unprecedented interaction between the government bureaucracies in Brussels and Tokyo. More important, according to a Japanese diplomat, the accord will affirm that "although we come from different backgrounds and cultures, now we share common values."

Such declarations ignore the inherent difficulties that lie ahead. The differences between Europe and Japan have not been bridged in the past for good reasons. Europe's cultural and economic diversity means that France, Germany and Great Britain have differing views on Japan. In some nations, animosity toward Japan runs deep. So the new relationship may be defined as much by its confrontations as by its intimacy. Japan's continued self-image as America's little brother suggests that Tokyo is unlikely to do anything for the time being that will jeopardize its psychological dependency on the United States. Finally, although Europe and Japan may share somewhat similar economic and diplomatic worldviews, both societies are in the process of economic transformation. And they may not evolve on parallel paths.

Whether Europe and Japan draw closer together or merely find themselves involved in a more fractious relationship, their new rapport, contrary to the Japanese adage, will not necessarily come at the expense of their ties with the United States. For some time to come, European and Japanese bonds with the United States are likely to remain the strong links in the trilateral relationship. Still, Europe's dalliance with Japan means Washington's dominance in relations with Brussels and Tokyo is likely never to be quite the same again.

ECONOMIC TIES THAT BIND

Until recently, commercial ties between Europe and Japan were limited. EC-Japanese trade is less than two-thirds that of U.S.-Japanese trade. Japanese investment in Europe is half that in the United States. But change is coming rapidly. And with it come EC-Japanese trade and investment frictions. Sparks from those confrontations could easily ignite new troubles in U.S.-EC and U.S.-Japanese commercial relations.

Since 1986, EC-Japanese trade has grown faster than either Japanese or European commerce with the United States. In part, this reflects a statistical aberration attributable to the small amount of EC-Japanese trade up until the mid-1980s. Nonetheless, the growth rates of exports and imports have been impressive. In 1990, Japan's exports to the Community grew by 11.7 per cent, while imports from the Community increased by 24.5 per cent, according to Japanese government data. (*See table, p. 1228.*) In the same year, Japanese imports from the United States grew by only 3.5 per cent, while exports fell by 3.1 per cent.

Duval Foundation

In the first quarter of 1991, the growth of Japanese imports from Europe slowed, while exports accelerated dramatically. This development highlights a precarious imbalance emerging in EC-Japanese trade. Japan had an $18.5 billion trade surplus with the European Community last year, according to Japanese government figures. (Brussels disputes these numbers, arguing that the imbalance was $27.6 billion because Japanese purchases of gold and paintings from Europe should not be counted as EC exports to Japan.)

While this surplus is down from the $22.8 billion surplus in 1988, American economists think the imbalance can only grow. William R. Cline, a senior fellow at the Institute for International Economics in Washington, estimates that from 1990-95, Japan's trade surplus with France, Germany, Great Britain and Italy will rise from $8 billion to as much as $30 billion.

EC-Japanese investment flows are similarly out of balance. Across the continent, Fujitsu Ltd., Hitachi Ltd. and Toshiba Corp. have created little Nippon Valleys, Europe's response to America's high-technology Silicon Valley. Honda Motor Co. Ltd. and Toyota Motor Corp. begin producing cars in Great Britain next year, following the lead of Nissan Motor Co. Ltd. Japanese banks already control about 11 per cent of all European banking assets. By the end of 1989, Japanese companies owned $14.8 billion worth of plant, equipment and real estate in Europe, four times the level of Japanese investment in 1986.

But EC-Japanese investment flows have been a one-way street. While major European banks and some manufacturers and distributors are highly visible in Japan, Japanese investment in the European Community exceeds EC investment in Japan by a ratio of 17-1.

These commercial imbalances directly affect U.S. interests. Japan's trade surplus with Europe is largely attributable to the undervaluation of the yen with respect to European currencies. From 1989-90, the yen depreciated 21 per cent against a basket of European currencies. This undervaluation places American exporters at a disadvantage when competing with Japanese manufacturers for a share of Europe's expanding market.

European businesses are establishing beachheads in Japan . . .

Moreover, Cline said, "if the trends identified materialize," and European deficits with Japan balloon, "there could be renewed rounds of anti-Japanese trade pressure in Europe." And such actions, while ostensibly aimed at Japan, could embroil Washington in Brussels's tussles with Tokyo and affect how the United States conducts its own commercial relations with Japan.

MORE BAD NEWS FOR DETROIT?

This ripple effect is already being felt in the auto industry, where Europe is likely to be the main global battleground in the 1990s. The EC car market is larger than North America's (11.9 million cars are expected to be sold in the Community in 1991, compared with only 9.6 million in North America, according to estimates by DRI/McGraw Hill, the Massachusetts-based economic consulting firm) and is growing faster (12.3 per cent expected EC growth by 1995, compared with 7.7 per cent North American growth).

Japanese automakers have been drawn to this market like flies to honey. Japan's auto exports to the Community are expected to reach 1.2 million this year. From 1985-95, European car production by Japanese firms is expected to soar from 103,000 to 1 million vehicles, according to estimates by IBJ Capital Management Co. Ltd. As a result, Japan's 11 per cent share of the European auto market could easily grow to at least 20 per cent by the year 2000, warns Robert Eaton, president of General Motors Corp. Europe.

This new wave of Japanese competition, washing over Europe during a recession, threatens to drown European car manufacturers such as Renault SA, whose net income fell 87 per cent in 1990. But it is also undermining U.S. automakers. In the past few years, the profits reported by GM and Ford Motor Co. were largely earned by their extensive European operations. With European revenues dwindling, GM and Ford reported staggering losses in the first quarter of 1991.

