

# ESBA Bulletin of October 1999 – Volume 1 – Number 8



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### Political developments and institutional changes

The Commission will present in early November a contribution to preparatory work in view of the intergovernmental conference following the Dehane report on Institutional reform.

The Commission is not yet in a position to comment on the report's specific suggestions for policy reform, decision-making, the structure of the Treaties or the internal organisation of the Commission and other institutions. It will then formulate its own position for the IGC".

Further, the Commission confirms that it "concur[s] with the wise men's view that preliminary, substantial reform is required if enlargement is to succeed" and states that it "fully endorses the end of 2000 as an absolute deadline for the conclusion of the IGC". "Meeting that deadline will allow enlargement to proceed as planned as soon as the candidate countries themselves are ready to join the EU", states the Commission.

And it continues: "Intensive work is required by all EU institutions if this deadline is to be met. The Commission believes that as much preparation as possible should be conducted in advance of the IGC so as to ensure that concrete negotiations can begin promptly at the outset." The Commission recalls that, as a first step, it will submit a contribution in early November to the Finnish Presidency's preparatory work for the Helsinki summit of 10-11 December.

### EU and South Africa sign a trade and development cooperation agreement

A Trade, Development and Co-operation Agreement between the European Union and South Africa was signed in Pretoria on 11 October 1999. The agreement, which will establish a free trade area between the parties over the next twelve years liberalising about 95% of trade, will have long-term benefits and commercial advantages for both sides. In particular, it will give South Africa preferential access to the world's largest market, opening up important opportunities for South African companies in sectors such as textiles and clothing, chemicals, food and vegetables.

### World Trade Organisation

#### **EU-Japan relations: Commissioners Prodi, Liikanen and Lamy attended the first "EU-Japan Business Dialogue Roundtable"**

The Roundtable will discuss changes in the business environment, including the prospects for the European and Japanese economies in the wake of the recent crisis.

Five different working groups will have the task of drafting policy outlines for future cooperation in the following areas:

- Deregulation, distribution, competition;
- Regulatory and standards issues (including telecomms)
- Taxation;
- Mutual Recognition Agreements (MRAs, in sectors like machinery, medical equipment, construction and pressure equipment);
- Electronic commerce.

## Single Market

### **Internal Market: Commission outlines new strategy**

A proposed framework outlining strategic objectives for the European Union's Internal Market over the next five years has been presented in a consultative Communication adopted by the European Commission. The Commission considers that these objectives should be improving the quality of life of citizens, enhancing the efficiency of the EU's product and capital markets, improving the business environment and exploiting the achievements of the Internal Market in a changing world. Following consultations with the European Parliament, the EU's Council of Ministers and other interested parties, which will include a hearing on 29 October in Brussels and conclude on 7 November, the Commission will finalise the strategic objectives and present a list of specific short-term actions to meet these objectives with a view to reaching agreement on the overall strategy at the Helsinki European Council in December 1999. The Commission proposes that the short-term target actions should be updated annually, taking into account the actual functioning of product and capital markets and feedback received from citizens and business on their experiences with the Internal Market.

### **Third competitiveness report analyses how EU industry is managing structural change**

As part of its preparation for the Industry Council of 9 November, the European Commission has adopted a Communication on the Structural Change and Adjustment in European Manufacturing, summarising the main findings of the 1999 Competitiveness Report.

The focus of this Report is on performance within the EU itself, analysing the structural changes that have occurred in EU manufacturing industry over the last ten years. It also examines the effects of the crisis in Southeast Asia on EU industry.

The last decade has seen important developments in Europe with the reinforcement of European integration and increasing globalisation. The pace of structural change has been relatively slow and its effects have been balanced. However, Member States at the periphery grew faster.

While growth in investment continues, it has slowed down these last few years. Investment in intangibles – know-how, Information and Computer Technology (ICT), human resources, training – is shown in the Report to be clearly linked with growth. The importance of investments in intangibles will increase.

The Report also analyses the effects of the crisis in Southeast Asia and the emerging markets on European competitiveness. It shows that the EU economy overall was able to withstand the shock. Nonetheless it underlines the need for flexibility and adaptability in the face of external crises.

Overall, the analysis leads to the conclusion that the main challenge is how to release the potential for further restructuring of industry. The Commission will continue its analysis of the factors influencing adjustability which can contribute to the design of enterprise policy.

### **Commission starts public consultation on proposed new competition rules for the distribution sector**

The European Commission has published draft rules and accompanying guidelines on vertical agreements between producers and distributors. They concern virtually all arrangements between companies operating at different levels of the supply chain, spanning from industrial supply to

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distribution agreements. The new competition rules applicable to vertical restraints are designed to enter into force for the year 2000.

