European Union Update

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Agreements in Brief

European Union

•EU members are arguing over the proposed company "takeover" directive. The disagreement is over whether or not a takeover should occur in the country in which the company is registered or in the country in which the stock exchange lists the company. Belgium, France, Spain, and Italy are in favor of the country whose stock exchange lists the company. The others favor the country in which the company is registered.

•In early October 1998, EU environment ministers approved a voluntary agreement that requires car manufacturers to cut emissions by 25%. The move is to honor the commitment made at the environmental meeting in Kyoto, Japan in 1997. The ministers warned that they would make the agreement mandatory by law if it were not honored.

European Free Trade Association ~ Egypt

The European Free Trade Association (EFTA) members – Norway, Switzerland, Iceland and Liechtenstein – began free trade talks with Egypt on December 1, 1998. EFTA has been paralleling EU treaties in an effort to enable its members to compete with the expanding EU.

European Free Trade Association ~ Mercosur & Mexico

EFTA members - Norway, Switzerland, Iceland and Liechtenstein- are seeking free trade talks with Mexico and Mercosur in an effort to counter the European Union's talks with these regions.

European Free Trade Association ~ North America

EFTA's effort to keep pace with EU expansion has put it a step ahead in regard to North America. EFTA members – Norway, Switzerland, Iceland, and Liechtenstein – have begun free trade talks with Canada and are expected to be the first transatlantic free trade agreement. The talks are proceeding smoothly and should be completed by mid-1999, taking effect by the year 2000.

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In the first week of November 1998, the EU and Hong Kong signed a cooperation agreement to combat drug trafficking, piracy, and other customs offenses. It is Hong Kong's first international customs agreement since returning to Chinese control in July 1998.

European Union ~ Hungary, Poland, Czech Republic, Slovenia, Estonia, Cyprus

EU enlargement talks with Hungary, Poland, Czech Republic, Slovenia, Estonia, and Cyprus began on November 10, 1998. The talks cover EU rules and regulations and are anticipated to proceed rather smoothly since the issues – comparing EU and country policies on telecommunications, education, training, and so forth - are considered the least controversial.

European Union ~ Gulf States

Ministers from the EU and the Gulf Cooperation Council (GCC) - members include Qatar, Saudia Arabia, Oman, the United Arab Emirates, Bahrain and Kuwait - met to discuss a 6% import duty on Gulf exports of primary aluminum. The meeting comes after more than two years of lobbying by GCC members' Dubai and the United Arab Emirates. Traditionally, the EU's position is that its tariff on primary aluminum was only one among a range of products forming a common external tariff set by all EU members. According to the EU, bilateral harmonization requires the GCC to establish a common external tariff.

European Union ~ Japan

An agreement has been reached on key elements of an overall framework and the sectors to be covered in the EU-Japan Mutual Recognition Agreement (MRA) on testing and certification. The first phase is to cover telecommunications, terminal and radio equipment, electrical equipment, good manufacturing practices for pharmaceutical products, and chemical laboratory practices. The MRA is expected to be completed in December 1999. It is the first MRA of its type for Japan.

European Union ~ South Africa

In September 1998, the EU and South Africa trade talks fell apart. It was supposed to be the final round of talks, but they were disrupted by arguments over food and wine trade. The EU is anxious to conclude the talks before January 1999 since it fears South Africa's elections in April 1999 will disrupt the process. The EU is also eager to complete these talks since it views these as a model for trade talks with other developing countries.

France

France adopted a new regulatory framework for takeovers put forward by the Conseil des Marchés Financiers (CMF), the financial markets regulator. The new rules increase the protection of minority shareholders and are designed to favor strategic investors over short-term speculators. New powers are also provided for the CMF thus expanding its previous power of consultation. For instance, CMF can force the de-listing of a company in which the main shareholder controls more than 95% of the voting rights and it can establish a deadline and conditions for buying out minority shareholders. Banks are also restricted from acting as advisers during takeovers. Overall, the framework is expected to increase transparency of financial operations.