To reverse their fortunes, European automakers have turned to Brussels for protection. Currently, each nation has its own policy toward Japanese cars. In Denmark and Greece, where competition is unfettered, Japanese car companies already hold more than a third of the market. But bilateral treaties restricting imports hold Japanese carmakers to only 2 per cent of the Italian market and 2.2 per cent of the Spanish market. These discrepancies would make a unified EC auto market impossible. So for the past year and a half, Brussels and Tokyo have been negotiating a common EC import quota on Japanese autos.

Nothing is final yet, but the European Commission, the EC's administrative arm, favors a voluntary plan to gradually permit Japanese auto market share in Europe to grow to 16-17 per cent by the end of the decade. Given Japan's plans for auto production in Europe, Japanese automakers could hit that ceiling by 1995, suggesting there will be severe European restrictions on imports of Japanese cars in the latter part of the decade.

The victim of such a deal could be the American auto industry, which is already in a severe slump. Japanese cars not shipped to Europe could end up in the United States, or more likely, in other markets, where they will compete with U.S. exports. As the United States has ruefully learned from its own quota on Japanese cars, any limits in Europe on the number of Japanese cars that can be sold there will allow Japanese automakers to charge higher prices. Increased profits will enable Toyota or Nissan to invest more to produce even better, less costly products to challenge Ford, GM and Chrysler Corp. Finally, there is the unresolved question of how Hondas and other Japanese cars made in the United State will be treated by any controls on Japanese imports to Europe.

Facing such a threat, the new EC-Japan auto pact is being closely watched on Capitol Hill and could well serve as a model for future U.S. auto policy. House Majority Leader Richard A. Gephardt, D-Mo., backed by the United Auto Workers and Chrysler, says he may copy any such agreement and introduce it as legislation. "If it's good enough for Japan in Europe," a House Democratic leadership aide said, "it's good enough for Japan in the United States."

The United States has a similar stake in how Europe and Japan resolve their growing differences over electronics. Europe is the world's emerging market for information technology. By 1992, Europe will account for 31.5 per cent of the $649 billion in global information technology sales, according to estimates by Price Waterhouse, the New York City-based professional services firm. Europe accounted for only 25 per cent of global sales in 1984.

But booming sales have been of little solace to Europe's electronics giants. The Community ran a $35 billion trade deficit in electronics products last year. Computer makers and semiconductor producers, in particular, are desperately fighting for survival. France's Compagnie des Machines Bull lost $1.2 billion in 1990, and the Netherlands's Phillips NV has laid off a third of the workers in its computer division.

Many Europeans blame their troubles on Japan's recent assault on Europe's electronics market. This fall, Fujitsu will open a new chip plant in the United

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. . . Back in Europe, officials fret about a flood of Japanese imports

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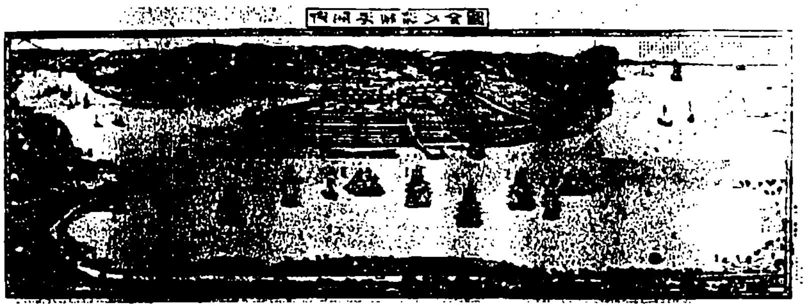
Kingdom; Mitsubishi and Hitachi are building facilities in Germany. Scores of Japanese companies are creating sales networks and searching for potential joint-venture partners in the region. Already, Hitachi supplies hardware to Olivetti & Co. S.p.A., Fujitsu supplies Siemens AG with mainframes and supercomputers and Toshiba licenses computer chips to Siemens. In the most controversial development to date, last year Fujitsu bought 80 per cent of Britain's International Computers Ltd. (ICL).

Reacting to these incursions, European chip makers have tossed ICL out of JESSI, the EC semiconductor research program. Computer makers have called for higher tariffs on imports. Paris has announced plans to pump $1.5 billion into Thomson SA and Bull, to keep them, in the words of French industry minister Roger Fauroux, from becoming "a marionette in the hands of the Japanese." And the Community seems headed toward creating a package of financial aid and trade protection for the big French, Dutch, German and Italian electronics companies.

Japanese inroads into Europe's electronics market is being closely monitored by American companies. International Business Machines Corp., Compaq Computer Corp. and Apple Computer Inc. dominate the EC personal computer market. As Japanese firms expand their European business, the business they capture will increasingly diminish U.S. market share in Europe.

Europe's response to the competitive threat posed by Japan's electronics industry is likely to be felt on the U.S. side of the Atlantic. A 1989 EC directive, ostensibly issued in an effort to harmonize commercial regulations by the end of 1992 (the target date for the Community's economic merger), but practically aimed at helping European chip manufacturers in their battle with their Japanese competitors, has already forced a number of U.S. semiconductor makers to move operations to Europe. *(See NJ, 5/13/89, p. 1180.)* Moreover, the Community carried out 256 antidumping actions from 1980-89, most conspicuously against imports of Japanese electronics products. These measures have accelerated Japanese investment in the Community, often to the detriment of American producers trying to sell into Europe from offshore.

Such aggressive use of trade policy has not gone unnoticed in corporate board rooms in Tokyo and Osaka. "They have learned a lot from the conflict they experienced with the Americans in the last 10 years," Takao Negishi, European director of the Electronic Industries Association of Japan, told London's *Financial Times* in March. "The main thing they want to do is to avoid any conflict between Europe and Japan."



