E. E. C. 1995

81 nations launch trade body

(56A)

GENEVA — A total of 81 countries and territories representing more than 90% of international trade have become founder members of the World Trade Organisation, according to an official count yesterday.

The body, which will absorb the 48-year-old General Agreement on Tariffs and Trade this year, was launched on January 1.

Apart from the 81 countries who had completed formalities to be members from the launch, nearly 50 more were well positioned to join in the near future, The organisation's information division said.

The body's first director-general, Peter Sutherland of Ireland, said he expected some 155 states and territories to sign up to the Geneva-based organisation. — Sapa-Reuter. BDS 1/95

EU aims to create jobs

BRUSSELS. — European Union finance ministers, meeting against the unwelcome backdrop of turbulence in money markets, set their sights yesterday on boosting economic growth and beating unemployment. (56A)

French Finance Minister Edmond Alphandery, who chaired the meeting, said his chief task for the next six months when France holds the EU presidency would be to bolster the accelerating economic recovery and make it generate more jobs.

He said public finance had to be brought under control and he hoped to conduct a full- scale review of national budget deficits in June. CT 17/1/95

In a clear message to money markets that have attacked the Spanish peseta, Portuguese escudo and Italian lira in recent days, Alphandery added that economic convergence and budget deficits were appropriate matters to be discussed in public.

German Finance Minister Theo Waigel agreed with the French priority in battling unemployment. — Reuter

Uproar over EU visa plan for SA

Star 20/1/95

(56A)

■ BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — There have been strong protests in the European Parliament against EU plans to force South Africans in future to get a visa for every visit to Britain.

At the moment most EU countries require visas from South Africans, but the British do not.

Under a plan for a common Euro-visa, South African travellers to Europe would need only one visa for all 15 countries.

However, South Africans and other Commonwealth citizens would need a visa for any state, including Britian.

The South African Government has protested against the plan, and has won the support of the British government.

EU ministers have so far failed to agree on the so-called "black list" of countries whose citizens will require the new Euro-visa.

"The way in which the debate is going, the only people who won't need the visa are those from white, Anglo-Saxon, Protestant and Catholic countries," protested British Labour European MP Glyn Ford.

"It does not seem that South Africa would fit into this category.

"Only 17 countries do not require visas to visit any EU state, while people from 115 countries do require visas for one or more states.

"I fear the eventual EU list will be closer to 115 rather than 17."

He said the British should join France, which is lobbying for former French colonies in Africa.

"They should be aiming for the smallest possible list of nations whose citizens will need this new visa," said Mr Ford. "Otherwise, the signal to South Africans and others will be: You are not wanted here.

"I know that if I am asked to apply for a visa, the country concerned is not keen to see me."

And he suggested that if South Africa believes it is losing the fight to escape the visa list, it should threaten retaliation."

Better access sought for farm produce

BY BRUCE CAMERON

The government is pushing for better access for South Africa's agricultural products to the European Union (EU).

So far they have been given limited better access to Europe in terms of the latest agreement with most favoured trading nations.

Department of Trade and Industry director-general Zavareh Rustomjee says full details of SA's latest trade deal with the European Union, settled in December, are now available.

South Africa had already been granted a number of most favoured nation import tariff reductions in the dying days of the EU's Generalised Scheme of Preferences (GSP).

A new GSP agreement was announced by the EU which runs from January this year to the end of 1998.

SA is one a number of beneficiary countries in the agreement. Beneficiaries of the GSP are developed countries.

In terms of the old GSP agreement, all South African agricultural products were excluded.

The new agreement, however, grants tariff reductions on about 20 percent of the country's agricultural products.

It divides products into various categories with diffrent tariff reductions.

A spokesperson for the department has confirmed South Africa is still however pushing ahead with its application for membership of the Lome Accord, which gives even greater preferences to the exports of the poorer countries of the world than does the GSP. (56A)

A delegation has left for Dakar to hold further talks with the council of the African, Caribbean, Pacific (ACP) signatory countries, which must approve South Africa's Lome application.

Star 27/1/95

Simultaneously, the agricultural part of the latest GSP agreement will be revised early this year as part of the EU's teriff offer to the Uruguay Round of the General Agreement of Tariffs and Trade (Gatt).

NEWS

SA finds a friend in EU official Pinheiro

(SbA) Star 27/1/95

■ BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels (Belgium) — The new European Union commissioner responsible for relations with South Africa, developing nations in Africa, the Caribbean and the Pacific has promised to make South Africa his priority.

Also, commissioner Joao de Deus Pinheiro, a former Portuguese foreign minister, yesterday pledged his support for South Africa's bid to join the EU's main aid framework — the Lome Convention.

