ESBA Bulletin of June 2000 – Volume 2 – Number 5

HEADLINES

In this issue:

General EU news		
	30/05/2000	European Commission - new working group to map out white paper on governance
	01/06/2000	European parliament vote on 1998 budget discharge
Economic & Financial affairs		
	24/05/2000	European Parliament backs Greece's request to join euro club
	23/05/2000	Commissioner Solbes presents first EMU public finance report
	06/06/2000	Ecofin council agrees to speed up work for strengthening integration of financial markets
Taxation		
	21/06/2000	The Fifteen reach a superficial agreement with little political significance on taxation of savings
	10/06/2000	Commission adopts new VAT co-operation accord
Enterprise affairs		
	07/06/2000	EIB - innovation 2000 initiative for SMEs
	20/06/2000	Industry council approves directive on late payments, commission stresses positive effects for SMEs
	15/06/2000	UEAPME attack EU funding cuts for SMEs
	01/06/2000	UNICE publishes benchmarking report
Employment & social affairs		
	10/06/2000	Social policy, ministers agree on family life and working at a height
	20/05/2000	European parliament casts final vote on working time directive
Single market		
	24/05/2000	scoreboard shows slowdown in member states' efforts to implement EU law
International trade		
	10/06/2000	Commission adopts code of conduct for goods classifying system
	07/06/2000	Taiwan gets WTO go-ahead
	01/06/2000	US & EU agree on privacy standard

01/06/2000 US-European union summit: progresses, but not a lot.
15/06/2000 Bologna conference recognises role of SMEs in growth
Electronic commerce
08/06/2000 European commission proposes new VAT system for electronic commerce
Competition policy
31/05/2000 European commission reveals plan to boost postal-market competition
13/06/2000 EU & Japan discuss co-operation on antimonopoly policies
Annex: The European charter for small enterprises as adopted by the Feira Ue council (Portugal – 20th June 2000)
Principles
Lines for action

General EU news

30/05/2000 European Commission - new working group to map out white paper on governance

The European Commission decided to set up a group of Commissioners - working under President Romano Prodi - to map out the political direction of the planned White Paper on governance. The work will involve a large measure of dialogue with all interested parties, in particular, consultation with 'Community policy users'. The actual drafting of the White Paper will be the responsibility of a very small team attached to the Secretariat-General and headed by Jerome Vignon.

In line with President Romano Prodi's pledge to the European Parliament, the Commission plans to draw up a White Paper on governance by Summer 2001. This ties in with an idea that Romano Prodi has suggested many times, namely that the building of Europe is primarily a political process. The aim is to provide a better response to the concerns of the public, and to rethink methods that may have grown obsolete, beginning at the Commission. The White Paper will look at new forms of governance, and put forward whatever proposals appear necessary - no options are ruled out at this stage. A first draft should be tabled for preliminary discussion in December.

The White Paper will explore two main avenues:

- **Decentralising responsibility within the EU**: Europe, and especially the enlarged Europe now in prospect, can no longer be run from Brussels. National, regional and local government must take on more responsibility in EU matters. The different levels of government must be linked into networks, responsibilities and checks and balances identified, and greater citizen participation encouraged.
- **Modernising the EU's work and re-establishing consistency**: EU policies have grown up in successive layers; the ways in which they are run need to be reviewed, and the interconnections between them clearly analysed.

01/06/2000 European parliament vote on 1998 budget discharge

The European Parliament's Committee on Budgetary Control voted on 24 May to back the recommendation from party co-ordinators to submit the three reports on the 1998 Community Budget discharge to the approval of the 3-7 July plenary session. The Committee should in principle consider these three reports in June. Parliament decided on 13 April to defer its decision on the 1998 discharge on the highly controversial report by Gabriele Stauner (EPP-ED, Germany) concerning the General Budget.

Economic & Financial affairs

24/05/2000 European Parliament backs Greece's request to join euro club

Voting in the context of consultation procedure by 376 votes to 42 with 80 abstentions to adopt the report by Robert Goebbels (PES, Luxembourg), the European Parliament expressed overwhelming support for Greece's entry into the single currency as the Euro's twelfth member. The Parliament concluded that Greece has made a remarkable effort and that while questions might be raised over the long term, the country is currently doing much more than certain Member States.

The reporter said there had been genuine convergence with inflation falling from 20% in 1990 to 2.6% in 1999, the public sector was no longer characterised by mismanagement and Greece could no longer be considered "the sick man of Europe". Indeed, eminent international bodies such as the IMF, OECD, ECB as well as the European Commission had now issued favourable comments on the efforts made by the Greek Government, although he admitted the situation was far from perfect.

The adoption of the Parliamentary Opinion on Greece represents a further step forward in the process that should lead to a decision on the Drachma's entry into the Euro at the European Council on 19 and 20 June. The European Commission adopted its recommendation on the issue on 3 May following Greece's formal request for accession on 9 March.

At their Lisbon summit, EU Heads of State and Government endorsed Greece's entry into the single currency from 1 January 2001.

23/05/2000 Commissioner Solbes presents first EMU public finance report

Commissioner Pedro Solbes presented on 24 May a first report assessing the contribution of public finances to growth and employment. This comes just two months after the Lisbon European Council underlined in its conclusions that the opportunity provided by the recent strong European growth must be used to pursue fiscal consolidation more actively and to improve the quality and sustainability of public finances. The report prepared by the Directorate General of Economic and Financial Affairs analyses public finances in EMU from a truly European perspective. Its recommendations have important implications for economic policy co-ordination and the recent euro-11 ministers' decision to accelerate fiscal consolidation and structural reforms in the Union. Member States are called to: (i) surpass the budget targets set in the updated stability and convergence programmes in light of the upward revision of growth forecasts; (ii) avoid loosening their budgetary policies during the current economic upswing and allow automatic stabilisers to work throughout the economic cycle; (iii) to enhance the quality of public finances by reducing the tax burden on labour. To get the right balance between further tax reforms and deficit reductions, tax cuts will need to be matched with corresponding reductions in spending.