France ~ Germany ~ United Kingdom

European defense industries - Aerospace (British), Aerospatiale (French), and Dasa (German)- are planning a merger. France has agreed to scale back state control of Aerospatiale to less than 48% following warnings that they would be excluded from the merger due to excessive government control of the entity. France now believes the merger will begin in early 1999.

Italy ~ United Kingdom

The seven-month alliance of Telecom Italia and Cable & Wireless of the United Kingdom has ended. The deal depended on a personal understanding between Mr. Brown, CEO of C&W, and Gian Mario Rossignolo, former president of Telecom Italia. Among other things, Mr. Rossignolo's recent departure from Telecom Italia was detrimental to the alliance. C&W is drawing up plans for the European market without consideration of rekindling an alliance with Telecom Italia.

Italy ~ United States

Italy and the US agreed to an "open skies" accord in mid-November. The agreement between the US and Italy will allow airlines to fly freely between the two countries and will be ratified when Northwest and Alitalia, Italy's national airline, receive anti-trust immunity from US authorities. The US was pleased with the agreement, but Italy faces legal action from the European Commission over the "open skies" accord.

Is bigger really better?

When the present day European Union came together in 1957 there were only five members. In time, the number grew to the current 15-member community. The EU is now discussing the possible admittance of another dozen or so countries into the club. Most of the potential candidates are new democracies, which does not bode well with some EU members.

The French and Germans are concerned, and the Belgians and Austrians are frightened. The fear is that there is no plan or strategy for such a profound undertaking. And, there is no model that depicts how a community of this size looks. Members are curious to know how the EU would function with 25 + members when today, with only 15 members, there are plenty of difficulties in distributing finances fairly, handling agricultural policies, and dealing with security issues. However, one of the most pressing issues is how to handle Cyprus - an island divided between Greek and Turkish rule.

Aside from the internal EU worries, the potential candidates are eager to join. Their motivation stems from various beliefs and facts. First, most countries see this as their ticket to becoming part of the western nations. Second, especially true for the newly independent states, they view membership as ultimate removal from Russian influence.

Customs in the EU

The word "union" in its title is not really the case in every sector. Customs is one such sector that has not been unified. Any non-EU company knows that depending on where your product enters the EU determines the duty paid. Tired of this discrepancy the Japanese car manufacturer, Toyota, is initiating a new system.

Toyota's motivation for change is based on it being the largest payer of EU import duties. By establishing a "virtual warehouse" Toyota will have to deal with only one customs authority which will then redistribute import duties *pro rata* to other national authorities. At its European headquarters in Brussels, Toyota has invested in a new computer system that will enable it to track imports into the EU. Then, Belgian customs will collect the duty and redistribute it. However, this system can only function with customs agencies that have signed on to participate. Belgian customs was the first to join, followed by Finland, and Germany has agreed to join in 1999. Toyota's goal is to have all current EU members participating by 2002.

The benefits of the "virtual warehouse" include more efficient customs processing, increased logistical flexibility, and improved efficiency. The performance of the "virtual warehouse" will provide useful information to other non-EU companies that are looking for a better means of competing in the market.

The Banana War

Songs have been sung about them, a variety of meals are made out of them, but rarely, if ever, have they caused a war. Bananas however are the issue of contention between the European Union and the United States bringing the two regions to the brink of a trade war.

The trouble stems back to 1993 with the EU introducing a single banana import regime in an effort to finalize its single market. In brief, US companies - Dole and Chiquita Brands - prepared for the EU to open its markets and then experienced monetary losses when their expectations were not realized. The EU opted to maintain banana trade with the African, Caribbean and Pacific (ACP) countries in part because a number of them are former territories of EU members. The issue was taken to the General Agreement on Tariffs and Trade (GATT), but the EU avoided the issue because under the GATT a unanimous decision was required in order to convene a panel. The current World Trade Organization (WTO) incorporates stricter procedures for dispute settlement. In the WTO, the EU has not won their case at any level. The US and five Latin American countries that brought the original case were favored in the WTO decision. This decision gives the EU until January 1999 to change its banana regime.

