2000 Country Reports on Economic Policy and Trade Practices
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EUROPEAN UNION

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP	8,393.9	8,417.5	8,917.9
Real GDP Growth (pct)	2.6	2.1	3.0
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (Thousands of US$)	22.3	22.4	23.7
Labor Force (Annual percentage change)	0.5	0.7	0.6
Unemployment Rate (pct)	9.9	9.2	8.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2/M3)	6.3	N/A	N/A
Consumer Price Inflation	1.5	1.3	1.8
Exchange Rate (USD/ECU annual average)	1.12	1.06	N/A
Balance of Payments and Trade:			
Total Exports FOB	816.1	808.5	N/A
Exports to U.S.	179.1	192.5	N/A
Total Imports CIF	793.5	823.7	N/A
Imports from U.S.	168.7	167.4	N/A
Trade Balance	22.6	-15.2	N/A
Balance with U.S.	10.4	25.1	N/A
External Public Debt (pct of GDP)	69.0	67.6	65.1
Fiscal Deficit/GDP (pct)	1.5	0.6	0.4
Current Balance/GDP (pct)	0.9	0.2	0.1
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gross Official Reserves (Billions of USD)	505.3	N/A	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

1/ Estimates.

1. General Policy Framework

The European Union (EU), the largest U.S. trade and investment partner, is a supranational organization comprised of fifteen European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. It is unique in that its member states have ceded to it increasing authority over their domestic and external policies, especially with the 1987 Single European Act and the 1993 “Maastricht” and 1999 "Amsterdam" treaties, all of which amended the 1958 Treaty of Rome. Individual member state policies, however, may still present problems for U.S. trade, in addition to EU-wide actions.

The EU’s authority is clearest in trade-related matters, particularly "traditional" trade issues. As a long-standing customs union, the EU represents the collective external trade interests of its member states in the World Trade Organization (WTO). Internally, the free movement of goods, services, capital and people within the EU is guaranteed by the Single Market program, an effort to harmonize member state laws in order to eliminate non-tariff barriers to these flows. Externally, with respect to services, investment and intellectual property rights issues, competency for policy and negotiations is shared between the EU and its member states. However, the European Commission enforces treaty provisions against anti-competitive practices throughout the EU. The EU is also gaining greater competence over investment from third countries.

The Maastricht Treaty provides for the creation of an Economic and Monetary Union (EMU) among the EU member states which went into effect on January 1, 1999 with the launch of a single currency, the euro. The 12 participating countries (Denmark, Sweden and the United Kingdom are currently not included) have a single monetary policy conducted by the European System of Central Banks (ESCB), led by the Frankfurt-based European Central Bank (ECB). Member states were generally successful in achieving the “convergence criteria” for EMU: maximum deficits of three percent of GDP, maximum gross national debt of 60 percent of GDP, inflation and interest rate levels no more than one and a half percentage points above the average of the three lowest rates among the member states, and two years of relative exchange rate stability. Since the euro's launch they have adhered to their Stability and Growth Pact's limit on excessive budget deficits (three percent of GDP) by seeking to achieve balanced budgets by 2002.

The Union’s budget, consisting mainly of member state contributions because the EU has no independent taxing authority, is limited to 1.27 percent of the combined GDP of the 15 member states. Expenditures of roughly $100 billion are divided generally among agricultural support (40 percent), “structural” policies to promote growth in poorer regions (40 percent), other internal policies (5 percent), external assistance (5 percent) and administrative and miscellaneous (5 percent).

2. Exchange Rate Policy

The third and final stage of EMU began on January 1, 1999 when 11 member states irrevocably fixed their exchange rates to the euro (Greece joined the monetary union on January 1, 2001). Financial transactions are now available in euros through commercial banking institutions. Euro notes and coins will be introduced on January 1, 2002, fully replacing national currencies by July 1, 2002. During the transition period, there will be dual circulation between the euro and the respective national currencies.

The ECB is responsible for setting monetary policy in the euro area, while national central banks will continue to conduct money market operations and foreign exchange intervention under its direction. Per requirement of the treaty, the ECB policy is focused on maintaining price stability. The euro follows a floating exchange rate regime against other currencies, with the exception of the currency of Denmark which participates in the new Exchange Rate Mechanism (ERM-2) limiting its fluctuation against the euro to ± 2.25 percent. EMU has provisions to create additional exchange rate arrangements, if the member states desire to do so. However, there are no current plans to seek such arrangements.