Significant consolidation in the 1990s

Over the past 30 years, the size of the public sector in the EU economy has increased by 50%, largely driven by expanding social transfers and rising interest payments. Throughout this period, Member States' fiscal policies have suffered from two main weaknesses. First, high structural deficits led to an uncontrolled rise in the stock of public debt until the mid 1990s. Secondly, budgetary behaviour has tended to be pro-cyclical, amplifying the effects of cyclical swings rather than having the desired stabilising effect. Instead of reducing government deficits and debt ratios when economic growth was favourable, governments have tended to undertake a discretionary loosening of the budgetary stance. This necessitated budgetary tightening during downturns to prevent deficits and debt from spiralling out of control. With budget positions on a clearly unsustainable path and also on account of the Maastricht convergence criteria, policy makers enacted a strong budgetary adjustment as from 1992-93. An analysis of this successful consolidation shows that a rule-based approach to fiscal policy, backed-up with a strong political commitment, can yield significant improvements in budget positions. Also, expenditure-based budgetary adjustments signal a government's strong commitment to fiscal consolidation and can generate positive expectation effects.

Goal of the stability and growth pact is within reach

The deficit of the euro area fell to 1.2% of GDP in 1999, down from 2.3% in 1998. This exceeded expectations despite growth being lower than projected in several Member States. However most of the improvement came from unexpectedly high tax receipts and not from deliberate policy decisions. The recently updated stability and convergence programmes provide for the deficit of the euro area to fall to 0.3% of GDP in 2003 and to 0.1% for the EU as a whole. Hence, the medium-term goal of budget positions which are "close to balance or in surplus" is now within reach, especially as these commitments were entered into on what now appear to be cautious assumptions about growth. While progress towards the medium-term targets is welcome, the 'quality' of the budgetary adjustment is mixed. On the expenditure side, most of the reduction comes from lower interest payments, and the tax burden is expected to fall at a rather slow pace.

Long-term challenge is a lasting reduction in debt levels and the tax burden

As broadly balanced budgets are approached and with a favourable economic outlook, new fiscal policy challenges are coming to the fore. The EU is approaching the end of a long phase of striving to place budget positions on a stable path, where the inevitable emphasis was on meeting strict targets for actual government deficits. However, the process of fiscal consolidation is not over. Some Member States still have some way to go to meet the SGP goal of budget positions, which are 'close to balance or in surplus'. In addition, there is an urgent need to reduce government debt levels, which remained above 70% of GDP in 1999 for the euro area. This level is high in historical terms (more than double the 1980 level), and three Member States still have debt ratios close to or above 100% of GDP. Finally, the tax burden which amounted to 43% of GDP in the euro area in 1999 (some 14 and 16 percentage points higher than in the US and Japan) must be substantially reduced if the EU is to boost potential output and employment.

An immediate challenge is to avoid a pro-cyclical budgetary stance

Having demonstrated a capacity to undertake fiscal consolidation in the run-up to EMU, Member States must now demonstrate their willingness to pursue responsible fiscal behaviour during 'good' times: in many ways this is an even more challenging goal. High economic growth will ensure buoyant tax revenues and some fall in current spending, especially on transfers to the unemployed: overall the actual budget balance should improve. However, this can lead to pressure for large tax cuts and discretionary spending increases that would worsen the underlying budget balance. To avoid such a pro-cyclical loosening of the budgetary stance, Member States must let the automatic fiscal stabilisers operate fully during the upswing so that in most cases a position of budget surplus is reached. Doing so will allow government debt to be run down at a faster pace. To the extent that growth is higher than the assumptions contained in stability and convergence programmes, Member States should surpass the agreed targets for budget balances.

Need to get the right balance between further deficit reductions and tax cuts

Reflecting the importance of getting the right balance between cutting taxes and pursuing deficit reductions, the Ecofin Council of 28 February 2000 broadly endorsed a proposal of the Commission setting four criteria for assessing whether a Member State actually has the capacity to cut taxes safely without jeopardising the SGP commitments. They are: (1) uncompensated tax reductions can only be envisaged in Member States that meet the medium-term budget target of 'close-to-balance or in surplus'; (2) tax reductions must not be pro-cyclical; (3) account must be taken of the level of government debt and long-term budget sustainability; and (4) tax reductions should form part of a comprehensive reform package. The Commission intends to apply these criteria when assessing budgetary plans for 2001 and future updates to stability and convergence programmes. The upshot of this approach is that Member States must seize the opportunity of high growth to make the difficult structural reforms that achieve a lasting reduction in the tax burden and not go for a "quick fix" of temporarily lower taxes. However, to ensure that tax cuts are permanent (and will not have to be reversed when the economy slows down), they need to be accompanied with matching cuts in spending. In some, the only way to generate a real "growth dividend" is by tackling head on the underlying reasons for the high tax burden, that is to introduce the necessary reforms to reduce and restructure public expenditure. The Commission is planning further work on the restructuring of public expenditure.

The quality of public finances must be improved

Analysis in the report supports the strategy endorsed by the special European Council of Lisbon on the need to lower the tax burden, especially on labour, as a means to boost output and employment. Simulations using the Commission services' QUEST model show that tax cuts offset by cuts in spending can raise employment. While caution must be exercised when interpreting results, an across-the-board tax cut of 1% of GDP could increase employment by some ¾ of a million jobs. However, the estimated effect on employment creation would double to 1½ million jobs if, instead of across the board, the tax cut is targeted at reducing the burden on labour. An alternative policy not involving tax cuts but a shift in the tax burden away from labour to other tax bases, such as consumption, would increase employment, but by much less (around ½ million jobs).