He said: "For the first time in southern Africa there is a climate for democracy and regional integration. There is a unique opportunity for Europe to help this region.

"For the first time we can talk of a region in which democracy and the market economy can develop, and regional co-operation can take place.

"We must now grab this opportunity and seek to help southern Africa."

Pinheiro stressed that South Africa had a big part to play in boosting the overall southern African region, but he added that there must be a limit to the role this country can play.

He said: "South Africa has its own needs and characteristics, and it can't be regarded as the Father Christmas to solve the problems of all the countries around it."

The commissioner warned that Africa was no longer as fashionable in Europe as it once was, with the EU focusing its main attention on eastern European problems and the Mediterranean states.

"I therefore face an enormous challenge in seeing that Europe gives the help required."

Why join Lome Convention?

(5bA)

CP 29/1/95

TOMORROW a South African observer team attends an important meeting that will debate the country's relationship with the European Union's (EU) 70-nation Lome Convention of African, Caribbean and Pacific (ACP) members.

The meeting will be the forerunner to the EU's formal negotiations in April which will consider SA's membership of the convention.

But economist Ernest Kgaile doubts the wisdom of membership.

Deputy Editor ZB MOLEFE reports.

POST-apartheid South Africa has not learned the lessons of history when it comes to the Lome Convention, economist Ernest Kgaile says. He argues that SA should, as a matter of urgency, have consulted her neighbours about the intricacies of the convention.

In theory and on paper the idea of the convention is attractive. For instance, the giant European market would be open to South African business.

Not to mention the spin-offs which would result in, say, the emergent African small business having a substantial slice of the action.

But, according to Kgaile, the reality is different. Namibia, which attained convention membership after independence, is a case in point.

Namibia's membership of the convention had to be addressed through negotiation of three crucial issues.

These issues were the size of Namibia's beef exports, the eligibility to the European markets of her Karakul pelts and granting Namibia the "least developed nation" status – a status to be reviewed this year.

Hence Kgaile is adamant that it would not be in South Africa's interest to rush for convention membership without sitting down and examining the implications of it.

Kgaile is working flat out preparing to host a conference within the next three months on SA's membership.

"This conference will give Africans an opportunity to understand what the Lome Convention is all about. Most South Africans know very little about it. This conference will give us an opportunity to hear of its benefits," says Kgaile.

"We hope what comes out of that conference will not be documents which will gather dust. Also that experts will come out of Soweto, Gugulethu and Mdantsane to give their input.

"It is hoped this conference will draw participants internationally – and also those linked to the EU, financial institutions in South Africa, big and small business and African experts from SA's black institutions to participate in trade-related issues so that future SA generations are not marginalised."

Kgaile also hopes the country's regional governments will make a contribution to the conference because they are "nearer the grassroots".

Already, adds Kgaile, a variety of European economic experts will attend the conference. The venue will be announced in good time and he promises that it will be accessible to non-governmental organisations and trade unions.

Why is Kgaile concerned about South Africa's membership of the convention? His concern stems from his work as an economist and consultant dealing with projects in social and financial issues.

He has embarked upon an intensive nine-week study in Brussels, where the EU is headquartered with numerous research and financial institutions linked to it.

Before reading for post-graduate studies at England's University of Bradford he was commissioned by economist Max Sisulu of the National Institute of Economic Policy (the former Macro Economic Research Group), the think-tank for South Africa's macro-economic planning, to work on the economic policy of the ANC.

NOT KEEN . . . Project economist Ernest Kgaile has serious doubts about SA's membership of the Lome Convention. ■ Pic: ANDRIES MCINEKA

He points out that many ACP member countries of the convention are finding the going tough.

For instance, he observes, the current EU thinking works around the concept of a "logical framework" which is connected to trade and development finance.

Kgaile says: "The whole question of the Lome Convention and SA involves trade and development finance through the European Development Bank, which has influence in the tourism and energy sectors of ACP member countries of the convention.

"Now looking at SA, which is considered in the EU as a country with first and third world components, how are we going to see the trickle-down effect that will benefit our people?"

Fundamental change in post-apartheid South Africa, the heart of which is social and economic upliftment of the majority of Africans who are historically disadvantaged, is the battle cry of those who wish to join the convention, Kgaile argues.

Since the 1980s the then European Economic Community (the EEC which was later changed to the EU) was seen as the saviour of the economies of African nations.

Ten years later structural adjustment programmes were introduced as the EU's solution for the economic woes of Africa. But most of Africa's economies are moving slowly, if not declining, while millions of development cash lies in European bank vaults.