3. Structural Policies

Single Market: The legislative program removing barriers to the free movement of goods, services, capital and people is largely complete, although there are delays in member state implementation of Community rules and national differences in the interpretation of those rules. The net effect of the Single Market program has been freer movement, fewer member state regulations for products and service providers to meet, and real consolidation of markets. Nonetheless, some aspects of the program have created problems for U.S. exporters (as discussed below). Furthermore, disparate enforcement, inconsistent application and insufficient monitoring of Single Market measures within the EU place U.S. exporters at a disadvantage because it is often easier to enforce at the border than internally. EU efforts to remedy these problems are notable in some areas, but resources remain severely limited.

Tax Policy: Tax policy remains the prerogative of the member states, which must approve by unanimity any EU legislation in this domain. EU legislation to date has been aimed at eliminating tax-induced distortions of competition within the Union. Legislation focuses on harmonizing value-added and excise taxes, eliminating double taxation of corporate profits, interest, and dividends and facilitating cross-border mergers and asset transfers. The EU countries have stated their commitment to move further toward coordination of their tax policies, including the taxation of savings interest of non-residents, in addition to agreeing to a Code of Conduct to curb "harmful" business taxation.

4. Debt Management Policies

The EU raises funds in international capital markets, but does so largely for cash management purposes and thus does not have any significant international debt. The European Investment Bank, reportedly one of the world's largest multilateral financing banks, also raises funds in international markets. The bank has an extremely favorable balance sheet and retains the highest credit rating. Finally, the EU has used its borrowing power to lend to key developing countries, especially in Central Europe and the newly independent states of the former Soviet Union. To date, it has consistently taken a hard line on efforts to reschedule their debt.

5. Significant Barriers to U.S. Exports

Import Policies

Import, Sale and Distribution of Bananas: The United States has been engaged for many years in efforts to resolve a long-standing dispute with the EU over its banana import regime. The WTO found that the EU's current regime remains WTO-inconsistent. The United States currently has WTO-approved retaliation in place worth 191.4 million dollars per year. The United States has tabled a number of constructive ideas on revised regimes that would be WTO-consistent. The European Commission has developed proposals for member state consideration. U.S. retaliation will remain in place until the EU implements a WTO-consistent banana import regime.

Restrictions Affecting U.S. Wine Exports to the EU: Current EU regulations require imported wines to be produced only by specifically authorized oenological practices. Since the mid-1980s, U.S. wines have entered the EU market under a series of "derogations" granting EU regulatory exemptions. The United States is negotiating an agreement with the EU to ensure the EU market remains open to U.S. wine, although progress is slow. The United States does not believe EU legislation on "traditional expressions" (terms such as "vintage" or "tawny") is WTO TRIPS consistent and therefore does not believe this area is appropriate for bilateral negotiation.

Services Barriers

EU Broadcast Directive: The EU's 1989 Broadcast Directive (Television without Frontiers) provides that a majority of entertainment broadcast transmission time be reserved for European-origin programs "where practicable" and "by appropriate means." Concerns recently have surfaced in EU accession negotiations where acceding countries are being held to a higher standard than are currently EU member states. The United States continues to monitor developments with respect to the Broadcast Directive, which is scheduled to undergo a revision in 2002.

Computer Reservation Services: U.S. Computer Reservation Systems (CRS) companies have faced problems in the EU market, since several member state markets are dominated by the CRS owned by that member state's flag air carrier. Past cases have eventually been resolved after U.S. government intervention or recourse to national administrative and court systems.

Acting on a complaint filed in 1996, the U.S. Department of Justice asked the EU competition authority to investigate a range of anti-competitive practices by a European firm. This was the first case under the positive comity provision of the 1991 EU-U.S. Antitrust Cooperation Agreement. The EU investigation absolved two of the EU partner firms in 1999, but issued a statement of objections to a third. The U.S. firm and the EU firm reached a resolution of the issues between them. Moreover, the U.S. firm and other firms under investigation have reached similar agreements. Based on these agreements, the Commission announced in July 2000 that it had closed its investigation.

