

# European Union Update



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## Agreements in Brief

### European Union

- A ban on the use of animals for cosmetic testing is scheduled to go into effect on July 1, 2000. The ban was originally scheduled for enforcement in 1998, but was delayed due to a lack of alternative testing procedures that could guarantee consumer safety. The ban could again be delayed if satisfactory alternative testing procedures are not found.
- Takeover regulations could be agreed to as early as June 1999. Germany has put forth compromise amendments in an attempt to unlock the 10-year hold on the regulations. The decade long delay is due to the United Kingdom's perceived threat that the regulations would harm its non-statutory system for regulating bids. This is critical considering more than 50% of EU takeovers occur in the UK.

### European Union ~ Australia

The existing Agreement on Scientific and Technical Cooperation between the European Union and Australia has been widened in scope. Now included in the Agreement are implementation of research; technological development and demonstration programs via promoting cooperation with and between undertakings; research centers and universities; and, stimulation of the training and mobility of

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research in the EU, only to the extent networks between infrastructure operators and related research projects are concerned.

### European Union ~ East Africa

East African fish exporters are protesting the European Union's decision to temporarily ban exports of fish caught in Lake Victoria from Kenya and Tanzania. (Uganda began a self-imposed ban in March 1999). The EU adopted the ban on Monday, April 12, 1999, following reports that Tilapia, an East African fish, is contaminated with pesticides that are harmful to humans. Tanzania argues that Nile Perch, the fish it exports the most to the EU, lives in deeper waters than Tilapia and has not been affected. Nonetheless, fish contamination has become a serious issue for the three countries.

### European Union ~ Israel

The European Union and Israel signed an Agreement on the Cooperation in the Field of Science and Technology. The goal of the Agreement is to encourage mutual access to research entities to research and develop activities in Israel as well as the EU.

### European Union ~ Latin America

The European Union and Latin America will be meeting in Rio de Janeiro on June 28-29, 1999, to work on political, economic, and trade cooperation. It will be the first meeting of the Heads of State of the Governments of the EU and Latin America. The three main goals of EU-Latin American talks are political, economic, and commercial cooperation

### European Union ~ Mexico

The European Union and Mexico are meeting in April 1999 for the fourth round of negotiations for a free trade agreement (FTA). September 1999 is the anticipated date the FTA will be brought to fruition. The US is fearful of an EU-Mexico FTA, specifically with agreements on agricultural goods. The US believes that the heavily subsidized EU agricultural products will unfairly beat out US farm products.

### European Union ~ South Africa

On March 25, 1999, the European Union heads of government approved a trade cooperation pact with South Africa. The approval comes after three and a half years of talks and a block of such an agreement by five EU countries the previous month. Overall, the agreement allows approximately 99% of industrial products and around 75% of farm products from South Africa to go to the EU. In return, South Africa will

open its markets to 86% of EU industrial goods. Some protection for its car and textile industries will remain.

### European Union ~ United States

Another trade war has been diverted for at least a month. The European Union has postponed the adoption of the ban on “hush kits” – engine mufflers – for a month. The original ban would have prevented aircraft fitted with hush kits from flying in the EU territory after April 1, 2002 unless they had been operating in this region prior to April 1, 1999. The ban is an effort to cut down on noise pollution at European airports. US airlines would be negatively affected since their planes tend to be older than most European airlines and many US planes have been fitted with “hush-kits”. The US threatened to ban Concorde flights to the US if the EU ban were implemented.

### France ~ United Kingdom ~ Africa

Ghana, a former United Kingdom territory, and Côte d'Ivoire, a former French colony, were visited by Robin Cook, UK Foreign Secretary, and Hubert Védrine, French Foreign Secretary. The reason for the visit was to launch an effort to encourage and promote peace, democracy and economic development. Both France and the UK have come to realize that rather than competing against each other in Africa, they should be acting together.

### Spain ~ United Kingdom

Britain submitted a formal request to the European Union in March to sign up to most of the Schengen border-free agreement. The United Kingdom has said that it would like to partake in the Schengen agreement, but would not join in the dismantling of border controls. Spain reacted negatively to the proposal due to its longstanding conflict with the UK over Gibraltar's autonomy. It reminded the UK that the agreement was a package of proposals and not something from which they could cherry pick.

### United Kingdom ~ Cuba

Starting the weekend of April 16-18, 1999, British Airways commenced operation of a new weekly flight between London, England and Havana, Cuba. UK trade officials are touting the new service as a step forward in the UK's pursuit to increase trade and investment opportunities with Cuba.

## OLD McDONALD'S FARM IS IN EUROPE

From bananas to beef, agriculture is keeping the European Union (EU) busy these days. On March 11, 1999, the EU finalized its two and a half-week meeting to reform its Common Agricultural Policy (CAP).

*The CAP's beginning...*

The CAP first came into effect on June 30, 1960, to help the region recover from an economic crisis it was experiencing. At that time the CAP was successful in solving the EU's economic problems. However, once the economy improved the CAP was said to be inadequate in meeting the EU's needs which included increasing productivity, ensuring a fair standard of living for the agricultural community, stabilizing markets, assuring food supplies, and providing consumers with food at reasonable prices.