He says there is a critical study which has been set up in Europe to assess if the convention can continue beyond the year 2000.

"How are South African medium and small businesses going to participate in the EU? Are we aware that we are going to compete with eastern Europe? " Kgaile asks.

SA's membership to the Lome Convention may not be of much help to the majority of ordinary citizens who hope a new economic order will help them.

Norway 'will back SA' in EU deliberations

EDWARD WEST

CAPE TOWN — Norway was prepared to support SA in its deliberations with the EU — even though Norway was not a member — and was prepared to move further than GATT provisions on liberalising agricultural produce trade barriers, Norwegian trade and shipping minister Grete Knudsen said on Friday.

Although relations between the two countries resumed only in 1993 after sanctions were lifted, about 200 Norwegian companies were ordinary competitors in SA. (SbA)

Knudsen visited SA businessmen and political leaders last week partly on a fact-finding mission to prepare future policies with SA and the subcontinent, and to promote trade between the two countries.

She said the decision to liberalise agricultural produce trade policies with African countries, which could affect SA's fruit exports in particular, had not received a favourable response from Norwegian agricultural interests, but the decision had nevertheless been taken in the Norwegian parliament.

Knudsen hoped SA's import regulations would be brought into line with those of the international community. "Europe is our major market, but we have decided to give special attention to SA over the next few years," she said.

Norwegian companies were active in Namibia, Zimbabwe, Tanzania and Mozambique. BD 30/1/95

"SA is the motor of the region. SA's people need to see concrete economic progress in SA, yet SA is dependent on the progress of the region as a whole," she said.

Norway's major industries include shipbuilding and fishing.

SA Deep Water Fishing Industry Association secretary Roy Bross said the Norwegian shipbuilding industry could benefit from closer ties with SA, as SA's vessels were obsolete.

The picture facing the aspirant Norwegian fish product exporter to SA, though difficult, was more promising than it appeared at first, said Bross.

Consultation with various wholesalers showed the main obstacle to Norwegian fishing industry produce in SA remained price.

"The quality of Norwegian product is outstanding, but it fits into a price slot somewhat too high for the average SA consumer."

The most promising product was salmon.

SA 'keen to enjoy benefits of Lome'

DAKAR. — South Africa said yesterday it was keen to play a full part in the European Union's club of African, Caribbean and Pacific countries and enjoy some of the benefits of its Lome Convention preferential trade pact.

Mr Samuel Motsuenyane, head of the South African delegation attending a meeting here of ACP-European Union parliamentarians, said his country had much to offer in return.

"We certainly foresee ourselves becoming members. I see no real problems why South Africa cannot be a member of Lome," he said.

South Africa has observer status at the meeting, but believes it has much to offer by participating.

Some delegates at the meeting, however, felt it would be premature to admit South Africa to the Lome Convention. "In several ways, this country does not have the characteristics of an under-developed country," one said. — Sapa-Reuter

R1,2-bn EU loan expected soon

Brussels — Preparations are on line for a R1,2 billion European Union (EU) loan package for South Africa.

This was revealed yesterday by Sir Brian Unwin, the president of the Luxembourg-based European Investment Bank (EIB), which is preparing the package.

He said the cash could not come on stream until there was a politicial signal from EU ministers and the European parliament.

Unwin said he was keen to see the loans released as soon as possible.

"The EIB has a lot of experience in southern Africa, and we are already supporting projects in Zimbabwe, Botswana, Swaziland and Mozambique," he said.

"Provided the agrements are reached, we are ready to lend up to R1,2 billion," he said.

Unwin said the EIB normally supported large infrastructure projects, such as energy and transport schemes.

"We have already sent a mission to South Africa and have had talks with the South African authorities," he said.

"It would make a lot of sense to operate in South Africa. Recently, we made a large loan available to restore the Cahora Bassa transmission lines to Botswana, passing through the Kruger Park.

"It will make sense for us to carry out projects on a regional basis," he said. — Star Foreign Service.

Star 3/2/95

EU counts cost of adding members

BRUSSELS. — European Union foreign ministers yesterday told the European Commission to begin a six-month mission to negotiate the cost to trading partners of bringing Austria, Sweden and Finland into the bloc.

(56A)

The United States, Japan, Canada, South Korea, Indonesia, New Zealand, Australia, Norway, Iceland and Thailand, have complained they will lose business because of new, higher tariff barriers in the three new EU members.

They are entitled under world trading rules to negotiate for compensation.

"We will make great efforts to take account of an individual state's problems in individual sectors," a European Commission official quoted Trade Commissioner Sir Leon Brittan as telling the foreign ministers meeting.