Airport Ground-Handling: In October 1996 the EU issued a Directive to liberalize the market to provide ground-handling services at EU airports above a certain size by January 1, 1998. U.S. airline companies and ground-handling service providers welcome this development. Yet they are concerned with an exemption that allows EU airports to continue having a monopoly service provider until January 1, 2002, and to limit the number of firms which can provide certain services on the airport tarmac (ramp, fuel, baggage and mail/freight handling). These potential barriers are partially offset by more liberal bilateral air service agreements, which the United States concluded with individual member states.

Postal Services: U.S. package and express mail service providers are concerned about
anti-competitive practices of state-owned postal monopolies in some EU member states. Europe is in the process of progressively reducing the allowable scope of the postal service monopoly but problems with cross-subsidization, abuse of dominant position, and non-transparent regulatory oversight remain.

Standards, Testing, Labeling and Certification

EU member states still have widely differing standards, testing and certification procedures in place for some products. These differences may serve as barriers to free movement of these products within the EU and can cause lengthy delays in sales due to the need to have products tested and certified to account for differing national requirements. Nonetheless, the advent of the EU's "new approach", which streamlines technical harmonization and the development of standards for certain product groups, based on "essential" health and safety requirements, generally points towards the harmonization of laws, regulations, standards, testing, and quality and certification procedures within the EU. The European standardization process, however, remains generally closed to U.S. stakeholders' direct participation.

Businesses on both sides of the Atlantic have, in the context of the Transatlantic Business Dialogue, highlighted the importance of standards issues in U.S.-EU trade relations. The anticipation that EU standards legislation will eventually cover 50 percent of U.S. exports to Europe demonstrates its significance. Although some progress has been made, U.S. exporters are still concerned with legislative delays, inconsistent member state interpretation and application of legislation, the ill-defined scope of Directives and unclear marking and excessive labeling requirements. These problems can complicate and impede U.S. exports to the EU.

Mutual Recognition Agreements: In addition to implementing a harmonized approach to testing and certification, the EU is providing for the mutual recognition of member state designated national laboratories to test and certify “regulated” products. For the testing and certification of non-regulated products, the EU encourages mutual recognition agreements between private sector parties. One difficulty for U.S. exporters is that only "notified bodies" located in the EU are empowered to grant final product approvals of regulated products. There are some U.S. laboratories, under subcontract to notified bodies, that can test regulated products. Yet these laboratories must still send test reports to their European affiliates for final product approval, which delays the process and adds costs for U.S. exporters.

On May 18, 1998 the United States and the EU signed a Mutual Recognition Agreement (MRA) for several important sectors (medical devices, pharmaceuticals, telecommunications, electromagnetic compatibility, electrical safety), allowing for conformity assessments to be performed in the United States to EU standards and vice versa. Both governments are committed to advancing joint efforts to promote mutual recognition, equivalency and harmonization of standards. The MRA entered into force on December 1, 1998 and is now being implemented. Under the Transatlantic Economic Partnership (TEP) established at the May 1998 U.S.-EU Summit, the United States set in motion a process to undertake negotiation of additional MRAs covering the sectors of recreational craft, marine safety equipment and calibration.

Biotechnology Product Approvals and Labeling: The EU's de facto moratorium on approval for products made from modern biotechnology is adversely affecting U.S. exports of corn, soybeans and oilseed rape (Canada) in this area. This situation is unlikely to improve substantially until final revision and implementation of Directive 90/220, currently not expected before mid-2002. Directive 90/220 governs EU approval of biotechnology products, including seeds and grains, for environmental release and commercialization. The revised 90/220 is expected to be the "template" for revision of EU "novel foods" and "novel feeds" legislation governing food safety assessment and labeling for processed foods and animal feeds containing biotechnology products. While the current draft amended 90/220 does provide some needed clarity, it remains extremely vague regarding the definitions such as monitoring "traceability," labeling requirements, what information industry is expected to provide, etc. Lack of clarity also fosters concern that EU member states will not implement the new legislation uniformly.

Hormone-Treated Beef: The WTO has ruled consistently against the EU's ban on hormone-treated beef, most recently in early 1998. The EU did not come into compliance by May 13, 1998 as required, citing a need to perform additional risk assessments (which the WTO did not say were needed). The United States has therefore imposed WTO-approved retaliation worth $116.8 million per year, pending EU compliance. A large body of scientific evidence indicates these products are safe as used. Discussions with the EU to resolve this matter are continuing.