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TRADE WINDS ARE SURGING

The following figures show trade between the European Community (EC) and Japan since 1986, measured in billions of dollars, according to the Japanese Ministry of Finance.

	1986	1987	1988	1989	1990
Japanese exports to the EC	$30.7	$37.7	$46.9	$47.9	$53.5
Japanese imports from the EC	14.0	17.7	24.1	28.1	35.0
Trade balance	**16.7**	**20.0**	**22.8**	**19.8**	**18.5**

European willingness to drive a hard bargain and Japanese desire to head off a confrontation could enable Brussels to extract concessions from Japanese electronics companies that were never offered when these same firms led an assault on the U.S. market in the 1980s. In particular, the Europeans are expected to demand more well-paying high-tech production jobs, more research and development work in Europe, new investment in depressed areas, more joint ventures and broader European access to the Japanese market. Moreover, American electronics industry officials fear that in the future, they will have to match Japanese promises to remain in Brussels's good graces.

NEW WAYS OF THINKING

As momentous as these changes may be for the electronics and automotive industries, the most profound consequence of the growing integration of the European and Japanese economies may be philosophical. The emerging European-Japanese relationship is changing the way Europe sees itself.

"Had there been no Japan, there might have been no 1992 project in Europe," wrote economic journalist Daniel Burstein in his new book, *Euroquake* (Simon & Schuster Inc.). "A great many factors went into making 1992 happen. But in the early days, Europe's fear and envy of Japan were particularly visceral catalysts."

Now, the complications of dealing with the Japanese competitive challenge have triggered an even more fundamental reappraisal of the economic policies that should guide a united Europe. The French have long argued for a more confrontational approach to Japan. The mid-May appointment of Edith Cresson, an advocate of protectionism and industrial policy as a response to the Japanese challenge, as France's prime minister will strengthen the hand of those who advocate such action. Until now, however, Germany has opposed such measures, and it has long been assumed that German-style free-market philosophies would prevail. But Bonn may be having second thoughts.

A debate about the efficacy of totally free markets has broken out in Germany, triggered by the recent publication of a book by Konrad Seitz, head of the German foreign ministry's policy planning staff. The book argues that the technological challenge posed by Japan necessitates a rethinking of the basic tenets of European-style capitalism. "German policy will clearly be less confident in a liberal, market-led process in the future," predicted Achim von Heynitz, a senior economist with the German Foundation for International Politics and Security in Ebenhausen, who is now working for Seitz. "Industrial policy will inevitably be on the rise."

Industrial policy is something Japan understands. "We are fed up with weak EC industry," a Japanese government official said. He implied that Tokyo would be willing to go along with European auto import quotas as long as they were linked to a winnowing out of the weakest European producers and government support to improve the woeful productivity and quality of European automakers. Similarly, he said, public help in salvaging one or two European electronics makers would prudently avoid a public backlash if they all fail. "We don't want to wipe out European industry," the official said.

An acceptance of a closer working relationship between government and business is not the only value Europeans and Japanese are finding they share. As creditor economies still enjoying slow but steady growth, Europe and Japan fear inflation above all else. With its recessionary debtor economy, the United States wants lower interest rates even if they threaten inflation. These contrasting philosophies did battle at the April G-7 meeting of the industrial nations' finance ministers in Washington. In a sign of things to come, "noninflationary growth" promoted by Britain, Germany and Japan prevailed over U.S.-advocated "low inflationary growth."

And the rancorous public debate over allied burden-sharing for the Persian Gulf war highlighted the fact that Europe and Japan also do not share America's sense of responsibility for maintaining the global economic and political system. In their view, a superpower does not keep the peace by waging war. Left to their own devices, reflecting their pragmatic, regional orientations, Japan, Germany and possibly Italy and France would probably have struck a deal with Iraq, rather than confront Baghdad over its invasion of Kuwait. Americans sneer at such crass checkbook diplomacy. But many Japanese and Germans see little difference between paying Saddam Hussein a premium to keep his oil flowing and paying the United States money to conduct the war.

At this early stage, it's hard to say how the EC and Japan's budding relationship will evolve. But European and Japanese public opinion suggests that the dalliance may be the start of something big. When the Japanese prime minister's office conducted its annual national poll last October, a record number of those questioned, 54.1 per cent, said they feel relations are good between Japan and the EC countries. And when British Labor Party officials visited Tokyo recently, they told Japanese diplomats that despite the party's harsh rhetoric about Japanese trade and investment practices, if Labor wins the next British elections, it will not be able to reverse the ruling Conservative Party's open-door policy toward Japan.

For better or worse, from an American perspective, the die has been cast. The European-Japanese relationship is coming into its own, and the trilateral relationship has entered a whole new era. ■

1992 At a Glance

By 1992, the European Community intends to have implemented 282 regulations to create a single internal market. The following specific changes represent the major part of the 1992 program. The EC's intended dates of implementation follow each subject area.