CT 7/2/95

The EU signed an interim, six-month compensation deal with the US in December worth between 150 and 200 million European currency units.

This deal runs until the end of June, by which time the commission is supposed to have tied up a definitive deal.

Here's a hard lesson for South Africa: Israel is running into a wall of protectionism, reports John Fraser of The Star's Foreign Service

Nobel prizes not worth a bean in this battle

Star 8/2/95

Farming fraternity ... have to convince European counterparts that a surge in exports from South Africa will not lead to more wailing and gnashing of teeth.

What do *foie gras* paté, table grapes, mandarins, sweet corn and cut flowers have in common?

They are all Israeli agricultural products which the European Union is striving to keep out of the EU market.

Day after day, except for weekends, men in grey suits sit huddled in anonymous negotiation rooms discussing the real peace dividend which will flow from Israel's truce with Yasser Arafat.

For now that it is as respectable to be nice to Israeli leaders as it is to invite South African diplomats to your cocktail parties, Europe is close to a trade accord with the Israelis.

The problem is that every concession which Europe gives to an Israeli farmer will send an angry EU producer into a frenzy.

Why should the plight of Israeli paté, and the gripes of its grape producers, worry South Africans?

Similar

The answer is that the grapes, paté, mandarins, corn and flowers are all products which protectionist southern European farmers want to keep from competing with EU-grown food.

And they are strikingly similar to the sorts of farm products which South Africa, too, wants to export.

So important are these Israeli products that they have been holding up an agreement.

And in these negotiations, as in so many others, the Europeans are likely to emerge as winners.

In South Africa's case, new trade benefits would flow from its membership of the Lome Convention, if this — or a version of it — is offered.

The convention is the trade and aid framework linking Europe with 70 developing countries and of all the trade relationships governed by the complex Brussels bureaucracy, offers the most favourable market access.

"South Africa is right to be looking nervously at deals being negotiated with the Israelis and other states, for they reveal the scale of EU protectionism," said a senior Brussels diplomat.

"We see the same thing when the Europeans try to keep out raspberries from Eastern Europe, butter from New Zealand and even garlic from China."

South Africa has to be aware that while the political climate for its application to join the Lome Convention could not be better, Europe is really run by farmers, not politicians.

Witness the frantic final months of the negotiations to secure the GATT (General Agreement on Trade and Tariffs) world trade deal.

The EU was allowed to sign the agreement only after assurances were given that it would not impose new sacrifices on French farmers.

Without these assurances, the farmers would have remained in revolt and GATT would have fallen flat on its face.

Fortunately for everyone except Europe's farmers, there was a creative accounting exercise which made it look as if the impact on Europe's farmers would be nil.

Not really believing the figures, but fearful of being the ones to ruin everything, the French government for once chose to believe the Eurocrats — and fell into line.

And fortunately for the rest of the world, the GATT deal is already leading to cutbacks in EU agriculture.

What South Africa now has to do is an almost impossible task.

It has to convince Europe's farmers, who are already being garrotted by GATT, that a surge in exports from South Africa will not lead to more wailing and gnashing of teeth.

South African negotiators will also have to make a similar case for industrial goods if Lome Convention membership is to have a positive impact on its manufacturing sector.

South Africans, diplomats and ordinary citizens alike, were encouraged by the words of congratulation and support which followed April's elections and the final stage of Nelson Mandela's transformation from "terrorist" to convict to president.

Mechanism

What came as a subsequent shock, though, was the way in which European promises of trade concessions were whittled away as both the farmers and businessmen of Europe leaned on the politicians.

There have been some agricultural and industrial concessions under the Generalised System of Preferences (GSP), which was the first mechanism for opening the European market to South Africa's exporters.

However, the actual benefits which have been won under GSP are far more modest that Pretoria had expected and hoped for.

As South Africa's ambassador to the EU, Neil van Heerden, slipped into Pretoria this week-end to consult with colleagues, he had a sober message to deliver.

For unless there is another miracle as great as April's peaceful elections, the protectionist Europeans are unlikely to offer South Africa the scale of trade concessions that Pretoria hoped would flow from Lome Convention membership.

In which case President Mandela may wish to join President Rabin for a good wail in Jerusalem. The two might reflect that whereas peace does win praise — and even Nobel prizes — it doesn't necessarily win markets.

Star 13/2/95

Bosnia got aid meant for SA

(5bA)

BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — A total of R30 million of European Union aid earmarked for South Africa last year was diverted to Bosnia, accoeding to an official EU document on the management of European aid.