Specified Risk Material (SRM) Ban: On July 30, 1997 the European Commission adopted Commission Decision 97/534/EC, commonly known as the SRM ban. The goal of the ban is to avoid health risks related to transmissible spongiform encephalopathies (TSEs), such as BSE (mad cow disease) which is linked to new variant Creutzfeldt-Jakob disease in humans. The ban prohibits the use of SRMs (defined as the skull, tonsils, ileum and spinal cord of cattle, sheep and goats aged over one year, and spleens of sheep and goats) in any products sold in the European market. The original date of implementation was July 1, 1998, but this was moved forward several times due to controversy over product sector coverage. In addition to food and feed, the ban would have significantly affected production of pharmaceuticals, cosmetics, medical devices and fertilizers. In September 1999 the EU amended and implemented specific regulations for SRMs on medical products for human use (Directive 99/820EC). It also provided guidelines on how companies would comply with this Directive. Thus far, it appears U.S. companies have successfully complied with it.

In June 2000 Commission Decision 2000/418/EC was adopted repealing Commission Decision 97/534/EC. This new measure limits the scope of the ban to food, feed and fertilizer and requires slaughterhouses and authorized meat cutting and processing plants in all member states, no matter their BSE status, to remove SRMs mentioned above. The UK and Portugal, which have a higher incidence of BSE, must also remove the entire head, thymus, spleen, intestines and spinal cord of cattle over 6 months old, as well as the vertebral columns of cattle over 30 months old. Certain slaughtering techniques that entail risk of contamination into the bloodstream are also prohibited. The measure is effective October 1, 2000 for all EU member states. Based on an EU evaluation of their BSE status, third countries exporting food, feed or fertilizer products to the EU may be required to remove some/all the material mentioned above, effective April 1, 2001. The EU currently recognizes only New Zealand, Argentina, Norway and Paraguay as provisionally BSE-free. The United States is provisionally recognized as low risk. Commission Decision 2000/418/EC will apply until introduction of new EU legislation on protection against TSEs, which is currently under review by the EU Council and Parliament.

Hushkits or New Engine Modified and Recertificated Aircraft: In 1997 pressure on EU airport authorities to reduce noise levels resulted in a Commission effort to develop an EU-wide measure. When it became clear that it would be politically impossible to agree on a lower noise limit for all aircraft operating in the EU, the Commission and the EU member states developed alternative legislation which effectively passes the costs on to U.S. and other non-EU air carriers and to U.S. manufacturers of noise reduction technology (hushkits) and new engines for older U.S. aircraft. The regulation, which entered into effect on May 4, 2000, restricts the operation and transfer of aircraft that fully comply with the performance-based standard adopted by the International Civil Aviation Organization (ICAO), to which the EU member states agreed. The Commission has provided no scientific analysis demonstrating that the regulation would reduce noise. The United States has urged the European Commission to revoke or indefinitely suspend the hushkits regulation and to work within ICAO on a new multilaterally agreed standard. On March 14, 2000, the United States asked ICAO to resolve this dispute pursuant to Article 84 of the 1944 Convention of International Civil Aviation (Chicago Convention).

New Aircraft Certification: The United States continues to be concerned by the possibility that European aircraft certification standards are being applied so as to impede delivery of qualified aircraft into Europe. Processes and procedures currently employed by the European Joint Aviation Authorities (JAA) appear cumbersome and arbitrary, and in any event cannot be uniformly enforced in EU member states. For example, France continues to insist on an exception to the JAA's decision on certification of Boeing's new model 737 aircraft that limits the seat density of aircraft sold to carriers in France. The JAA decision itself took an inordinately long time, during which additional conditions were imposed progressively on the U.S. firm. The United States desires a transparent, equitable process for aircraft certification that is applied consistently on both sides of the Atlantic according to the relevant bilateral airworthiness agreements.

The EU is moving forward with the creation of a European Aviation Safety Agency (EASA). The United States wants to ensure that decisions made by this agency are based on technical criteria and that safety and certification functions are kept strictly separate from commercial or economic policy considerations.

Packaging Labeling Requirements: In 1996 the Commission proposed a directive establishing marking requirements, indicating recyclability and/or reusability, for packaging. Due to the differences that exist between EU marking requirements and those used by the United States and the International Standards Organization (ISO), the United States is concerned with the additional costs and complications both U.S. and EU firms will face, in the absence of concomitant environmental benefits. The United States is also concerned with Article 4 of the proposed directive, which would prohibit the application of other marks to indicate recyclable or reusable packaging. This may require some companies to create new molds solely for use in the European market. Discussions underway in the ISO may resolve potential problems, especially since the Commission has indicated a willingness to review the proposed directive in light of an eventual ISO agreement.

