European Union Update

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Agreements in Brief

Canada ~ European Union

The EU-Canada summit in December 1998 produced the EU-Canada Trade Initiative (ECTI). ECTI is a new trade initiative that builds off of the EU-Canada Joint Action Plan's trade chapter. It is regarded as a "significant advance in the trading relationship, marking the importance for the EU and Canada in maintaining close relations in both the bilateral and multilateral trade fields."

Canada ~ European Union

At the December 1998 EU-Canada summit the EU and Canada signed a bilateral agreement on veterinary matters, which encompasses sanitary rules for trade in live animals and animal products. The EU-Canada Veterinary Agreement is the third veterinary agreement that the EU has concluded.

Canada ~ European Union

The EU-Canada Science and Technology Cooperation Agreement (1996) was expanded at the December 1998 EU-Canada summit. The Agreement now covers all activities of the specific research programs of the EU Framework Program for Research and Technological Development.

TABLE OF CONTENTS

Canada ~ European Union

The EU and Canada signed a bilateral agreement for cooperation in nuclear research at the December 1998 EU-Canada Summit. The agreement covers nuclear safeguard research, radioactive waste management, the decommissioning of nuclear facilities, radiation protection, nuclear reactor safety and controlled nuclear fusion. In addition, the agreement provides for the participation of persons and legal entities in each other's research projects or in agreed multilateral projects, and other specified undertakings.

Croatia ~ Hungary

Hungary is looking to sign a free trade agreement (FTA) with Croatia. The European Union is displeased with Hungary's push for the FTA with Croatia since it violates EU law. Croatia is neither a World Trade Organization member nor does it maintain a FTA with the EU. The EU has notified Hungary that a FTA with Croatia would have to be terminated prior to Hungary's accession into the EU, which is expected to happen in 2002.

European Union

- EU leaders have imposed a March 25, 1999 deadline for an agreement on a package for their budget, farm, and regional aid reforms. Failure to reach an agreement at a December 1998 weekend summit in Vienna prompted the March deadline.
- April 1999 is the date that the EU plans to restrict noisy aircraft. The restriction will not allow noisy aircraft, even those that have been fitted with special engine mufflers known as "hush – kits", to operate in the EU region. This action will impact US aircraft since they are typically older and louder than the newer fleet of aircraft used by EU countries.

Gibraltar ~ Spain

Peter Caruana, Gibraltar's chief minister, appears to have reached a deal to resolve a long-standing dispute with Spain over the waters surrounding the British Colony of Gibraltar. The deal is expected to provide a return to moderate fishing activity as has been practiced despite the 1991 Gibraltar ban on commercial net fishing.

Switzerland ~ European Union

In early December 1998, the EU and Switzerland reached a bilateral trade agreement. After four years of work, the trade agreement's momentum took-off when the EU and Swiss transport ministers agreed to an accord over Alpine charges for trucks. The remaining differences – wine labeling, landing rights for Swissair, and the treatment of

EU workers in Switzerland – were resolved. Pending ratification, the agreement could be in effect at the start of 2001.

Enter the EURO

The euro, the European Union's new currency, was introduced just over a month ago. In this time, the euro has definitely made an impression. The following sections look at the euro's effect on countries around the world.

In the "zone"…

Starting with the EU countries that are part of the eurozone – Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain- the euro's arrival has bought various side-effects. In France, retailers and consumer oriented companies quickly moved to use the euro as a marketing tool. After all, the euro was touted as beneficial to consumers since dual pricing (euro and national currency) would better indicate bargains to shoppers. To retailers' dismay, early reports show that consumers are not eager to shop with euros. It is hoped that comfort with the euro will increase over time.

Unlike France the euro took off in Spain, but in the wrong direction. Just two weeks after its debut Spain began dealing with euro con men. The crime has involved well-dressed individuals posing as bank representatives. They go to the homes of retired individuals and inform them that the peseta, Spain's currency, will become invalid in a month's time. Following this news they offer to take the individual's pesetas to the bank and return with the euro currency. Needless to say, the individual never returns.

In addition to Spain, Italy has euro problems. The situation in Italy is with the banking system charging hefty fees to exchange eurozone currencies. Italy's Treasury Department is looking into the practice since the euro's introduction meant diminished exchange rate risks and therefore decreased costs.

…the non-eurozone members of the EU…

Only four EU members are not in the eurozone. Unlike Denmark, Sweden, and the United Kingdom, which have long snubbed euro participation, Greece is not content to sit and watch. Greece is eager to participate since it believes the euro will bring benefits such as the elimination of international currency transactions. It is not clear whether Denmark, Sweden, and the UK believe the euro is advantageous. The only sure thing is that none of these three EU countries have given indication that the euro's presence has greatly affected them.

…outside of the European Union…

Non-European countries Canada, Cuba, Egypt, and Thailand all have their own feelings about the euro.

Canada is less than optimistic. The view coming from Canada's central bank is that Europe does not form an optimal currency area, which is an essential element for a monetary union. Due to this the Canadian belief is that the euro is doomed to failure.

On the tropical island of Cuba the introduction of the euro is viewed positively. After all, the US embargo prohibits Cuba from using the dollar. The euro now provides Cuba with a currency that will simplify trade with Europe. Cuba also is fond of the euro since it hopes that it will rival the US dollar's dominance.

In Egypt, the euro has also been well received. In fact, Egypt is considering holding part of its mainly US dollar denominated currency reserves in euros. Apart from this action, Egypt and other countries in the region view the European Central Bank, a non-governmental entity, as a role model in their push for increased independence of their currencies from government control.