### Small And Medium Sized Enterprises

#### ESBA will be in Seattle

The European Small Business Alliance (ESBA) will be present in Seattle, on the fringe of the ministerial conference of the World Trade Organisation that is to open a new round of multilateral trade negotiations. Its approach will be based on the following priorities:

- i) include SMIs/SMEs in negotiations;
- ii) improve trade dispute settlement procedures "so that SMIs/SMEs are not the preferred targets";
- iii) strengthen cooperation between the WTO and the different international bodies, including the International Monetary Fund, the World Bank and the International Labour Office;
- iv) place the principle of "good governance" as precondition to aid as "too many subsidies and aid of all kinds never reach the populations of countries targeted by international or national aid";
- v) introduce an international competition policy, a common approach against the development of cartels;
- vi) exclude nothing from the negotiations, especially regarding "electronic commerce that we consider to be an opportunity for SMIs/SMEs".

#### European Commission sets out measures that should be taken in 2000 to give further effect to the action plan for risk capital

The European Commission approved a communication to the Council and European Parliament setting out the measures that should be taken in 2000 to pursue implementation of the action plan for risk capital. This action plan was proposed in the Commission's communication of April 1998 entitled "Risk Capital: A Key to Job Creation in the European Union". The Cardiff European Council (June 1998) reacted favourably to the plan and urged the Council and Member States to implement it.

The Commission has observed that a number of measures have been taken, but that they fall short of what is needed; Europe is still suffering from major shortcomings, especially in relation to its principal competitors. It is consequently important to speed up the abolition of obstacles, given the key role risk capital plays in financing fast-growth companies, particularly in advanced technology and knowledge-based industries. The objective of this new communication is therefore to help speed up this process.

The Commission sets out the initiatives it believes should be taken, as follows.

#### A. Principal measures to be taken at Community level in the next 12 months.

- Measures already taken should be further enhanced (simplification of administrative procedures, coordination of financial aid mechanisms, etc.);
- Prudential supervision should be introduced for pension funds to enable institutional investors to invest in risk capital. The Commission will be proposing a directive by mid-2000, taking account of the diversity of pension funds existing in the Union and aiming in particular

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at making more flexible certain rules in force in some Member States which in practice discourage or ban pension funds from investing in SMEs;

- Prospectus directives should be improved to enable companies to raise cross-border capital;
- The European patent system should be reformed. The Commission will propose a regulation on the Community patent and a directive on the patentability of computer programmes, and will present an interpretative communication and suggest specific measures for SMEs.

### **B. Principal measures to be taken at Member State level.**

- Tax measures in favour of new enterprises and risk capital investments should be adopted (the Commission mentions the examples of Ireland and the United Kingdom);
- Insolvency and bankruptcy legislation should be reformed, so as to give companies a real "second chance";
- Innovative employee ownership schemes should be promoted through fair tax treatment and a simple regulatory framework.

All these measures should help foster the development of fast-growth companies and high-technology firms and the emergence in Europe of a culture based on the entrepreneurial spirit.

## EU Enlargement

**The commission recommends the Fifteen begin accession negotiations with Lithuania, Latvia and Slovakia, and under certain conditions, with Bulgaria and Romania in the early 2000. Official candidate status for Turkey**

The European Commission adopted its regular progress reports on the 13 applicant countries and recommended that the EU Heads of State and Government take a decision, at the Helsinki European Summit (10/11 December), to open accession negotiations with the six applicants that so far have been relegated to the second group, namely, Bulgaria, Slovakia, Lithuania, Romania, Latvia and Malta. These six countries would therefore join Poland, Hungary, Czech Republic, Estonia, Slovenia and Cyprus, which have been negotiating since March 1998. The Commission nevertheless set certain conditions for Bulgaria and Romania.

Once open, the negotiations should take a differentiated approach, since progress by the six countries is not identical and the state of preparedness of each will have to be taken into account individually. The Commission is also proposing the introduction of an obligation of parallelism between progress in the negotiations proper, on the one hand, and progress in practical implementation of the *acquis* by the candidate concerned, on the other.

So far, the applicant countries of the first group have "temporarily" concluded several chapters without having demonstrated with certainty that they will actually be capable of implementing the *acquis* at the time of accession. In the future, these first six countries would also have to comply with this new approach of parallelism between negotiations and implementation. Consequently, all the chapters of the *acquis* that have already been closed with these six countries will be reopened to negotiation in early 2000 to take account of the actual preparation of these countries and to include therein the *acquis* adopted by the EU in recent months.

The Commission also proposes clearly defining its policy on transition periods for new member states.