Waste Management: In June 1999 the European Commission put forward a proposed directive on waste electrical and electronic equipment (WEEE), dealing with the take-back and recycling aspects of a wide range of electrical and electronic equipment. A second proposed directive would ban various heavy metals and brominated flame retardants in new electrical and electronic equipment from January 1, 2008. The United States supports the objectives of proposals to reduce waste and the environmental impact of discarded products. The administration has expressed concerns, however, about the adverse impact on trade from the proposals' ban on certain materials used in products for which viable substitutes may not exist, and with the provisions regarding producers' retroactive responsibility for collection and recycling of end-of-life products. U.S. and Commission waste experts have begun an informal dialogue to discuss these and other waste issues. The U.S. government will continue to monitor closely these proposals.

Acceleration of the Phase-Out of HCFCs: The European Commission adopted a proposal in July 1998 to amend EU Regulation 3093/94 on substances that deplete the ozone layer. The U.S. government actively opposed early drafts, which included phase-outs of some hydrochlorofluorocarbons (HCFCs) by 2000 or 2001, and would have disadvantaged U.S. producers without yielding appreciable environmental benefits. The final Commission draft included a January 1, 2003 phaseout date for HCFCs used in refrigerator foam, similar to U.S. law, thereby protecting the export to the EU of U.S. refrigeration equipment. The Council agreed to the 2003 date in adopting its Common Position in late December 1998, and the European Parliament failed to muster enough support behind an attempt to accelerate the date. The proposal, however, continues to disadvantage unfairly the air conditioning industry, which must phase out its use of HCFCs by 2001,while similarly manufactured heat pump systems received a 2004 deadline. The U.S. government will continue to monitor this issue.

Investment Barriers

The European Union and its fifteen member states provide one of the most open climates for U.S. direct investment in the world, with well-established traditions concerning the rule of law and private property rights, transparent regulatory systems, freedom of capital movements and the like. Traditionally, member state governments have been responsible for policies governing non-EU investment. However, in the 1993 Maastricht Treaty, partial competence was shifted to the EU. Member state policies existing on December 31, 1993 remain effective, but can be superseded by EU law. In general, the EU supports the idea of national treatment for foreign investors, arguing that any company established under the laws of one member state must, as a "Community company," receive national treatment in all member states regardless of ultimate ownership. However, some restrictions on U.S. investment do exist under EU law.

Ownership Restrictions: The benefits of EU law in the aviation and maritime areas are reserved to firms majority-owned by EU nationals.

Reciprocity Provisions: The "reciprocal" national treatment clause found in EU banking, insurance and investment services directives allows the EU to deny a third-country financial services firm the right to establish a new business in the EU if it determines that the investor's home country denies national treatment to EU firms. U.S. firms' right to national treatment in this area was reinforced by the EU's GATS commitments. The notion of reciprocity may have been taken further in the

Hydrocarbons Directive, which requires “mirror-image” reciprocal treatment where an investor is denied a license if its home country does not permit EU investors to engage in activities under circumstances “comparable” to those in the EU. It should be noted, however, that thus far no U.S.-owned firms have been affected by these reciprocity provisions.

Access to Government Grant Programs: The EU does not preclude U.S. firms established in Europe from access to EU-funded research and development grant programs, although in practice, association with a “European” firm is helpful in winning grant awards.

Anti-Corruption: In an attempt to coordinate disparate member state legislation on anti-corruption, the Commission adopted in 1997 a discussion document suggesting guidelines for the development of a coherent EU-level anti-corruption policy. The EU has adopted a number of anti-corruption initiatives: the 1995 Convention on the Protection of the European Communities' Financial Interests and two subsequent protocols adopted in 1996 and 1997; the 1997 Convention on the Fight Against Corruption Involving Officials of the European Communities or Officials of Member States of the European Union; and a 1998 Joint Action on Corruption in the Private Sector. However, several EU member states have yet to ratify the OECD convention on anti-bribery.