Should use the opportunity of higher growth to prepare for ageing populations

Preparing for the budgetary consequences of ageing populations is one of the major fiscal policy challenges facing the EU. Although the issues of long-term sustainability is not analysed in detail, the report presents estimates of the reduction in the future interest burden that Member States can achieve by adhering to ambitious medium-term budget targets: these savings could partially meet the costs of ageing populations.

However, the report stresses that it would be inappropriate for countries to rely only on the consolidation of public finances to prepare for the budgetary impact of ageing populations. Adhering to a budget target (even an ambitious one) must not divert attention away from the need to make structural reforms to the features of tax and benefit systems which accentuate age-related budgetary pressures. The favourable growth prospects provide an opportunity for enacting such reforms.

The report is available on Internet at the address: http://europa.eu.int/comm/dgs/economy – finance

06/06/2000 Ecofin council agrees to speed up work for strengthening integration of financial markets

The Ecofin Council recently acknowledged the need to speed up work for the setting in place of an integrated financial services market. "The European Council of Lisbon requested that this process be completed by 2005", it recalls in its conclusions. To keep to this deadline, the European Commission has set out in a report on the state of progress of its "action plan for financial services” a few issues for which progress should be made as a priority:

- the establishment of single consent for share issues (directive on prospectus) and a new accounting strategy to improve the comparability of the financial situations of companies quoted on the stock exchange;
- abolition of the barriers to investment of pension funds and undertakings for collective investment in transferable securities (UCITS);
- enhanced functioning of the market of cross-border repurchase agreements for securities;
- the recasting of the Directive concerning investment services.

The Ecofin Council supported this analysis. Concerning its own work, it undertook to rapidly carry out the work needed to come to an agreement on amendments to the Directive on money laundering. It restricted itself, however, to "noting" that "progress is slower" in certain other areas such as the statute of the European Company, which has been on the table for over twenty years. In addition to the priorities already given, it called on the European Commission to take measures aimed at promoting consumer confidence in financial services, and mainly in distance sales and electronic commerce. It also invited it to present, in November, a further follow-up report concerning the action plan for financial services (May 1999) and the action plan relating to venture capital (April 1998).

Taxation

21/06/2000 The Fifteen reach a superficial agreement with little political significance on taxation of savings

The EU Heads of State and Government decided to continue work on the taxation of savings, but only reached superficial agreement on a draft directive. The text approved in extremis paves the way to numerous interpretations and adds several steps to the decision-making process in which the Fifteen will still have to state their view unanimously so as to move forward.

For three days, in one meeting after another, the Ecofin Council tried to get Austria's support for a text making provision, to fight tax evasion in the EU, for creation of an information sharing system between tax administrations on the earnings on savings of non-residents. Up until the last minute, Vienna remained hostile to the prospect of forwarding information to its partners on savings in its banks. "Austria insisted that it cannot change banking secrecy", because it is part of the constitution, explained Chancellor Schuessel.

Vienna finally accepted an annexed "agreement". It declares that it accepts the OECD report on "Improving access to banking information for taxation purposes", but is not able at this stage, for constitutional reasons, to accept the waiver of banking secrecy. And it recalls that because the directive will apply only to non-residents, Austria can maintain withholding at the source and its present banking legislation for residents. "I cannot predict Parliament's attitude. To waive banking secrecy, the constitution will need to be amended. We shall speak about that again in two years and unanimously. We are engaged in nothing," announced Mr. Schuessel following the meeting. "Today, it has been accepted that banking secrecy cannot be modified," added his Finance Minister Mr. Grasser.

Difficult in these conditions to speak of a true agreement. The Chancellor of the Exchequer, Gordon Brown, summarised the situation thus: "14 States accept the exchange of information. 15 States have accepted to make progress. One country does not yet support the principal of information exchange."

Thus the French Presidency inherits a dossier where much work will still be needed. "This is not an agreement that pleases us completely, but it marks out a view and enables us to continue to progress," commented the Prime Minister Lionel Jospin.

Through the text approved on Tuesday, the Fifteen accept, in principal, to pass an information exchange system in 2009, taking into account the development of the issue at an international level and with successive difficult steps to be passed. He also underlined that the withholding at the source for the countries that apply this system has not been specified in a binding manner, but ten countries have all spoken for a rate situated between 20 and 25%. Mr. Juncker reasserted that his country will not pass to the system of information exchanges - in place of the withholding at the source - as long as third countries concerned have not adopted the equivalent measures."

10/06/2000 Commission adopts new VAT co-operation accord

The European Commission adopted a Communication following the initiative of a 1996 Value Added Tax harmonisation plan which attempted to create a common EU VAT blueprint through a system based on VAT levied in the Member State of origin. However, because individual Member States have still not adapted their VAT control systems to take account of the scrapping of tax controls at intra-Community borders more than six years after they were abolished, the Commission has opted for a more realistic plan, one of simply keeping the present structure, while stepping up exchange of information between Member States in a bid to crack down on fraud.

These measures would focus on modernisation and simplification of the current rules, removing divergent interpretations of the current rules and strengthening administrative co-operation between tax authorities, with a view to tackling fraud. The Commission Communication recommends that Member States give higher priority to combating VAT fraud and improve co-operation between themselves in this area. For its part, the Commission claims that its proposal improves the existing EU legislation on administrative co-operation and mutual assistance by "eliminating remaining barriers to exchange of information".