Miles away from the EU another country, Thailand, is also fond of the euro. The poor performance of the Thai baht against the US dollar has been a concern since more than 80% of international trade done in Thailand is handled in dollars. Aware that the euro provides an opportunity to lessen dollar dependence Thailand's central bank has converted 10% of the national reserves to euros.

Fear of domino effect: Will the EU give in to US on bananas?

The dispute began the moment the United States and five Latin American countries went to the World Trade Organization (WTO) regarding the European Union's decision to officially favor African, Caribbean, and Pacific bananas over those of Latin America. According to the US, such a policy discriminates against Latin American products and interferes with the open market. The WTO decided in favor of the US and Latin American countries. However, the US claims that the amendments the EU has made to its banana import regime fail to comply with the WTO ruling on Europe's banana import arrangements. It is for this reason that the US has threatened to impose sanctions on EU products, unless the region decides to comply with WTO and US demands.

According to European Union trade commissioner Sir Leon Brittan, "This sanction list is absolutely arbitrary. It includes people who have absolutely no link with bananas … except perhaps that they put one in their lunchbox." Brittan is not the only one who expressed concern over the sanctions that the US has threatened to implement against the EU for refusing to comply with the WTO. The goods targeted by the sanctions would cost the EU up to approximately $570 million in exports. Industries ranging from plastic goods to sales of bed linen would all be affected by the sanctions. In addition to financial losses, there is serious concern for the jobs that would be lost and the factories that would be closed down if the sanctions were to go into effect. The countries that would be most heavily impacted would be UK, Italy, France, and Germany. Denmark and the Netherlands are the only two European countries that are neither targeted nor affected by sanctions the US would impose.

Without a doubt the tension that has developed between the EU and the US by the Banana War has potential to spillover and affect other areas of international interest and concern. European companies are tired of arguing and fear for their businesses, particularly their operations located in the US which would unquestionably “go bust” as said by Ernesto Gismondi, chief executive of Artemide, one of Italy’s leading light fitting manufacturers. Unquestionably, the pressure imposed by the private sector in Europe on the EU to resolve the issue has inevitably reinforced the US and Latin American position. Although the EU continues to have a strong preference for bananas sold by former British and French colonies, the EU has decided to change the import licensing system that was considered to be unfair by the WTO.

Nevertheless, unless the amended version of the EU banana import regime must be both compliant to the demands of the WTO and satisfactory to the US, otherwise, the US is determined to impose the trade sanctions on the EU.

EU Data Protection Directive Update

According to a February 1999 *Journal of Commerce* article, "American Airlines has been forced to stop transmitting information - including meal preferences, requests for wheelchair assistance and specific hotel arrangements - about Swedish passengers to the airline's Sabre reservation system in the United States." This is a direct result of Swedish enforcement of the much-anticipated EU Data Protection Directive (95/46/EC).

Many US companies are reevaluating the types of data transmitted between the EU and the US. Information as basic as names and addresses fall under the auspices of the Directive. The EU Directive requires member countries to implement laws to comply with the Directive and to establish a national body responsible for enforcing privacy policies. Further, the person or company transmitting the information must notify the individual of the reason for collecting the information and provide the names of the people/companies that will receive the data. The individual must give consent.

Only three EU members have implemented the appropriate laws and established an enforcement body in compliance with the EU Directive: Sweden, Italy, and Greece. It is anticipated that countries outside the EU, in particular those anxious to join the EU, will change their regulations to comply with the Directive.

The US is currently not in compliance with the Directive, primarily because the US is prone to accept a policy of self-regulation rather than the provisions of the EU Directive. The US proposed "safe harbor" principles in November to assist US companies in complying with the Directive. A major point in the US proposal is that notice be given to individuals about the information collected, but consent is not required. However, individuals could indicate preferences as to how the information is used. Individuals will also have access to their information. The US safe harbor approach relies on the fact that minimum standards be set for privacy protection. The EU hesitates on this point, stating that agreement on the principles could be a significant obstacle.

As EU-US talks continue, Ambassador Aaron, the US negotiator from the Department of Commerce, hopes to have the problems resolved by the EU-US Summit scheduled for mid-June 1999.

Dark clouds over Germany

Automobiles, engineering, and chemicals are the main sectors that give Germany’s economy its might. Unfortunately, Germany is presently experiencing cutbacks in demand in these sectors from the Asian, Russian, and Latin American economies.

Chemicals are especially sensitive to changes in the world market since they are the essential ingredients in so many items. Compounding this is the fact that some of Germany’s most important chemical producers recently invested in various Asian countries.

Germany’s engineering rich companies such as Siemens and SAP are not out of reach of the economic downturn in Asia and beyond. Here too there has been a decrease in demand and a surge of cheaper products.

The big automakers appear to be least vulnerable to the economic woes plaguing chemicals and engineering. Diversification appears to be the saving grace. For instance, the recent merger of Daimler-Benz and Chrysler motors and BMW’s US factory is providing these companies with the benefits of the booming economy the US is currently experiencing.

A break from tradition

The new millennium will bring a new round of World Trade Organization (WTO) talks focused on liberalization of services. The official kick-off is not until the year 2000, but preparation has already begun. The goal is to arrive at the US hosted WTO Ministerial meeting in fall 1999 with issues to be included in the agenda that this meeting will establish as topics for the upcoming talks.

The EU Commission, which negotiates for the 15 country EU at the WTO, has traditionally relied on various informational sources to formulate its strategy. The US, on the other hand, is mandated by law to consult the relevant industries. The US method is considered reliant in ensuring all pertinent information has been obtained. Realizing its information might not be complete the EU has embarked on a new process to obtain more accurate information. The Commission has established the European Services Network. The ESN is Internet based and provides a forum for industry representatives to advise EU officials of issues relevant to the talks. In addition, the Services Information System is also being used to directly gather data from relevant industries.

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