Government Procurement

Discrimination in the Utilities Sector: The Utilities Directive, which took effect in January 1993, is an effort to open government procurement within the EU. It covers purchases in the water, transportation, energy and telecommunications sectors. The directive benefits U.S. firms by requiring open and objective bidding procedures, but still discriminates against non-EU bids unless provided for in an international or bilateral agreement. This discriminatory provision was waived for the heavy electrical sector in a 1993 Memorandum of Understanding (MOU) signed between the EU and the United States. A year later, in a new agreement, the idea of non-discriminatory treatment was extended to over $100 billion of goods procurement on each side. Much of the 1994 agreement is implemented through the 1996 WTO Government Procurement Agreement.

Telecommunications Market Access: Consistent with the WTO Agreement on Basic Telecommunications Services and EU legislation requiring liberalization, there is a general trend toward increased competition and openness in the European telecommunications services market. Access of U.S. firms, however, varies considerably from member state to member state due to uneven implementation of commitments. While not specific to U.S. firms, a recent Commission investigation into leased line pricing found that incumbent operators in several EU member states charge excessive fees, thereby stifling investment and impeding price reduction in internet access. In July 2000 the European Commission put forward a proposed legislative package that would streamline and consolidate existing legislation while adapting it to the requirements of the information society. As part of this package, the Commission proposed that access to local loops be unbundled by December 2000.

Procurement policies and practices are becoming more competitive, but discrimination against non-EU bids for public procurement in the telecommunications sector remains. In the long run, as privatization in the sector increases, this barrier will lessen in importance, but access still may be impeded by standards, standard-setting procedures, testing, certification and interconnection policies.

6. Export Subsidies Policies

Government Support for Airbus: Since the inception of the European Airbus consortium in 1967, its partner governments (France, Germany, Spain and the United Kingdom) have provided massive support to their national company partners in the consortium to aid the development, production and marketing of large civil aircraft. In June 2000 partners in Airbus Industrie announced the go-ahead to offer its superjumbo A380 to airlines. Subsequently, the British government announced a commitment of 530 million pounds to underwrite Bae System's participation in the development of a new Airbus project. The French government has also indicated its willingness to provide launch aid of approximately $128 million in 2001 and over $1 billion during the 2001-2005 period. The German government has announced its intention to loan approximately DM 2 billion to its producers for the A380 project. The Spanish government is considering whether to extend A380 funding to its producers as well. The United States believes that government support of the A380 raises serious concerns about Airbus member governments' adherence to their bilateral and multilateral obligations in the sector.

The partners in Airbus Industrie struck a deal in June 2000 to turn the consortium into a corporation, the Airbus Integrated Company (AIC).   The United States would be extremely concerned if in the process of creating the AIC, debts already incurred by the consortium members were forgiven. The United States will monitor this process closely.

Shipbuilding Subsidies: Responding to pressure from the shipbuilding industry, the United States, in 1994, successfully brokered an OECD agreement to eliminate subsidies that were distorting the world ship market. Following the non-ratification of the agreement by the U.S. Senate, the EU adopted its own Shipbuilding Directive in May 1998. This directive contains the EU's own timeline for phasing out direct subsidies by December 31, 2000. Although the Commission's official position is to eliminate direct subsidies by the end of 2000, industry in some member states is pushing for an extension of the direct subsidies. It is therefore possible that the decision to eliminate direct subsidies will be revisited.

Canned Fruit: The U.S. cling peach industry alleges that EU programs give a competitive advantage to the EU canned fruit industry and have permitted EU canned

peaches (primarily from Greece) to displace U.S. canned peaches in the United States and third country markets.
Drawing from suggestions from the canned fruit industries, the United States and representatives from the governments of Argentina, Australia and Chile in May 1999 presented a proposal to make the EU canned fruit regime less trade-distorting. At that time, EU member states were unwilling to support the suggested reforms. The United States will continue to work closely with representatives from the canned fruit industry to develop a strategy for addressing the issue of trade-distorting domestic support in the EU fruit and vegetables regimes in the WTO agriculture negotiations.

7. Protection of U.S. Intellectual Property

The EU and its member states support strong protection for intellectual property rights (IPR). EU member states are participants of all the relevant WIPO conventions. Along with the EU, they regularly join with the United States to encourage other countries to adopt and enforce high IPR standards, including those in the TRIPS Agreement. However, the United States has challenged several member states on their failure to fully implement the TRIPS Agreement.

Designs: The EU agreed to compromise language on industrial designs and models legislation. In general, the Directive harmonizes national rules on design protection, but does not provide for registration and protection of spare components of complex products (such as visible car spare parts). A regulation currently under review would designate the Office for Harmonization in the Internal Market (OHIM, also known as the Community Trademark Office) in Alicante, Spain as the EU registrar for designs.