In standards, testing and certification

Harmonization of standards for:
Simple pressure vessels (1) 7/92
Toys (1) 6/89
Construction products (1) 6/90
Machine safety (1) 12/92
Agricultural & forestry tractors (1) 9/88-1/91
Cosmetics (1) 12/89
Quick frozen foods (1) 7/90
Flavorings (1) 7/90
Food emulsifiers (1) 1/85
Food preservatives (1) 12/86
Jams (1) 12/89
Fruit juices (1) 5/91
Food inspection (1) 6/91
Definition of spirited beverages & aromatised wines (1) 12/89
Coffee extracts & chicory extracts (1) 7/88
Food additives (1) 6/90
Materials & articles in contact with food (1) 7/90-1/92
Tower cranes (noise) (1) 6/89
Household appliances (noise) (1) 12/89
Tire pressure gauges (1) 11/87
Hydraulic diggers (noise) (1) 1/90
Detergents (1) 1/90
Lawn mower (noise) (1) 7/91
Radio interferences (1) 1/92
Automobiles, trucks, motorcycles and emissions (1) 7/88
Liquid fertilizers & secondary fertilizers (1) 1989, 90,91,92
Lifting and loading equipment (1) NA
Measuring instruments (1) 1/92
Gas appliances (1) 1/92
Telecommunications (2) 7/24-12/94
Earthmoving equipment (2) 1/89-12/93
Medicinal products & medical specialties (2) 1/92
Personal protection equipment (2) 1991, 1992
Global Approach to Testing & Certification (3) 1/93
Medical devices (3) 1/92
Infant formula (3) NA

New rules for harmonizing packing, labelling and processing requirements

Ingredients for food & beverages (1) 5/89
Irradiation (1) NA
Nutritional labelling (1) 4/92
Classification, packaging, & labelling of dangerous preparations (1) 6/89-6/91
Extraction solvents (3) NA

Harmonization of regulations for the health industry

Medical specialties (1) 7/87*
High technology medicines (1) 7/87
Veterinary medicinal products (1) 7/87
Implantable electromedical devices (1) 7/92
Pharmaceuticals (2) 12/89-12/92
Non implantable, active medical devices (4) NA
Non active medical devices (4) NA
In-vitro diagnostics (4) NA

Changes in government procurement regulations

Coordination of procedures on the award of public works & supply contracts (1) 7/90**
Extension of E.C. law to telecommunications, utilities, transport (3) services (1) 7/92

(1) Adopted (2) Mostly Adopted (3) Proposed (4) Proposal Due
NA—Not Applicable
TBA—To be announced
*Portugal must comply by 1/91
**Spain, Portugal, Greece by 3/92
***Portugal 1/90, Spain 1/92

Harmonization of regulation of services

Mutual Funds (1) 10/89
Broadcasting (1) 10/91
Tourism (1) 10/85, 12/92
Air transport (1) 1988, 1992
Electronic payment cards (1) 1/89
Information services (2) NA
Life & nonlife insurance (2) 1/90
Banking (2) 12/90-1/93
Securities (2) 2/87-1/93
Maritime transport (2) 7/87
Road passenger transport (2) 1/88-7/90
Railways (3) NA

Liberalization of capital movements

Long-term capital, stocks (1) 2/87***
Short-term capital (1) 7/90

Consumer protection regulations

Misleading definitions of products (1) 10/88
Indication of prices (1) 6/90

Harmonization of taxation

Value added taxes (3) 1/86-12/92
Excise taxes on alcohol, tobacco, and other (3) 12/92

Harmonization of laws regulating company behavior

Trademarks (2) 12/91
Accounting operations across borders (2) 1/90
Protection of computer programs (3) TBA
Transaction taxes (3) TBA
Company law (3) TBA
Mergers & acquisitions (2) 9/90
Copyrights (3) TBA
Cross border mergers (3) 9/90
Bankruptcy (4) NA

Harmonization of veterinary & phytosanitary controls

Harmonization of an extensive list of rules covering items such as:

Antibiotic residues (1) 4/87-12/87
Bovine animals and meat (1) 1/88
Porcine animals and meat (1) 3/87
Plant health (1) 1/85
Fish & fish products (3) 1/93
Live poultry, poultry meat and hatching eggs (3) 9/89
Pesticide residues in fruit & vegetables (3) 12/89

Elimination and simplification of national transit documents and procedures for intra-EC trade

Introduction of the Single Administrative Document (SAD) (1) 1/88
Abolition of customs presentation charges (1) 1/88
Elimination of customs formalities & the introduction of common border posts (1) 7/87

Harmonization of rules pertaining to the free movement of labor and the professions within the EC

Mutual recognition of higher educational diplomas (1) 1/91
Comparability of vocational training qualifications (1) 7/87
Specific training in general medical practice (1) 1/95
Training of engineers (1) 12/92
Activities in the field of pharmacy (1) 10/87
Activities related to commercial agents (1) 1/90-1/94
Income taxation provisions (3) 7/90
Elimination of burdensome requirements related to residence permits (4) NA

89-505 E

CRS Report for Congress

EC-92 and the United States

A CRS Trade Team Product

coordinated by

Glennon J. Harrison
Analyst in International Trade and Finance
Economics Division

August 29, 1989

Congressional Research Service • The Library of Congress

EC-92 AND THE UNITED STATES

SUMMARY

The European Community (EC) plans to unify the economies of its twelve member states into a single market by the year 1992. The 1992 plan, often referred to as EC-92, has raised the EC's profile and captured the attention of American business and government leaders alike. The implications of EC-92, although only imperfectly understood, will likely be most widely felt in Europe. Many believe that for the United States, the direct economic effects will be small. However, EC-92 raises many questions about the role of the United States in the international economy and the direction in which the global economy is developing.

CRS TRADE TEAM

International trade continues to be a priority concern for the United States and the Congress. The Congressional Research Service has directed an increasing share of its research and information resources to address this topic. To best meet this need, a team has been established to coordinate work in international economics, trade, and security issues. This CRS Trade Team will focus on complex, interconnected U.S. trade and international security issues and will provide a range of practical and timely products on these issues.

