European Union Update

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Agreements in Brief

European Union ~ Mercosur

Mercosur (Argentina, Brazil, Paraguay, and Uruguay) and the European Union's ambitious plans for a free trade agreement have been put on hold. Problems arose when the EU Commission failed to agree on a negotiation mandate for the talks. *(Article on page 6)*

European Union ~ Latin America ~ Caribbean

June 28-29, 1999, is the scheduled date for the Summit of Latin American, Caribbean, and European Union leaders. The meeting will be held in Rio de Janeiro, Brazil.

European Union ~ Lomé Convention

In June, EU foreign ministers agreed to draft a negotiating mandate for a new Lomé Convention – the trade and aid instrument between the EU and 71 African, Caribbean, and Pacific developing countries. The Lomé expires in February 2000. *(Article on page 4)*

European Union ~ Mexico

July 14, 1998 in Brussels marked the date and location of the first trade talks between the EU and a Latin American country. Both countries are seeking expanded and diversified trade.

European Union ~ Poland

The EU and Poland agreed to a steel industry restructuring plan. The plan is anticipated to ameliorate the dispute that erupted in 1997 when Poland refused to cut import tariffs as agreed to in its 1991 EU association treaty. Under the plan, Poland is cutting tariffs on EU steel by a third.

European Union ~ South Africa

After more than three years of talks, EU leaders set a fall deadline for creating a free trade area with South Africa. One dilemma encountered by the EU is pressure from its southern states to exclude agriculture products such as citrus fruit and wine which makes up almost half of South

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Africa's farm exports to the EU. South Africa has offered to open 85% of its markets and provide increased product coverage, speeding dismantling of tariffs and reducing tariffs on some sensitive products. The EU has offered to open 95% of its markets over ten years. South Africa is not pleased since the majority of the markets would not open until the end of the ten year period.

European Union ~ Switzerland

In 1992, Switzerland voted against joining the EU. For the last five years negotiations to create a bilateral trade relationship between Switzerland and the EU have been taking place. Switzerland is anxious to finalize a treaty so that its services and industry sectors can take advantage of the benefits of access to the EU. The treaty was sidelined in early 1998 over a dispute on tolls to be levied on EU trucks passing through Switzerland.

European Union ~ United States

At the beginning of June the EU and US signed an antitrust agreement. The agreement allows EU and US competition officials to request investigations of anti-competitive business practices by companies based in their counterpart's territory. The agreement does not apply to mergers and takeovers because of differences between EU and US merger regulations.

Fortress Europe?

The term "Fortress Europe" was a negative title given to the European Union (EU) by non-EU members who feared the community was too inward focused. In light of the recent financial crisis, the meaning of "Fortress Europe" is receiving a positive spin, but for how long?

Inside vs. outside the Fortress…..

Today the world is being shaken by the Asian financial crisis. Countries are watching their economies decline alongside their currencies. For instance, Canada and Australia are seeing their currencies hit record lows against the US dollar. However, inside the "Fortress" members of the European Monetary Union (EMU) are displaying remarkable resilience. Spain and Portugal, typically vulnerable to financial turmoil, have performed well. Their success is based on the economic stability provided by participating in the EMU.

The stability inherent in the EMU is further illustrated by comparing two neighboring European countries. Finland, an EMU member, and Norway, a non-EMU member, share a common border, but are experiencing different economic effects of the Asian financial crisis. The Finnish markka has barely been affected by market gyrations. Norway, however, has raised interest rates in a futile attempt to support the krona.

…launching the euro….

The new definition of "Fortress Europe" should not be conveyed to mean that next year's launching of the euro, the EU's single currency, is going to be without concerns. Worries center on two main themes. First, the amount of lending European banks have provided to

Russia, Asia, and Latin America - three regions affected by the Asian financial crisis. Second, the performance of the European Central Bank (ECB).

Returning to the first concern, bank lending, it is evident that banks throughout the EU have loaned money, and lots of it, to developing nations. In December 1997, the Bank of International Settlements published figures that placed 55% of European bank loans were to developing nations. Together, France and Germany have almost the same amount in outstanding loans to Latin America as the US. The real concern however is the massive exposure of German banks in Russia. Reports say Germany has loaned $30 billion to Russia. Authorities assert that fears should be kept to a minimum since the majority of the money is backed by government funds or collateral. Unfortunately, skeptics hold that the repercussion of the recent turmoil in Russia has not been fully felt and when it does come to fruition the EU could find itself in a banking crisis.