Patents: Patent filing and maintenance fees in the EU and its member states are expensive relative to other countries. Fees associated with the filing, issuance and maintenance of a patent over its life far exceed those in the United States. In an effort to introduce more reasonable costs, the European Patent Office (EPO) reduced fees for filing by 20 percent in 1997.
A series of concrete measures to improve the framework for obtaining patent protection in the EU were outlined in a policy Communication adopted by the European Commission in February 1999. As a result, in July 2000 the Commission proposed a regulation to establish a European Community (EC) patent that, via a single application, would be valid in all 15 member states once granted. Commission officials expect the EC patent to be available by October 2001. Differences of opinion among the Commission's Directorates-General have resulted in a delay in proposing a parallel Directive on patenting of computer programs.

Trademarks: Registration of trademarks with the European Community trademark office (official name: Office for Harmonization in the Internal Market – OHIM) began in 1996. OHIM, located in Alicante, Spain issues a single Community trademark with is valid in all 15 EU member states.

Madrid Protocol: The World Intellectual Property Organization's (WIPO) Madrid Protocol provides for an international trademark registration system permitting trademark owners to register in member countries by filing a standardized application. U.S. accession to the Protocol is now pending in the Senate. EU accession is hampered by Spanish objections, but member states in favor of EU accession hope to bring Spain around by the end of 2000.

Trademark Exhaustion: The trademark exhaustion principle limits a trademark owner's ability to resort to remedies against importers/distributors of trademarked goods outside channels authorized by the trademark owner. The current EU regime supports the principle of "Community exhaustion," which allows resale of trademarked goods within the fifteen member states once the trademark owner licenses their sale in any EU country.

In 1998 a European Court of Justice ruling upheld the legality of Community trademark exhaustion within the EU. The European Commission has defended the principle by maintaining that Community exhaustion heightens competition within the internal market. However, member state opinion remains divided and at the insistence of the U.K. and Sweden, the Commission studied the economic impact of Community exhaustion in the member states. European discount chains prefer, and have actively lobbied for, a system of "international exhaustion," which limits the trademark owner's right to control distribution of goods once he/she licenses them for sale anywhere in the world. The Commission's study, completed in 1999, indicated mixed results of changing to international exhaustion. The Commission plans to consult with member states and other parties before deciding how to proceed.

Copyrights: U.S. corporate opinion is divided on proposed legislation to harmonize copyright law in EU member states and comply with WIPO treaties. The EU-proposed Directive on Copyright and Related Rights is the subject of active lobbying by U.S. business interests. The United States has encouraged the EU to take all stakeholders into account and develop legislation compatible with the U.S. Digital Millennium Copyright Act. The European Parliament will review the directive for a second time in the fall of 2000. The EP and the Council (EU member state representatives) must agree on a compromise version of the directive before its final adoption, expected in 2001.

8. Worker Rights

Labor legislation still remains largely the domain of individual member states. Recent decisions taken at the Lisbon, Luxembourg, Cardiff, and Cologne EU Summit Meetings of the EU have, however, significantly increased cooperation on employment issues. Specifically, the Luxembourg Process created a system of goals on employment and annual reviews of each country's progress toward meeting them. The Cardiff Process sought to liberalize further the movements of goods, services, and capital as a means of increasing employment in EU countries. And the Cologne Process, in the European Employment Strategy signed at the Summit, brought the EU's coordination in employment and macroeconomic policies closer together. The

Lisbon Summit stressed the need for appropriate lifelong learning and training to meet the needs of a growing information society. It also set out a goal of raising the EU's employment rate from 60 percent to 70 percent by 2010.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		27,534
Total Manufacturing		152,400
Food & Kindred Products	16,173	
Chemicals & Allied Products	48,218	
Primary & Fabricated Metals	10,218	
Industrial Machinery and Equipment	19,007	
Electric & Electronic Equipment	14,708	
Transportation Equipment	14,234	
Other Manufacturing	29,842	
Wholesale Trade		31,396
Banking		18,442
Finance/Insurance/Real Estate		208,242
Services		40,124
Other Industries		34,003
TOTAL ALL INDUSTRIES		512,141

Source: U.S. Department of Commerce, Bureau of Economic Analysis.