For further information or a briefing or consultation on trade issues, call the CRS Trade Team (John P. Hardt, 7-8886, or Jeanne Hamilton, 7-8924.) Members of the CRS Trade Team who contributed to this paper include:

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EC-92 AND THE UNITED STATES

The European Community (EC) has set a target date of December 31, 1992 for achieving full integration of its 12 member states' economies into a single, very large West European economy. With 320 million consumers and a gross national product that is only slightly smaller than that of the United States, the EC will be one of the largest economic and trading blocs in the world. The EC Commission (the body that initiates legislation in the EC) launched the 1992 program in 1985 when it issued a White Paper entitled *Completing the Internal Market.* The White Paper listed 300 directives, or laws, that would have to be adopted before the EC would be truly integrated. The 1992 program (EC-92) was formally sanctioned by the 12 member nations in 1986 with the adoption of the Single European Act. Although economic unification frequently seems to be the ultimate goal of the EC, according to the EC Treaty it is only a stage along the way to European political unification.

EC-92 has as its central goal the elimination of all barriers to movement of people, goods, services, and capital within the EC. The directives fall into three main categories: elimination of physical (customs or frontier) barriers between countries; elimination of technical barriers (through harmonization of standards, testing, and certification); and elimination of fiscal barriers (harmonization or, more precisely, closer approximation of tax rates among member states). The EC Commission has already adopted 46 percent (127 of 279) of the directives, and agreement has been reached on more than 50 percent of the directives.[1]

EC-92 has generated considerable enthusiasm both in Europe and abroad. However, some observers believe that the easy phase of economic unification has just about run its course, and have raised concerns about the impact of the program on certain industries and regions within the EC. European workers and unions have also expressed a concern that the benefits of economic integration be widely shared. The successful completion of EC-92 will depend on a delicate balancing of the interests of European governments, political parties, businesses, labor unions, and regions.

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[1]Commission of the European Communities. *Fourth Progress Report of the Commission to the Council and the European Parliament Concerning the Implementation of the Commission's White Paper on the Completion of the Internal Market.* Brussels. June 20, 1989. p. 2.

WHAT ARE THE POLICY IMPLICATIONS FOR THE UNITED STATES?

In the United States, interest in EC-92 has been high among business and government leaders. Key questions were raised during numerous committee hearings in the 101st Congress about the likely effects of EC-92 on the United States and on U.S. business.

The potential effects of EC-92 on U.S. economic interests are difficult to define or quantify -- if only because the potential benefits that will accrue to the EC cannot yet be fully or accurately measured. However, many observers now believe that the impact of EC-92 on the U.S. economy will likely be small. EC-92 will clearly be important to individual firms as they devise strategies for competing in the U.S. and world markets during the 1990s, but because of the numerous uncertainties inherent in the EC-92 process, it is impossible to assess whether the overall result for the United States economy (or, for that matter, any particular firm) will be positive or negative.

U.S. companies that have a stake in Europe (whether they export to Europe or have European operations) are keenly aware of the changes that are occurring in the EC and, according to many reports, are responding appropriately to those changes. The largest export market for the United States is the EC.

Early fears of "Fortress Europe" and "Europrotectionism" have not been borne out so far. In part, the more open trade environment stems from pressure applied by the U.S. Government and U.S. business, as well as by free trade advocates in the EC Commission and in some EC member states. However, the balance between protectionism and increased openness may yet be tipped by a recession, internal politics, or some other unforeseen event.

If, as some predict, European firms are more competitive after 1992, U.S. exporters will have a tougher time competing for European market share, even though the EC market is expanding and even if no increase in protectionism occurs. Two main forces will affect U.S. export performance: greater competition may reduce U.S. sales in Europe, while a growing European market will provide greater opportunities. Additionally, more competitive EC firms may increasingly look beyond the European market for sales, which might translate into increased competition for U.S. companies in the United States and elsewhere.

U.S. direct foreign investment in Europe accounts for approximately 40 percent of all U.S. foreign investment. According to one study, U.S. companies with European operations "have sales of half a trillion dollars and employ 2.5 million people in Europe. To put that in context, U.S. exports to Europe are only a tenth the size of sales made directly by U.S. firms located there."[2] U.S. firms in Europe create a market for U.S. exports and, consequently, generate employment in the United States. The post-1992 European Community is likely to continue to provide opportunities for U.S. investment abroad.

The key question for U.S. firms is whether they have a successful strategy for competing in Europe or with stronger European firms in the U.S. market. The Congress might ask whether U.S. corporate strategies for EC-92 coincide with wider U.S. international and domestic economic interests.

EC-92 has been the subject of a number of congressional committee hearings during the 101st Congress. Proposed EC changes in banking, public procurement, and technical standards have received considerable scrutiny and are likely to continue to be watched. A major theme of many Members of Congress during these hearings has been the need for close attention by the Bush Administration to EC-92. A further issue is whether the U.S. Trade Representative (USTR) has the appropriate and necessary tools to monitor EC policies and defend U.S. commercial interests in the bilateral relationship.

During 1990, the focus may shift to how EC-92 may affect the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) that is set to conclude in December 1990. A more unified European bloc will be in a considerably better -- and more influential -- negotiating position. While the current GATT round will end before EC economic integration is completed, the fate of EC-92 may well depend on a successful GATT agreement on services, intellectual property, and agriculture.

EC-92 also raises the thorny issue of what approach to trade best serves U.S. interests: bilateralism (trade blocs, managed trade) or multilateralism (GATT and the Uruguay Round).[3] One response to EC-92 by Pacific Rim nations, particularly Japan and Australia, has been to initiate discussions on forming an institution for Pacific Rim economic cooperation. One purpose of such an institution would be to offset the increased economic strength of the more unified EC.

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[2]Hartman, David. Comparative Advantage Post-'92: U.S.-European Trade. *Data Resource's European Review*, April 1989, p. 28.

[3]The evolution of U.S. trade policy, considered in the light of changing world economic conditions, is discussed in: U.S. Library of Congress. Congressional Research Service. *Pacific Rim Economic Cooperation*. Report No. 89-472 E, by Dick K. Nanto. Washington, 1989.