...the Fortress might be strong, but is it indestructible?

Now, with EU banks running a risk of a crisis, the true test of the "Fortress" strength might well rest in the ECB's performance. The ECB, however, will not be fully recognized until the euro is introduced. This fact leaves some individuals questioning if the ECB will have the ability to produce necessary results in a time of crisis.

The International Monetary Fund is fearful that the ECB will not have the proper means to handle a banking crisis in the EU following the introduction of the euro. The ECB was modeled after Germany's Bundesbank. Therefore, like the Bundesbank, the ECB does not have a lender of last resort option. Unfortunately, unlike the Bundesbank's ability to use Germany's Liquidity Consortium Bank, no entity in the EU has been granted the ability to provide liquidity to the ECB. This is a major concern.

Interest rates are another issue. The ECB has the task of setting interest rates at a level appropriate to the economic environment of the day. In the midst of a banking crisis, the ECB has the task of judging and establishing the interest rate for the 11 EMU countries. Some fear the ECB will set rates too low and create unnecessary inflation. Others fear the ECB will not react enough and therefore set interest rates too high which would be insufficient to counteract falling share prices.

A third difficulty faced by the ECB is information sharing. Based on the regional diversity of the 11 EMU countries the ECB will oversee, it is unlikely that the local national authorities will grant the ECB adequate power to successfully handle a banking crisis.

E-Commerce in Europe

Recent events in e-commerce reflect the challenges this new trading arena brings to Europe and beyond. First, at the end of June, 60 US and European companies agreed to cooperate more closely on the challenges created by the development of information technology on the Internet. Second, a directive to safeguard the privacy of European citizens is scheduled for implementation on October 25, 1998.

The agreement for increased cooperation is a step toward removing some of the barriers that have impeded the development of e-commerce. During the meeting several items were noted as the greatest obstacles in e-commerce. All participants agreed that taxation of products and services sold on the Internet, tariffs, protection of international property rights, encryption, authentication, and data protection were the greatest challenges. Liability was not mutually agreed upon as a great impediment and is expected to be a contentious issue in future meetings. A steering committee will be elected in September and it will remain in close contact with US and Japanese authorities.

As previously reported, October 25th will mark the enforcement of a EU directive to safeguard the privacy rights of EU citizens. In 1995, when the directive was introduced it was touted as a trade-liberalizing move. Today, the directive may result in numerous individuals breaking EU law.

The directive's flaw is contained in a rule that states "any information relating to an identified or identifiable natural person" is not to be sent to countries that do no have "adequate" data protection mechanisms. Brussels has not provided a clear definition of the meaning of "adequate" or what types of information are covered. If a strict interpretation is decided, EU companies that rely on transatlantic data communications could face major troubles.

The US does not currently qualify as having "adequate" protection and is thus upset with the directive. It has informed the EU that it may take this matter to the World Trade Organization (TWO). US Congress has stated it is willing to pass blocking orders that would prohibit US companies from adhering to the directive.

Negotiating the Lomé's replacement

The Lomé Convention, a 23 year old trade and aid agreement between the EU and 71 African, Caribbean, and Pacific (ACP) countries, is set to expire in February 2000. The anticipated yearlong negotiations between the EU and the ACP was kicked-off on September 30, 1998. The goal is to create a Lomé replacement. Exactly what should replace the Lomé is in dispute.

The EU believes that times have changed and this should be reflected in the Lomé's successor. It has proposed replacing the non-reciprocal trade preferences given to ACP countries with free trade agreements (FTAs). The FTAs would exist between the EU and specific regions or individual countries. The EU believes the move to FTAs is fair since it would now allow the EU to expand ACP exports. It also believes FTAs would provide increased benefits to ACP nations by assisting them with integration into the global marketplace and increase their private investment status.

ACP nations do not share the same optimism for FTAs as the EU. ACP nations believe the proposed change is not going to provide the benefits claimed. One difficulty the ACP cites is that they are still very poor countries that would not be able to compete with the EU in FTAs.