Under the transitional VAT arrangements, in place since 1 January 1993, sales of goods by taxable persons in one Member State to VAT-registered traders in other Member States are exempt from VAT. The VAT is payable by the purchaser in the destination country so that the revenue flows to the country of final consumption. But as the goods move between Member States untaxed, this system is prone to fraud unless national tax authorities co-operate fully with each other - something which the Commission believes that they are not doing at present.

The Communication outlines a number of priorities for Member States:

- Establish a common policy to combat VAT fraud (within the framework of the Standing Committee on Administrative Co-operation - SCAC);
- Completely reappraise their policies, structures and allocation of human and technical resources for controlling the application of VAT;

- Define common criteria for risk assessment (within SCAC) so as to allow resources to be focused where the potential for fraud is greatest;
- Co-operate efficiently between themselves to prevent and tackle VAT fraud;
- Undertake a comprehensive overhaul of their systems and procedures for administrative co-operation and mutual assistance in the field of VAT;
- Recognise both the challenges provided by new technologies as well as the opportunities that they offer for improving controls.

Simplifying the rules

The Communication says there are no plans for a definitive system of taxation in the Member State of origin of transactions. However, the Commission considers it necessary to re-appraise the programme it proposed earlier and to define a "viable strategy" based on the objectives of simplification and modernisation of current rules, more uniform application of current rules and closer administrative co-operation. The Commission argues that the Internal Market could and would function better with a VAT system based on taxation in the Member State of origin as this would be simpler to administer (and consequently less costly for business) and less susceptible to fraud. The moves come from the current transitional arrangements having a number of problems, because they are complicated, susceptible to fraud and are out of date. The objective of the exercise is to inject fresh momentum into the EU's Council of Ministers to achieve much-needed improvements to the present system, the Communication says. This will, of course, only be possible if all Member States are prepared to consider modifying their national VAT systems (and, if necessary, to agree to a reduction in the large number of special schemes or options, waivers, etc. which exist at present) which can help bring about an overall improvement in the way the common VAT system operates.

Enterprise affairs

07/06/2000 EIB - innovation 2000 initiative for SMEs

At its meeting the Board of Governors of the European Investment Bank launched its "Innovation 2000 Initiative", which is the EIB's contribution to the plan to promote SMEs, hot on the heels of the decisions EU leaders approved, at their March Summit in Lisbon, with a view to facilitating structural reforms of the Community economy. The programme aims at raising the EIB's funding for venture capital operations to Euro 1.2 billion.

In order to lend support to the Lisbon Summit decision, the new programme groups together new actions to promote information networks, human capital formation and intangible corporate investment. The EIB Board of Governors (on which EU Finance Ministers sit) adopted a series of operational principles designed to focus EIB funding operating in five areas:

- the provision of schools, colleges and universities with computing equipment and lending in support of IT training centres;
- co-financing public or private-sector research programmes, corporate investment in R&D, research infrastructure, centres of excellence and measures enabling SMEs to obtain access to research programmes;
- financing trans-European broadband and multimedia networks and physical or virtual infrastructure providing local access to such networks, especially in the EU's less advanced regions. The Bank will focus its lending in this field on innovative technology projects such as ADSL, XDSL and UMTS;

- financing on-line healthcare services and the use of information technologies to bring Europe's citizens closer to local authorities and public services; by helping to equip companies, especially SMEs, with advanced information technologies;
- strengthening venture capital support for the development of innovative SMEs, fostering science parks and company incubators and launching new products tailored to the business needs of very small enterprises.

Support for these new areas of EIB activity will be provided under a dedicated lending programme of Euro 12 to 15 billion over the next three years.

A key element of the Innovation 2000 Initiative is the expansion of Bank activity in support of venture capital financing for SMEs. The Governors have increased the reserve set up to hedge the risk attaching to such operations from Euro 1 to 2 billion.

Enlargement

In the wake of the decision take at the December 1999 EU Summit in Helsinki to allow Turkey to become a candidate for EU membership, the EIB is to include it on the list of beneficiaries of the pre-accession mechanism.

20/06/2000 Industry council approves directive on late payments, commission stresses positive effects for SMEs

The European directive on late payments in commercial transactions is this time almost certainly adopted. After over two years of discussions and a conciliation procedure with the European Parliament, the Industry Council approved it. Parliament will put the finishing touches to the adoption procedure at its June plenary session, in Strasbourg.

The Commission estimates that one case of bankruptcy in four, in Europe, is linked to late payments, which are said to cause the loss of 450,00 jobs".

15/06/2000 UEAPME attack EU funding cuts for SMEs

UEAPME has complained to Enterprise Commissioner Erkki Liikanen about planned cuts in funding for some of its activities. The group questions whether the EU still has an enterprise policy, given proposed reductions in, for example, funding for SMEs to take part in discussions on technical standards for businesses.

"Standardisation is one of the great challenges for the functioning of the internal market. This cannot be done without small and medium-sized enterprises (SMEs)," said UEAPME spokesman Garry Parker, who added that SMEs would only need 500,000 euro a year to send representatives to the European standardisation body.

UEAPME is also concerned that the Commission's slimmed-down enterprise department is failing to pay adequate attention to the needs of small business. A Commission spokesman denied this. "The new layout of the enterprise directorate-general is more focused towards the needs of SMEs," he said. "Our plan is to concentrate on programmes which have been shown to work in the past for the benefit of SMEs."