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CRS Issue Brief

European Community: 1992 Plan for Economic Integration

Updated November 6, 1991

by
Glennon J. Harrison
Economics Division

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CONTENTS

European Community: 1992 Plan for Economic Integration

SUMMARY

The European Community (EC) is rapidly progressing toward its goal of unifying the diverse national economies of its member states into one large economic bloc by the end of 1992. By that time, the main barriers to trade within the European Community will have been eliminated. The 1992 program had its genesis in a 1985 White Paper entitled *Completing the Internal Market* by the Commission of the European Communities (EC Commission). That document provided a road map and a timetable for the integration of the economies of the 12 member-states into one of the world's largest economies. The leaders of the European Community member-states, through the ratification of the Single European Act in 1987, provided the political authority necessary to get the process of economic integration underway.

The plan comprises 282 proposals for directives (i.e., new laws and regulations) that will eliminate nearly all of the barriers that affect the intra-European movement of goods, services, capital, and people. The European Community is adopting the directives one-by-one. Although some are more controversial than others, nearly all of the directives should be approved by the 1992 deadline. As of May 31, 1991, 193 (68%) of the 282 measures had entered into force (i.e., become binding on member states). Following adoption, each directive must be implemented by the member states into national law. At the end of May 1991, the member states had implemented only 73% of the measures adopted by the EC.

The 1992 program calls for the elimination of most of the major barriers to intra-European trade, including physical (or frontier) barriers to the free movement of individuals and goods; technical barriers; fiscal (tax) barriers; barriers to public procurement, services, capital movements, and industrial cooperation; and barriers to the free movement of labor and the professions. In 1988, the EC Commission projected that the elimination of these impediments to trade will result in economic benefits of more than $200 billion in the medium-term, in addition to creating some 5 million new jobs and boosting gross domestic product (GDP) by 7%. Some economists believe the economic boost to European growth will exceed Commission estimates, while others are less sanguine about the program. The most recent annual economic report of the EC Commission projects real GDP growth of over 3% a year for 1990-94, and net employment creation of close to 1% a year (or 7 million new jobs created during 1990-94). The Congressional Budget Office has estimated that the 1992 program will boost the EC's GDP by 6% over what it otherwise would be by the end of the 1990s.

The European Community's major trading partners may be confronted with new economic challenges and opportunities as unification proceeds. While prospects for market expansion based on increasing integration appear promising for U.S. exporters and investors, a number of issues continue to concern the U.S. Government and business, including standards, testing, and certification; procurement; rules of origin; health and safety; and reciprocity and non-discriminatory treatment for U.S. companies. Concern and awareness on the part of the U.S. Government and business will continue to be important during the next 2 to 3 years as decisions about unification are made by the EC Commission and Council. The EC is the United States' largest trading partner, and the decisions that are made in Brussels and Strasbourg (respectively the homes of the EC Commission and the European Parliament) will be felt in the United States.

ISSUE DEFINITION

The European Community is rapidly moving towards economic unification of its member countries by the end of 1992. Successful completion of the 1992 plan requires that nearly all internal barriers to the free movement of people, goods, services, and capital be removed. The European Community's program to achieve an integrated market by 1992 may have significant policy ramifications that are of interest to Congress. The European Community, as a bloc, is the largest trading partner of the United States, and it also accounts for nearly 40% of total U.S. foreign investment. European integration will promote economic growth, and may expand trade and investment opportunities in the EC. These new opportunities could be limited, however, if the EC adopts measures that restrict the access of U.S. companies to the benefits of economic integration. U.S. policymakers will have to pay careful attention to the implementation of the "1992" program.

BACKGROUND AND ANALYSIS

The European Community has set a target date of Dec. 31, 1992, for achieving full integration of its 12 member-states' economies into one very large pan-European economy. With 345 million consumers and a gross domestic product ($6,751 billion) that is larger than that of the United States ($5,730 billion) and more than twice that of Japan ($3,256 billion), the EC is one of the largest economic and trading blocs in the world. In the view of the EC Commission, a united Europe will be much more competitive internationally and will be able to realize significant economies of scale, higher productivity, and increased innovation associated with the potentially vast European marketplace.

The EC Commission (the body that initiates legislation in the EC) launched the 1992 program in 1985 when it issued a White Paper entitled *Completing the Internal Market*. The White Paper originally listed 300 proposals for directives, or laws, that would have to be adopted before the EC would be truly integrated; the total number of directives now stands at 282. The 1992 program was formally sanctioned by the 12 member-nations in 1987 with the adoption of the Single European Act (SEA). The EC Commission has issued all of the 282 directives in draft form and 193 directives had been formally adopted by May 1991. The EC Commission predicted that 75% of the directives would be adopted by the end of June 1991.

The 1985 White Paper proposed a step-by-step approach to the elimination of all barriers to the movement of people, goods, services, and capital within the EC. Internal barriers fall into three main categories: physical barriers, technical barriers, and fiscal barriers. The 1992 Plan will affect nearly every sphere of European economic life. Customs barriers and other physical limitations to free movement are to be abolished. The harmonization of technical standards and testing and certification requirements will provide a boost to the expansion of trade in goods and services within Europe. The EC is expected to adopt standards for products that are currently regulated by each individual member-state for health and safety, environmental protection, or consumer protection reasons. Barriers to trade in services will be placed on a basis of mutual recognition and equivalence. Finally, fiscal barriers are to be eliminated by harmonizing, or more closely approximating, indirect taxes among member states.

Implications for the United States

The United States has generally favored increased European integration. The Bush Administration, in particular, has repeatedly stressed its support for the EC's single market program. Deputy US Trade Representative Julius Katz has noted: "We are keenly interested and supportive of the 1992 exercise, provided it remains a genuine trade liberalizing effort open to the Community's trading partners on a non-discriminatory basis."