*... the recent reform...*

Throughout its existence the CAP has undergone a number of reforms. The recent CAP decision includes a number of reductions in intervention prices for products such as butter, skimmed milk powder, milk, cereals, oilseed, and beef. Theoretically, the agreement reinforces the EU's preferences in many areas, which in return ensures EU farmers priority access of more than 90% of their production to Europe. At the same time, the agreement allows EU farmers to expand and diversify production so that they can take advantage of opportunities outside the EU market. Farmers' incomes are also supported in the policy through a series of direct payments on their products. Whether or not this will be the case remains to be determined.

*...is the change sufficient?*

It is important to note that the changes to the CAP have not yet been put into effect. In part, the delay is due to the EU Parliament's belief that the reform is a very weak and "watered down" version of the stipulations in the Commission's proposal. On the contrary, an EU report states that, "this package amounts to the most radical reform since the CAP was first established in the early 1960s". Mr. Franz Fischler, the Commissioner of Agriculture and Rural Development, is in accordance with the optimistic EU report that the CAP has been sufficiently reformed. In fact, Mr. Fischler claims that "the Agreement fully endorses the philosophy and objectives underlying the Commission's proposals and indeed has largely accepted the detailed proposals as far as the price reductions and compensation are concerned".

It is expected that when implemented, the reform will benefit farmers, consumers, agri-industry, the environment and the EU economy in general. At the very least, the

new CAP does send a clear signal to all trading partners that the EU is committed to the European model of agriculture; an issue that is to be addressed in the upcoming WTO negotiations. There is no doubt that agriculture in Europe will be of primary concern within the international trading community for many years to come.

## The rise of Romano Prodi

On March 24, 1999, Romano Prodi's political agenda took an unexpected turn when the European Union leaders nominated the former Italian Prime Minister as a candidate for the presidency of the EU Commission. The position's availability came about with the resignation of the entire EU Commission in March following charges ranging from corruption to nepotism.

As expected in politics, there is controversy surrounding Mr. Prodi's nomination. The dilemma is over Mr. Prodi's desire to run for a seat in the EU Parliament. Mr. Prodi has indicated that if confirmed as the next EU Commission President he would give up his candidacy for Parliament. Some observers, however, feel that by pursuing a seat in Parliament Mr. Prodi will be in an awkward situation. With no legal grounds for objection to Mr. Prodi's plan, critics have highlighted the fact that being a candidate for Parliament might create difficulties when Parliament votes on his appointment as Commission president. Despite the opposition, Mr. Prodi remains steadfast that his actions –candidate for Parliament and Commission president- are neither immoral nor controversial.

## Parting Ways: the UK bids farewell to the dollar

Britain's pound sterling and the United States dollar have shared a special bond over the years. In spite of weak trade relations, the two currencies have tended to move in harmony with one another. Is it due to the use of English as the common language? Is it due to the flexible service industry of each country? In all practicality, there is no logical reason why the two currencies move in sync or why they should continue this relationship.

As previously indicated, trade is not the influential element on the sterling-dollar movements. After all, the bulk of the UK's exports and imports go to its European Union partners and not the US. Yet, the sterling is not in sync with the euro. Aware of this discrepancy, a number of observers believe the sterling should refocus its movement away from the dollar and toward the euro.

The motivation for a sterling-euro relationship is simple. In addition to its major trade partners being the other EU members, the simple fact is that if the UK one-day

intends to partake in the euro it needs to start building a relationship. Aware of this, there is a belief that a sterling-euro linkage is going to happen in the near future. After all, political will and the need to bring UK interest rates to convergence criteria level will force the sterling to embrace the euro.

## Currency Delay

The implementation of the euro, the European Union's single currency, has not been trouble-free. In addition to the scams that have accompanied the euro, is the current trouble in minting enough coins on schedule.

Europe's two largest coin producers have announced that the 65% of the 70 billion coins scheduled for circulation in 2002 might not be ready. The troubles stem from difficulty meeting the alloy specifications, design problems, and late orders.

The specification for the "Nordic gold alloy" to be used in the production of the 10, 20, and 50 cent coins has not been finalized. The design of the coin has also come under fire from the European Blind Union (EBU). The EBU warned that the design is too confusing which has resulted in a revamping of the coins. Naturally, this has delayed the order and production of the coins.

## The EU's WTO Agenda

The European Union (EU) has provided a preliminary view of its proposed agenda for the next round of World Trade Organization (WTO) trade liberalization talks. The EU's focus is on poor and developing countries. However, the sincerity of this position is questionable.

The EU is urging all industrialized countries to establish duty-free access to essentially all goods from the poorest countries as well as reduce "peak" tariffs – the highest tariffs on industrial goods – for developing nations. The EU's position is motivated in an effort to increase support for a comprehensive round of trade talks. Achieving this goal will provide the EU a distraction from liberalization of farm trade.

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