ESBA Bulletin of June 2000 – Volume 2 – Number 5

01/06/2000 UNICE publishes benchmarking report

In its third Benchmarking Report published on 25 May, the Union of Industrial and Employers' Confederations of Europe (UNICE) focuses on the political and economic factors which have caused Europe's general levels of innovation to fall behind those of the United States or Japan. The results show that European society is less supportive of risk-taking entrepreneurship, that European markets do not offer the right balance of opportunities, pressures and rewards, and that overall Europe allocates too few resources to this vital function. Education systems, fiscal arrangements, and regulatory infrastructure are also considered.

In its benchmarking report "Stimulating Creativity and Innovation in Europe", UNICE indicates that companies in the EU have been slower to enter new markets and to introduce new products: "This innovation gap contributes to Europe lagging behind in competitiveness, living standards, economic welfare and employment. UNICE President, Georges Jacobs, urges EU Heads of State and Government to raise awareness of the need for creativity and innovation for Europe's economic and social well being. "European regulators need a dramatic change in attitude towards innovation", declared Mr Jacobs, who went on to warn that the EU risked falling further behind if the necessary action was not taken by both governments and companies to boost innovation in Europe, particularly in terms of regulation and financing access. The benchmarking report shows that costs for patents are up to fifteen times higher in the EU than in the US, especially for SMEs.

Employment & social affairs

10/06/2000 Social policy, ministers agree on family life and working at a height

Social Affairs Ministers adopted the final agenda items of their meeting in Luxembourg, namely, a Resolution on family and working life and minimum safety standards for work at a height. And the anti-racism Directive they adopted earlier in the day has already earned a place in the EU book of records for being the fastest piece of legislation yet to be adopted at EU level (in just over six months).

Resolution on family and working life.

The Council adopted a 'mixed' Resolution (Council and Ministers for Labour and Social Affairs together) on the balanced participation of men and women in family and working life. The Presidency wanted to highlight the importance of furthering equal opportunities and reconciling work and family life. This requires policies on parental leave, part-time work and flexible working mechanisms. The Resolution encourages Member States to brainstorm on ways to improve national policies by drawing up integrated strategies including concrete measures to be implemented. The EU itself also has a duty to promote the balanced recruitment and career advancement of men and women. The Commission is invited to step up its information and awareness efforts and to introduce pilot schemes, as well as to take account of the resolution in the context of the Fifth Action Programme on Equal Opportunities. Employers, workers and the social partners are also called on to step up their efforts.

Work at a height

Ministers also put the finishing touches to their position on the proposed modification of Directive 89/655/EEC on minimum safety and health requirements for the use of work equipment by employees at work. Council must wait for an Opinion from the European Parliament (co-decision procedure), likely to come in September, before it can reach a political agreement. The proposal concerns, in particular, the conditions of use of scaffolding, ladders and ropes when used for working at a height. It stipulates that certain tasks should be reserved for specially qualified personnel.

- The Commission put forward its proposal in December 1998. Work in the Council's preparatory bodies started in July 1999 under the Finnish Presidency. Since then, a number of working party meetings have taken place. The aim of the proposed directive is to contribute to a substantial reduction in the number of falls from a height at the workplace.

The Directive on equal treatment between persons irrespective of race or ethnic origin is the first measure to be adopted under the new powers to combat discrimination introduced by the Amsterdam Treaty (Article 13). It prohibits racial discrimination in the areas of employment, education, social security, healthcare and access to goods and services and ensures that victims of discrimination will have rights of redress in all Member States. It also requires Member States to designate a body for the promotion of equal treatment which will provide independent assistance to victims of discrimination in pursuing complaints.

Next step: Member States have a grace period of three years in which to implement the Directive, from the day it enters into force.

20/05/2000 European parliament casts final vote on working time directive

Seven million more workers can look forward to a maximum 48-hour week, as the amended Working Time Directive reaches the final stages of the EU legislative process. On 17 May, the European Parliament voted to endorse the agreement reached with Council on 3 April after a difficult conciliation process. This is first Directive in the field of social affairs to pass through a conciliation process. It amends current legislation (93/104/EC) by including sectors and activities that had previously been excluded - doctors in training, transport workers, offshore oil and gas workers and sea fishermen. As this was the third reading after conciliation, the Directive now only has to be rubber stamped by Council. After that, individual Member States will have three years to implement all its provisions into their national laws, apart from those concerning the working time of doctors in training.

The draft Directive aims to protect workers against the harmful effects (health and safety) of working long hours, having insufficient rest periods or working at an irregular pace. Its provisions include:

- a minimum daily rest period of 11 consecutive hours
- a break when the working day is longer than six hours
- a minimum rest period of one day a week
- a maximum working week of 48 hours on average, including overtime
- four weeks of paid annual leave
- no more than eight hours night work during a 24-hour period.

The EU Council of Social Affairs Ministers reached a preliminary agreement on 25 May 1999, but made an exception in the case of trainee doctors, setting a 13-year transitional period to get down to a 48-hour working week and this has been the main bone of contention. The Parliament wanted a four-year transition period and 2 years for implementation. The Commission proposed to allow a transitional period of seven years from the date of adoption for the implementation of a 48-hour week, where there is an agreement between the employers and unions.-.

Single market

24/05/2000 scoreboard shows slowdown in member states' efforts to implement EU law

Thirteen percent of all Internal Market Directives that had entered into force by 15 April 2000 had still not been implemented by all Member States, according to the latest issue of the Single Market Scoreboard published by the European Commission on 22 May. The results are disappointing for the EU executive, because they show a step backwards in the Member States' efforts to transpose EU legislation into national law. The worst performers are Greece, Portugal, France and Luxembourg, which together account for 44% of all delays. Top of the league table is Finland, where only 1.4% of Internal Market Directives have not yet been grafted onto the national statute books. The Commission expressed particular concern that of the five Directives related to Information Society services, not one has been fully implemented across the EU. The one positive result from the scoreboard is that the number of infringement proceedings against Member States is starting to decline.