The EU does not believe the WTO ruling is correct. It believes that under the Lomé convention, a 23-year-old trade and aid agreement between the EU and 71 African, Caribbean, and Pacific (ACP) countries, it has the right to protect the more expensive bananas of the ACP countries. If the EU fails to adhere to the WTO ruling the US is prepared to implement unilateral sanctions. The Office of the United States Trade Representative issued the potential list of targeted goods on November 10, 1998.

Ecuador, one of the five Latin American countries that joined the US in bringing the initial complaint before the WTO, is now “seeking a reconvened panel decision on the legality of the EU’s banana measures.” Ecuador wants the panel to have more time than the US prefers for evaluation of the case.

EU / US DATA PROTECTION DICUSSIONS

On October 26, 1998, Commerce Secretary William Daley announced that the European Union (EU) will not interrupt data flows as discussions continue between the EU and the US. According to Secretary Daley, this European decision represents "a clear endorsement by the member states to work towards a mutual understanding on data transfer from the EU to the US." The proposed EU Directive prohibits the electronic exchange of personal information with countries that do not have adequate data protection mechanisms in place. The issues that remain on the negotiating table involve US detailed provisions for enforcement of self-regulated guidelines and procedures to ensure that individuals have access to information about the type and use of personal data maintained by companies.

Reinhard Buescher, head of Directorate-General III, Industrial Aspects of Electronic Commerce explained that "data can only be transferred with permission of the individual, or what's called prior consent. In the case of data transfer to third countries, it clearly states that personal data originating in the EU will only be transferred if there is equivalent protection of privacy elsewhere. Member states will make the assessment."

Although the EU denies that the imposition of such directives is intended to attack US companies, many in the US high-tech industry disagree. EU officials have said that regulations are implemented in order to promote the competitiveness of EU companies and to ensure that "dominant [market] positions" are not abused. The US high-tech industry currently holds an almost 30% market share, clearly leading the world in that industry.

“Eurocreep”

The term “eurocreep” is not a reference to an undesirable European. Rather, the term is used to describe the anticipated influence the euro currency will have on corporate behavior both within and outside the eurozone - the 11 EU countries adopting the euro.

The euro, the European Union’s single currency, will be introduced on January 1, 1999, in eleven of the EU’s fifteen member countries. Its introduction will be a gradual process with the euro completely replacing the existing national currencies on January 1, 2002. Non-eurozone countries find it easy to dismiss the euro's arrival as trivial, but this is a shortsighted view.

Europe's non-eurozone countries…

Switzerland is not a member of the EU and is therefore ineligible for euro participation. As previously noted, not all of the 15 EU members are adopting the euro including the United Kingdom. Nonetheless, both Switzerland and the UK are preparing themselves for eurocreep.

In the UK, the government is urging companies to prepare for handling euro transactions. The belief is that regardless of political policy, the euro will quickly enter into the business world and become a major source of payment. A recent survey by the *Financial Times* of the 50 biggest exporters supported this notion. Its findings indicated that businesses might soon be urged by consumers to invoice in euros. Failure to handle this request could lead to a loss in business.

For Switzerland, eurocreep is a serious issue. Geographically positioned in the middle of the eurozone, Switzerland exports about 61% of its goods to the EU and receives about 79% of its imports from the region. Switzerland also is a heavy foreign direct investor in the EU. These facts lead to the belief that the euro will become a currency of choice among businesses and tourists. However, the integration of Swiss companies to the euro will not occur simultaneously. Swiss watch companies will be able to keep prices in Swiss francs. Whereas, Swiss companies that face extensive European competition will adopt the euro at a quicker pace. In spite of these differences, Swiss companies are taking necessary steps to ensure they can handle euro transactions. And, the Swiss government is assisting by changing laws and regulations to be in harmony with the EU legislation.

…across the Atlantic…

Eurocreep has not reached the status level of Y2K in the United States. However, it is likely to have an impact on US business. Similar to the UK and Switzerland, US companies with business in Europe will have to be able to handle euro transactions. Failure to embrace this change could result in a loss of market share in the EU.

…on the bright side

Not all is gloom and doom for the US. US companies anticipate finding new opportunities with the euro's arrival. It is predicted that a number of small US businesses will establish themselves in the eurozone market. After all, most had shied away from Europe based on the complication with exchange rates, which the euro will eliminate.