Recent progress toward the goal of an integrated European market has been considered generally to be a favorable development. The potential benefits for the United States are numerous, with expanded trade and investment opportunities considered to be the principal economic benefits. Given the importance of the European Community to the United States, numerous questions have emerged concerning U.S. trade and foreign investment in the EC. Will the 1992 program result in a more open and competitive Europe? Will U.S. companies be afforded the same competitive advantages as European companies? Will the EC adopt restrictive local content standards and expand the use of quantitative restrictions (import quotas)? These and many other questions may emerge as the 1992 single market becomes a reality. The EC is faced with a choice over whether it will erect a Fortress Europe through bilateral protectionism or build a single market that reinforces the existing multilateral trading system.

Prospects for a favorable outcome will be greatly enhanced if the current Uruguay Round of multilateral trade negotiations that are taking place under the auspices of the General Agreement on Tariffs and Trade (GATT) are ultimately successful. The Uruguay Round of trade negotiations, which had been scheduled to conclude in December 1990, is continuing. The 1992 program and the multilateral trade negotiations both offer the promise of further trade liberalization. Although some analysts suggested that the 1992 program would divert EC attention away from the Uruguay Round negotiations, this has not occurred so far.

Trade and Investment

The European Community, with more than 345 million residents (including the 16-17 million inhabitants of the former German Democratic Republic), is potentially the world's largest market. The combined gross domestic product (GDP) of the member countries is estimated to be $6.8 trillion in 1991, compared with a GDP of $5.7 trillion for the United States. Moreover, the EC is the world's largest trading bloc, accounting for 16.5% of world trade. When trade among the member states is included, the Community's share of world trade rises to 40%.

While the United States is one of the EC's most important trading partners (second, in fact, only to EFTA), the European Community is the leading trade partner of the United States. The EC buys the largest share of U.S. exports (24.9% of the total) and, after Japan, sells more goods in the United States than any other trading partner (18.5% of U.S. imports). Since 1989, when the United States once again began to register trade surpluses with the EC, those surpluses have expanded quite dramatically on the basis of rapidly growing exports. During the first 8 months of 1991, the trade surplus amounted to $11.7 billion (or, when considered on an annualized basis, $17 billion). Between 1986 and 1991, this represents an aproximately $40 billion shift from a $23 billion trade deficit to a $17 billion trade surplus.

TABLE 1. U.S.-EC Trade, 1986-90
(millions of dollars)

	1986	1987	1988	1989	1990
U.S. Exports	52,377	59,732	74,679	86,592	98,024
U.S. Imports	75,736	81,188	84,942	85,129	91,868
Balance	-23,359	-21,456	-10,263	1,463	6,156

Total (domestic plus foreign) exports.
General imports, customs basis.
Trade balance is exports minus imports.
Data compiled from official statistics of the U.S. Department of Commerce.

The importance of the EC is even more evident in terms of foreign direct investment. Fully 40% of total U.S. investment abroad is accounted for by investment in the EC. U.S. investment in the EC has increased since 1985, the year the European single market plan was adopted. According to CRS estimates, U.S. direct investment is apparently related to enhanced prospects for economic growth in the EC rather than to the threat of a "Fortress Europe." Japanese investment, on the other hand, may be related to a fear of being excluded from the single market.

Protectionism

Some EC member countries use import quotas to protect certain domestic industries, especially automobiles and textiles. The EC Commission has indicated that transitional measures may be adopted to provide "temporary" protection to affected sectors. Although such protection might be temporary, it would effectively expand trade restrictions from localized segments of national markets to the entire European Community. The Administration position is that GATT-illegal national requirements should not be expanded because of their possible effects on U.S. exports. The risk to the United States would primarily be trade diversion by countries that may find themselves excluded from the EC market.

Increased protection in other areas are also a cause for concern. Concern has been expressed that new and greater discrimination may result from a protectionist impulse that may accompany the development of EC-wide commercial and industrial policies in the following areas: the right of establishment, mergers and acquisitions, government procurement, subsidies, local content requirements, and standards and certification. U.S. Government officials have noted that discrimination in these areas would violate existing obligations under the OECD, the GATT, and the Tokyo Round Codes.

Local Content and Rules of Origin

U.S. manufacturers have expressed fears that the proliferation, and increased use by the EC, of nontransparent, nontariff barriers could damage U.S. industry, forcing

American companies to transfer jobs and technology to Europe in order to preserve access to the EC market. Rules of origin and local content regulations have multiplied in recent years as European firms have sought and received protection from foreign competition. The extent to which local content and rules of origin requirements will play an important part in the 1992 process is not yet known, but such requirements may adversely affect U.S.-EC relations.

Reciprocity

Reciprocity is another area of concern to the United States, because of its potential to undermine multilateral trade liberalization in the Uruguay Round of the GATT. Although the EC Commission favors multilateral trade liberalization, it may be tempted to pursue bilateral liberalization as a parallel process. Where agreement cannot be reached multilaterally or bilaterally, the EC will probably act to deny market access to those countries that deny access to European firms.

Of particular interest to the United States are Community-wide rules affecting banking, investment services, and other areas where reciprocity provisions may be considered. In April 1989, the EC Commission announced that banks from countries that provide national treatment to EC banks would be guaranteed an EC-wide right of establishment and the ability to offer universal services. The EC Commission's position on reciprocity in financial services now appears to be based on national treatment and "effective market access."