Implementation of legislation: The twice-yearly Single Market Scoreboard, which compares efforts and results achieved in applying Internal Market rules, was first launched by the Commission in November 1997 to encourage Member States to compete with each other for the best performance. Previous editions had shown some progress, which is why these latest results are particularly disheartening. Of the fifteen Member States, only Luxembourg, Austria, Belgium, United Kingdom and Spain have consistently managed to improve their performance in the last two years, although Finland remains top of the league table. Of the EFTA states - Liechtenstein, Norway and Iceland - who are also legally bound, as laid down by the EEA Agreement, to implement all of the acquis communautaire, only Liechtenstein shows continued improvement in its transposition record.

France has accumulated the longest delays, on average eighteen months compared to just six months for Denmark. But the worst performance overall comes from Greece, which has not yet transposed 109 Internal Market Directives (or 7.3% of the total), mainly in the sectors of environment, motor vehicles, veterinary checks and public procurement. Other poor records by individual Member States in particular areas include Ireland in the food and intellectual property sectors, Portugal in transport and motor vehicles legislation, the Netherlands in chemicals Directives, and Austria in social affairs law.

Infringements : When it comes to infringement proceedings launched against the Member States, the number of letters of formal notice and reasoned opinions, the first two stages of the legal process under Article 226 of the Treaty, has declined. However, the number of cases referred to the European Court of Justice and the judgements of the Court (the final two stages) has increased. This would imply an overall decline in new infringement proceedings because the whole process, from first to final stage, usually takes several years. The Commission attaches particular importance to reasoned opinions because they mean that it considers a breach of Community law has occurred. The sectors with the largest number of infringement proceedings are freedom of establishment free movement of goods and services, and the environment.

In terms of individual Member State records, Finland once again was placed top of the league, with no judgements made against it by the Court of Justice since March 1998. Denmark, Sweden and the United Kingdom are the next best performers in the infringements league table. The two countries who had most cases referred to the Court of Justice over the last year are France and Italy, with 20 and 18 respectively. The EFTA countries also feature in these statistics although in their case it is the EFTA Surveillance Authority, and not the European Commission, who initiates formal proceedings. For the first time last year, an infringement case concerning partial implementation by Norway of the Second General System Directive (92/51/EEC) had to be referred to the EFTA Court.

ESBA Bulletin of June 2000 – Volume 2 – Number 5

International trade

10/06/2000 Commission adopts code of conduct for goods classifying system

The European Commission adopted a Code of Conduct in which it aims to reduce the number of goods classification (Combined Nomenclature) subheadings in order to encourage trade and improve the accuracy of trade statistics. This is partially in response to its SLIM initiative (Simplification of Legislation in the Internal Market) on easing the legislative burden for European businesses, especially small and medium-sized enterprises. However, the Commission's own statistics agency Eurostat has also been calling for fewer Combined Nomenclature (CN) subheadings, complaining that the current size of the CN makes it difficult for them to compile data. Furthermore, the Commission has linked the Code of Conduct to international trade policy by arguing that merging CN subheadings will facilitate further tariff concessions. It should also be of help to traders deciding under which CN subheadings their products fall, and to customs authorities, who estimate customs duties on the basis of the CN.

07/06/2000 Taiwan gets WTO go-ahead

Taiwan seems poised to join the World Trade Organisation, possibly within hours of China's entry. The United States Congress in early June 2000 passed a law guaranteeing China permanent normal trade relations, granting Beijing improved trade access to US markets. Earlier, the European Union granted China similar status. The moves are a forerunner to China finally joining the world trade body. The director general of the WTO, Mike Moore, said in Darwin on 6 June 2000 that Taiwan will follow China into the WTO.

01/06/2000 US & EU agree on privacy standard

European Union leaders yesterday approved a pact enabling US companies to collect personal information about European citizens while complying with strict EU privacy guidelines, a move that officials say will help spur the growth of transatlantic electronic commerce.

The unanimous decision essentially removes the threat that American corporations would be cut off from data such as accounting records, medical research and financial information-on and off line-over an issue that barely registered among US policy makers just a few years ago.

Under rules that took effect in 1998, the 15 EU member countries are obliged to prohibit the transmission of names, addresses, ethnicity and an array of other personal information on their citizens to any country that fails to provide adequate data protection as defined by European law. The United States has no similar statute.

Some European officials said the United States did not meet their standards, known as the privacy directive, because of the spotty legal protections here. Commerce Department officials sought a compromise that would create a "safe harbour" for US companies willing to demonstrate they can provide safeguards that meet with European approval.

The European privacy principles will require companies meeting the safe-harbour standard to give notice to European citizens about how their information is being gathered and used, give them the option of saying no to companies that want to share the data, and offer them reasonable access to their own records. They also have to agree to allow third parties to resolve complaints.

Next step : the European Parliament is expected to sign off on the pact by the beginning of July in what officials describe as essentially a procedural step.

01/06/2000 US-European union summit: progresses, but not a lot.

Despite continued deadlock on a host of trade spats, President Clinton and his European partners made progress on an important privacy accord and agreed to push for international trade talks this year.

In wide-ranging discussions with European Union leaders, Mr Clinton hit on trade differences ranging from banana sales to European aircraft subsidies, but officials said afterward that the two sides made no progress on any of the core disputes.

The EU member states did agree to a data-privacy arrangement meant to spur trans-Atlantic electronic commerce. The two trade powers also agreed to push for a fresh round of talks within the World Trade Organisation to grapple with concerns over labour rights and the environment, among other issues. The latest round of talks, in Seattle, broke down in December, and European officials acknowledged privately that it could prove tough to convince other WTO members to launch another summit this year.