Another concern for ACP countries is that they lack negotiating experience and fear this would be a strike against them in FTA talks.

How Soon is Too Soon?

The EU has proposed new global trade negotiations for the year 2000. Other countries, including the US, are not too excited about the prospect of sitting down at the negotiating table so soon after the lengthy Uruguay Round. In an effort to rally support, the EU stated that it will work to have the negotiations completed in three years. However, countries are skeptical of the EU's fast pace knowing the reluctance of EU members in agricultural negotiations.

The World Trade Organization (WTO), the oversight organization on global trade talks, has advised countries to take into account the diversity of the 132 WTO member countries that will participate in global trade talks. The best route is to keep the agenda broad.

An announcement of a global trade round would be made at the third WTO Ministerial Conference being held in Fall 1999 in the US. To meet this deadline, trade negotiators must begin working out the details of which presently there is little, if any, consensus.

Existing Members Only

Next month, November 1998, the European Union is to begin formal negotiations with six applicants - the Czech Republic, Estonia, Hungary, Poland, Slovenia, and Cyprus. The atmosphere in the EU gives suspicion that no new members will be onboard in the near future.

France requested that the Commission prepare a report on the political assessment of the enlargement negotiations. This report will be delivered to the EU foreign ministers in early October. EU authorities suspect France of using the report as a means of delaying the negotiating process.

France is not the only EU country that fears admission of new members. Countries used to receiving EU funds, such as Greece and Portugal, worry that financial advances will decrease or stop. EU countries neighboring the potential new members also fear that rapid negotiations will bring about a swift flow of manpower across the borders. They interpret this as causing an overabundance of labor and other ill effects on their local economies.

EU Studies Container Sizes

This month, the EU is initiating a study to determine the most effective and reasonable way to harmonize the size of containers used for shipping products to member countries. According to the transportation experts, the disparity in the dimensions of containers used in ships, trucks, and trains increases the costs to shippers and their customers. In an effort to minimize such costs, the EU is conducting research to harmonize current boxes into one standard European container that can be used in all modes of transportation. One of the obstacles facing the harmonization effort is the fact that among EU countries the rules for truck lengths vary. In addition, the equipment used for containers also varies between modes of transportation. Although the EU and US both have standardized box dimensions for domestic trucking, these standards do not match the International Organization for Standardization (ISO) specifications for deep-sea shipping containers. The EU is re-opening a campaign initiated in the mid-1980s to encourage ISO to adopt a new ISO standard box that matches the European swap bodies. The original campaign was rejected by ISO in 1989, citing the proposal's impracticality because of significant investments by many nations in port equipment to match the ISO box standard.

BSE Update

As early as March 1998 the ban on beef on the bone may be lifted. The news followed Agricultural Minister Jack Cunningham's report that cattle entering the food chain now should not have been fed food containing BSE – mad cow disease.

The beef ban was implemented in December 1997 when scientists warned officials of a potentially small risk of BSE being transmitted through cattle bones. The ban's implementation has created resentment of the government by rural farmers who see the ban as unnecessary.

Upon approval by the chief medical officer the ban will be lifted. Prime Minister Tony Blair has expressed his hopes that the ban will be removed as soon as possible.

Mercosur ~ EU negotiations

The European Union (EU) and Mercosur have been discussing negotiating a free trade agreement (FTA). Mercosur would be represented by its founding members (Brazil, Argentina, Paraguay, and Uruguay) and Chile, an associate member.

Agricultural issues have sidelined the creation of the world's largest FTA. The EU commissioner responsible for Latin America, Manuel Marin, was able to win approval for a negotiation mandate for the FTA but, that was not enough to obtain the necessary unanimous approval from the EU trade ministers. France, an opponent of the FTA, began circulating a paper that pointed out almost 90% of trade between the two regions would need to be covered in negotiations in order not to violate any World Trade Organization obligations. This is interpreted to mean that agriculture, sacred ground to the French, and other sensitive areas would most likely be covered. As a result of lobbying efforts, EU trade ministers will await the results of a study on the agricultural impact of an FTA with Mercosur.

Please call JBC International if you need more details or if we can assist you with strategic planning.