Standards, Testing, and Certification

Standardization is probably the key aspect of the 1992 single market plan for most U.S. companies. In preparation for 1992, the EC is accelerating its efforts to harmonize widely divergent national standards, as well as testing and certification procedures, into a single EC-wide body of uniform standards and regulations. This will allow all products that comply with EC standards to freely circulate within the European Community. There are concerns that standardization could exclude or hinder the entry of some U.S. products into the European market. To date, U.S. exporters have been denied formal access and input into the EC standards development process. There are also concerns that an EC certification system may be established that could impede U.S. entry into the European market. On the other hand, EC standardization could have a beneficial effect for some U.S. exports because products that met EC requirements in one member state could be marketed throughout the EC.

In May 1989, the United States and the EC issued a joint communique agreeing that the principles of transparency and openness should apply in the field of testing and certification. The statement also noted that it would be appropriate to open exploratory discussions with a view to preparing negotiations for the mutual recognition of tests.

Public Procurement

The value of government procurement in EC member states has been estimated at approximately 15% of the EC's GDP (which for 1990 would amount to approximately $1 trillion). Only 20% of such contracts are subject to open tendering. The EC Commission has calculated that only 2% of public supply contracts and only 2% of public construction contracts have been awarded to firms from other EC member states. The long-range goal of the Commission is to open about 80% of public purchasing to EC-wide competition.

A common public procurement policy, in the form of the Utilities Directive, was adopted by the Council of Ministers in September 1990, and covers the so-called 'excluded sectors' (telecommunications, water, energy, and transport). Other procurement directives were adopted during 1989 for supplies, works, and remedies. The Utilities Directive, which takes effect on Jan. 1, 1993, provides that any tender may be rejected without explanation if the proportion of non-EC products in the total value of the tender exceeds 50%. Additionally, bids of EC origin are granted a 3% price preference over non-EC bids. The directive also provides for the extension of national treatment to third countries with which the EC reaches multilateral or bilateral agreements. In a recent report to the Congress, the State Department noted that "the U.S. Government hopes to expand the GATT Procurement Code to include procurement in these sectors and, thus, to avoid the discriminatory impact of the directive" (*Country Reports on Economic Policy and Trade Practices*, p. 178.)

Public procurement policy will define whether Europe will expand its market and liberalize world trade, or whether the 1992 Plan will provide nothing more than a limited multilateral free trade agreement among the members of the Community. Restrictive public procurement practices have posed a major barrier to intra-EC trade; have reduced international trade opportunities; and have also limited the competitiveness of the countries that employ systematic discrimination against nondomestic firms in public procurement. Competition in public procurement, which has been practically nonexistent at the Community level, may increase dramatically after 1992.

Beyond 1992

European Economic Area and New Members

Few would deny that the EC has been successful in generating enthusiasm for the 1992 program in Europe and abroad. This has translated into increased investment and higher growth rates. In addition, 1992 appears to have played a large role in accelerating the development of stronger ties with the seven member countries of the European Free Trade Association (EFTA): Austria, Finland, Iceland, Norway, Sweden, Switzerland, and Liechtenstein. These countries have negotiated an agreement with the EC to extend the benefits of the single market to the EFTA countries through the creation of a "European Economic Area." Negotiations were completed in October 1991 and the agreement may be signed before January 1992. Individual EC and EFTA member states will each have to ratify the agreement before it takes effect. The EEA may prove to be little more than a transitional arrangement that permits the EFTA countries to more closely align their economic and legal systems with those of the EC before individual EFTA countries become EC members. One EFTA member, Austria, applied for membership in the EC in July 1989, and another, Sweden, made a formal application in July 1991. Their applications for membership will probably not be finalized until 1995 at the earliest. Other EFTA countries are also considering membership in the EC.

Agreements with Eastern Europe

European Community economic integration also stands in stark contrast to the failed economic policies of the Eastern European regimes that contributed to the revolutions of 1989. Links between the EC and the countries of Eastern Europe have increased rapidly. Trade and cooperation agreements have been signed, and "association agreements" are being negotiated. These will allow free trade while offering a transitional period of protection to Eastern European countries. The EC is also serving as coordinator for aid efforts to Eastern Europe by the G-24, comprising the 24 members of the Organization for Economic Co-Operation and Development. A number of Eastern European countries have expressed interest in joining the European Community, but given their relative economic backwardness it may be some years before EC membership is extended.

Economic and Monetary Union

With the publication of the report by the Committee for the Study of Economic and Monetary Union (the Delors Report) in April 1989, the European Community began a process of integration that goes well beyond that of the EC-92 program. The European Council of Ministers, meeting in Madrid in June 1989, agreed to the proposed three-stage plan for economic and monetary union (EMU), and set a date of July 1, 1990 for stage I to start. Stage I requires the liberalization of capital movements and greater convergence of economic performance through closer economic and monetary policy coordination. No institutional changes occur during stage I. During stage II, a European System of Central Banks (ESCB) would become operational; responsibility for monetary affairs would gradually shift from the national to the EC level; and margins for exchange rate fluctuations would be narrowed. Stage III would require that exchange rates be irrevocably locked; rules and procedures of the Community would become binding; the ESCB would assume responsibility for monetary policy; and the changeover to a single currency would occur (*Report on Economic and Monetary Union in the European Community, pp. 34-40*).

In November 1990, the Council of Ministers agreed that stage II of EMU would start on Jan. 1, 1994. They also agreed to convene an intergovernmental conference on economic and monetary union (IGC/EMU) to amend the Treaty of Rome. (A second intergovernmental conference on political union was also initiated in December 1990.) The IGC/EMU appears likely to produce a treaty that is ready for signing by the December summit of EC leaders in Maastricht (Netherlands). The most notable disagreements are over Britain's participation and whether the new central bank will start operating at the beginning of stage II (1994) or in 1996, prior to the start of stage III. The question of how autonomous the new central bank will be is also being debated.

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