Both sides did their best to stress the positive side of their one-day meeting. EU Commission President Romano Prodi declared Mr Clinton a true European, welcoming him into "our family." He said that from now on, mutual trade disputes will be handled quietly. "Megaphone diplomacy will be replaced by telephone diplomacy," Mr Prodi said.

15/06/2000 Bologna conference recognises role of SMEs in growth

The first Conference of Ministers responsible for SMEs and Industry jointly organised by the Organisation for Economic Co-operation and Development (OECD) and Italy in Bologna on 15th June, approved a Declaration on Small and Medium-sized Enterprise Policies. Ministers recognised the increasing importance of SMEs in economic growth, job creation, regional and local development, and social cohesion, and through the role-played by women and young entrepreneurs.

Ministers also acknowledged that the competitiveness of SMEs would benefit from the strengthening of public-private partnerships and political and social dialogue involving territorial and institutional acting as a tool for exchange of information, utilisation of knowledge and elaboration of policy.

The Bologna Conference also endorsed a proposal made by the Italian Government to carry out a feasibility to launch an International Network for SMEs (INSME) aiming at boosting the process of information dissemination and service delivering for SMEs.

Electronic commerce

08/06/2000 European commission proposes new VAT system for electronic commerce

The European Commission presented a draft directive on taxation of on-line services. This draft aims to modernise the legislation concerning VAT on services, which dates back to the 1960s, to take into account the emergence of new commercial practices on the Internet network. It targets all digital-delivery products (videos, software, music, electronic games, information, teaching programmes, websites) as well as radio and television broadcasting by subscription or "a la carte". The admitted rule would be that of taxation in the place of consumption of this kind of service, in conformity with the principles adopted during the OECD ministerial conference of 1998 in Ottawa. All the services provided in the European Union would therefore be subject to the European VAT while the same services provided to other destinations would not. This rule is already enforced for material goods bought through electronic networks and delivered by postal services.

The legislation currently in force does in fact provide for the EU electronic services to be taxed even if they are to be delivered in a third country, but the services from third countries are exempted from VAT even if they are delivered in the EU.

The new directive should put an end to this anomaly. For intra-Community commerce, it provides in the case of trade between companies for the company to which the service is delivered to pay the VAT (via its regular VAT declarations). In the case of services to individuals, the service provider would bear the cost, at the rate in force in the State where it is registered.

For third country operators, the Commission seeks to reduce as far as possible the administrative formalities to be carried out by companies. Those, which are not physically set up in the EU, should register to pay VAT but solely if they trade with individuals (which rules out three quarters of all transactions, between enterprises, where the receiver pays the VAT) and if the volume of their sales exceeds EUR 1000,000 annually. They could then choose a single place of registration, among the States in which they have customers, and apply the VAT rate in force in that place.

The Commission nonetheless envisages reviewing the situation several years after the implementation of the directive that it is planning towards 2003.

Next step: to be adopted, the draft should receive the unanimity of the Member States after the opinion of the European Parliament and the Economic and Social Committee.
The full text of the proposal is available on the Commission website at the following address: http://europa.eu.int/comm/taxation - customs/proposals/taxation/tax - prop.htm.

Competition policy

31/05/2000 European commission reveals plan to boost postal-market competition

The European Commission released its plans for opening the European Union's postal market to more competition.

The draft endorsed aims to increase the share of the market open to competition on the EU's postal markets by 20% starting in 2003, from 3% today. This will be done by reducing the weight limit for letters reserved for national postal monopolies from 350 grams to 50 grams and by opening to competition direct mail weighing over 50 grams and outgoing cross-border mail.

But commission officials diluted a key provision, present in earlier drafts, which would have fully liberalised the distribution of direct mail, one of the fastest growing and most lucrative parts of the industry. The commission's final proposal excludes direct mail under 50 grams from competition. This concession has angered private postal companies, who are already disappointed that the commission hasn't liberalised incoming mail, another crucial market sector.

Even the watered-down version of the directive drew immediate criticism from France, which strongly defends its national postal monopoly, and from incumbent postal monopolists. This sets the stage for a drawn-out battle over details; the directive has to be approved by a qualified majority of the 15 EU national governments and by the European Parliament, where resistance will be very strong.

The European Parliament also recently passed a non-binding resolution voicing its concern about the "universal service."

Critics of liberalisation have long complained that private operators will concentrate on the lucrative aspects of the business, while leaving the unprofitable services in remote areas to public providers.

13/06/2000 EU & Japan discuss co-operation on antimonopoly policies

Japan and the European Union began two days of talks Tuesday on boosting bilateral co-operation on antimonopoly policies, EU and Japanese officials said.

The EU delegation to the talks, which run through Wednesday in Brussels, comprises officials of the European Commission, the executive body of the 15-member EU. Japan's team consists of officials from the Fair Trade Commission (FTC) and Foreign Ministry.

The EU and Japan aim to sign a bilateral co-operation agreement to facilitate exchanges of information on international competition cases and co-ordination of investigations, the officials said.

The two sides plan to provide each other with reports on violations of antimonopoly policies and policy-related information. They will also co-ordinate efforts on antimonopoly legislation to avoid conflicts when screening international mergers, they said.

The EU concluded agreements with the US in 1991 and with Canada last year.

At regular talks last October, the EU and Japan agreed to strengthen their relationship centering on competition policy.

In May, the European Commission said both Japan and the EU would benefit from the envisaged agreement as a significant number of firms based in Japan are active in Europe while European firms are also increasingly getting involved in Japan.