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The Commission recommends giving Turkey "official applicant" status while noting that accession negotiations can only get under way once the political criteria have been met.

### Social Affairs

#### **Commission adopts a new initiative to fight labour market discrimination**

The European Commission has adopted the draft of the new Community initiative : EQUAL. As specified in the new structural funds regulation, EQUAL deals with "transnational cooperation to promote new practices to fight labour market discrimination and inequality of all types". The programme, financed by the European Social Fund (ESF), is one of the components of the European employment strategy and gives clear priority to an active and preventive approach to equal opportunities for all. Member States will be required to ensure that this horizontal thematic approach will give priority to those who are the prime victims of discrimination and inequality (for reasons of gender, race, ethnic origin, disability, age, sexual orientation or lack of qualifications).

### Taxation

#### **Apply targeted vat reductions on services starting on 1 January**

The EU Finance Ministers approved a proposal for lightening VAT on certain services. This measure will enable Member States so wishing to apply a reduced VAT rate on two or even three categories of labour-intensive services for three years to encourage the creation of jobs and to discourage undeclared work in these sectors. Five categories of services are concerned: small repairs to bicycles, footwear, leather articles, clothing and household linens; renovations and repairs to private housing, "excluding materials that represent an important part of the value of the service provided"; window washing and cleaning of private homes; home health care and hairdressing.

In spite of the tentative agreement reached in September at an informal meeting of Finance Ministers in Finland, the subject was debated again at length in Luxembourg. On the eve of the legislative elections of 10 October, Portugal wished to secure a guarantee that it could continue applying a lower VAT rate (of 12%) on restaurant services, whereas for now it is in breach of Community legislation.

The Finnish Presidency was able in the end to secure the endorsement of all the delegations to the proposal, at the cost of annexing specific declarations to the agreement.

The Commission made an undertaking to give favourable follow-up to Portugal's request to be allowed to keep a reduced rate on restaurant services. The Commission will also ensure that Austria's authorisation to apply a reduced VAT rate on the rental of certain property and enable Germany to limit the right for VAT reductions for car expenses

#### **Prospects for an agreement in December on tax measures as a whole become slimmer**

The prospects of an agreement over tax measures as a whole at the Helsinki Summit was placed back into question at the EcoFin Council. The two main chapters of the negotiations concern the preferential tax regime granted to companies and the tax of savings revenue. Yet, it seems that difficulties are accumulating: following the unresolved issue of the modality of taxing euro-bonds, appeared the one on territories dependent on Member states, in which it is a question of ensuring the setting up of "equivalent" legislation to the one adopted in the EU.

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A meeting of ministers and technical officials in the matter will be organised at the end of the month "for a final in-depth discussion before the 8 November EcoFin Council.

### Miscellaneous

#### **Tourism: more effective action at european level will be priority of Portuguese council presidency, announces Mr Neto - requests put by professionals**

"Together with three other EU Member States (France, Spain and Italy), Portugal has endeavoured to promote a more consistent and effective action in the field of tourism at EU level", said Victor Neto, Portuguese Secretary of State for Tourism, at the opening of the General Assembly of HOTREC (the European Confederation for Hotels, Restaurants and Cafes). That will constitute one of the priorities of Portugal when it holds the EU Presidency during the first half of 2000.

HOTREC regretted that tourism was not explicitly mentioned in the portfolio of a European Commissioner, and had already expressed disappointment in a letter addressed to Romano Prodi. Despite Prodi's assurance, participants expressed their fear that the Commission would gradually lose interest in this sector, as soon as it is included in the very broad Enterprise DG.

#### **On more specific issues**

- HOTREC very much regretted that the Ecofin Council had not included restaurant services in the list of labour-intensive services to which a reduced VAT rate could be applied on an experimental basis, and gave their full support to Portugal, which hopes to put this situation right.
- HOTREC discussed the draft Regulation on the hygiene of foodstuffs, which will consolidate and revise previous Directives on the same topic. "It is important that the legislative bodies understand that our sector differs fundamentally from the retail sector", stresses the HOTREC press release. In the same way, regulations on labelling of genetically modified organisms applied to the retail trade cannot be transposed as such to the presentation of menus in restaurants.

#### **The community initiatives in 2000-06: indicative allocation of funds among the member states**

Following the adoption on 13 October of four Community Initiatives -INTERREG, URBAN, LEADER and EQUAL, the European Commission has proposed a method for dividing the funds up among the Member States. In the case of INTERREG, LEADER and EQUAL, the proposed indicative allocation is largely based on continuing the current schemes and on the top priorities under each Initiative. In the case of URBAN, the total appropriation will be allocated on the basis of population, the number of people out of work and the number of long-term unemployed in the urban areas involved.