Annex: The European charter for small enterprises as adopted by the Feira Ue council (Portugal – 20th June 2000)

Small enterprises are the backbone of the European economy. They are a key source of jobs and a breeding ground for business ideas. Europe's efforts to usher in the new economy will succeed only if small business is brought to the top of the agenda.

Small enterprises are the most sensitive of all to changes in the business environment. They are the first to suffer if weighed down with excessive bureaucracy. And they are the first to flourish from initiatives to cut red tape and reward success.

At Lisbon we set the goal for the European Union to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion.

Small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe.

The best possible environment for small business and entrepreneurship needs therefore to be created.

Principles

In urging for this, we

- Acknowledge the dynamic capacities of small enterprises in answering to new market needs and in providing jobs;
- Stress the importance of small enterprises in fostering social and regional development, while behaving as examples of initiative and commitment;
- Recognise entrepreneurship as a valuable and productive life skill, at all levels of responsibility;
- Applaud successful enterprise, which deserves to be fairly rewarded;
- Consider that some failure is concomitant with responsible initiative and risk-taking and must be mainly envisaged as a learning opportunity;
- Recognise the values of knowledge, commitment and flexibility in the new economy.

The situation of small business in the European Union can be improved by action to stimulate entrepreneurship, to evaluate existing measures, and when necessary, to make them small-business-friendly, and to ensure that policy-makers take due consideration of small business needs. To this end, we pledge ourselves to:

- Strengthen the spirit of innovation and entrepreneurship, which enables European business to face the challenges ahead;
- Achieve a regulatory, fiscal and administrative framework conducive to entrepreneurial activity and improve the status of entrepreneurs;
- Ensure access to markets on the basis of the least burdensome requirements that are consistent with overriding public policy objectives;
- Facilitate access to the best research and technology;
- Improve access to finance throughout the entire life-cycle of an enterprise;
- Improve our performance continuously, so that the EU will offer the best environment for small business in the world;
- Listen to the voice of small business;
- Promote top-class small business support.

Lines for action

By endorsing this Charter, we commit ourselves to work along the following lines for action, taking due consideration of small business needs.

1. Education and training for entrepreneurship

Europe will nurture entrepreneurial spirit and new skills from an earlier age. General knowledge about business and entrepreneurship needs to be taught at all school levels. Specific business-related modules should be made an essential ingredient of education schemes at secondary level and at colleges and universities.

We will encourage and promote youngsters' entrepreneurial endeavours, and develop appropriate training schemes for managers in small enterprises.

2. Cheaper and faster start-up

The costs of companies' start-up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased.

3. Better legislation and regulation

National bankruptcy laws should be assessed in the light of good practice. The learning from benchmarking exercises should lead us to the improvement of current practices in the EU.

New regulations at national and Community level should be screened to assess their impact on small enterprises and entrepreneurs. Wherever possible, national and EC rules should be simplified. Governments should adopt user-friendly administrative documents.

Small enterprises could be exempted from certain regulatory obligations. In this context, the Commission could simplify competition legislation to reduce the burden of compliance for small business.

4. Availability of skills

We shall endeavour to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.

5. Improving online access

Public authorities should be urged to increase their electronic communication with the small business sector. Thus, companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply. The Commission must lead by example in this area.

6. More out of the Single Market

Small businesses are feeling the benefits from the reforms underway of Europe's economy. The Commission and Member States must therefore pursue the reforms underway aiming at the completion in the Union of a true internal market, user-friendly for small business, in critical areas for development of small businesses including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems.

At the same time, European and national competition rules should be vigorously applied to make sure that small businesses have every chance to enter new markets and compete on fair terms.

7. Taxation and financial matters

Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives.

Entrepreneurs need finance to translate ambitions into reality. In order to improve the access of small enterprises to financial services, we will:

- Identify and remove barriers to the creation of a pan-European capital market and to the implementation of the Financial Services Action Plan and the Risk Capital Action Plan;
- Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital;
- Improve the access to the structural funds and welcome initiatives by the European Investment Bank to increase funding available to start-ups and high-technology enterprises, including equity instruments.

8. Strengthen the technological capacity of small enterprises

We will strengthen existing programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies.

We will foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focused on the commercial application of knowledge and technology, and develop and adapt quality and certification systems to small enterprises. It is important to ensure that a Community patent is available and easily accessible to small enterprises.

We will foster the involvement of small enterprises in inter-firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions.

Actions at national and regional levels aimed at developing inter-firm clusters and networks should therefore be supported, pan-European co-operation between small enterprises using information technologies enhanced, best practice in co-operative agreements spread, and small enterprises co-operation supported to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.

9. Successful e-business models and top-class small business support

The Commission and Member States should encourage small enterprises to apply best practice and adopt successful business models that enable them to truly flourish in the new economy.

We will co-ordinate Member States and EU activity to create information and business support systems, networks and services which are easy to access and understand, and relevant to the needs of business; ensure EU-wide access to guidance and support from mentors and business angels, including through websites, and exploit the European Observatory on SMEs.

10. Develop stronger, more effective representation of small enterprises' interests at Union and national level

We will complete a review of how the interests of small businesses are represented at EU and national level, including through the social dialogue.

We commit ourselves to progress towards these goals using the open method of co-ordination of national enterprise policies. The Multi-annual Programme for Enterprise and Entrepreneurship, the Cardiff process on economic reforms, the Luxembourg process on employment policies and other Community programs and initiatives will be used to this end. We will monitor and evaluate progress annually on the basis of a Commission report on the relevant issues at the Spring Summits.

We will use effective indicators to assess progress over time and in relation to the best in the world to reinforce our learning, searching for better practice in all fields that affect small business to continuously improve our performance.