The report shows that of the R440 million for the EU's Special Programme on South Africa in 1994, only R410 million was committed. The remaining R30 million was reallocated for emergency aid to Bosnia.

An EU spokesman played down the significance of the diversion of the aid to the embattled European region.

"It is just an accounting matter, and the balance of the money will be paid this year," he said.

He pointed out that Brussels had pledged help last year above the official total of R440 million.

In fact, projects totalling R546 million had been approved, although not all the money had been handed over yet.

The report says "the balance shall be committed in 1995".

The EU's aid budget for South Africa will be boosted this year to around R500 million.

The report gives a breakdown of the recipients of EU aid, but does not give a project-by-project analysis.

It shows that, for the first time, the EU financed projects through the Pretoria government.

Previously, all aid had gone through non-governmental organisations, as the EU did not want to work with the minority apartheid regime.

Aid agencies urged to tap private sector

BD 15/2/95

NOMAVENDA MATHIANE

NON-governmental organisations risked becoming "hostages to the state" because government funding constrained their independence, but an alternative was to tap the private sector and invest in viable projects, a conference heard yesterday.

The four-day Johannesburg conference, attended by African non-governmental organisations, was organised by Environmental Development Action in the Third World. It served as a preparatory meeting for the UN World Summit on social development to be held in Copenhagen next month.

The relationship between government and non-governmental organisations, shrinking resources and the repositioning of these organisations in emerging democratic societies were discussed.

There was concern that northern hemisphere governments, which previously funded non-governmental organisations were now giving money directly to governments, and this had resulted in competition for money between the two.

The conference discussed the crisis of social disintegration in African cities, improving the status of women, youth, the disabled and deteriorating physical and social environments.

Strategies for dealing with the adverse effects of structural adjustment policies, mounting debt, unfavourable terms of international trade, weak states and economies were emphasised.

An Egyptian delegate advised delegates to bypass governments and seek business community funding.

"Are we working for the people or are we hostages of the state?" a delegate asked. "We have to find mechanisms for financial self-reliance that will link people in organisations to find alternatives to funding."

Violence and crime was another issue dominating the conference. Crimes against old people and children were debated and suggestions for educating people to "self-manage their lives and protect their flats, streets and villages" were made.

Delegates argued for "valuarisation" of ancient methods to preserve nature.

SA frustrated by Lomé delay

BD 15/2/95

LINDA ENSOR

LONDON — SA is frustrated by the prolonged delay in finalising its application for inclusion under the Lomé convention and is hoping a decision taken in Brussels this week will expedite proceedings. (5bA)

Foreign ministers representing 85 African, Caribbean and Pacific (ACP) and European countries will meet to approve the mid-term review of the convention. This will provide the financial framework for the inter-regional trade and aid agreement for the next five years.

However, SA should not hold out hopes of extensive trade benefits from talks on "associate" membership of Lomé for 70 African, Caribbean and Pacific nations, a European Union (EU) official said. He said SA could gain easier access to the EU through a free trade zone with the 15-nation market or an extension of the generalised system of preferences.

SA's ambassador in Brussels, Neil van Heerden, said while recognising the extensive consultation required, SA felt its application was proceeding too slowly. "There is a reticence to come clean on where people really stand about SA's application. Given the euphoria about SA, nobody wants to say no and so their response is usually 'why not?' "

'Govt won't probe Ministers'

JOHANNES NGCOBO

THE government of national unity would not probe any Ministers who might have criticised it in public, President Nelson Mandela's spokesman, Parks Mankahlana, said yesterday.

He was reacting to an appeal by ANC Youth League acting deputy secretary-general Themba Kinana that government make Ministers consult before addressing public gatherings to ensure that if there was any misunderstanding, that Minister would have the backing of government.

Meanwhile the youth league had offered to mediate in the ANC Women's League crisis.

Youth league president Lulu Johnson said the resignation of 11 national executive members from the women's league signalled deviation from an ANC call for unity, which the ANC had insisted on in the past.

Johnson called for all structures not to allow sentiments and emotions to defeat the league's objectives.

On Saturday, the 11 members resigned from their elected positions over "undemocratic practices" within the organisation.

Women's league deputy-president Thandi Modise said yesterday no resignation letters had been received by herself or league president Winnie Mandela. The league's constitutional structures remained in place, she said. BD 15/2/95

Grievances against Mandela reportedly involved the Road to Freedom tourism venture between the league and actor Omar Sharif, her criticism of the Rolling Stones band for employing a white promoter, and her role in daughter Zinzi's promotion company.

EU prepares groundwork for single currency

(56A)

CT 21/2/95

BRUSSELS. — European Union finance ministers agreed yesterday that technical preparations for the single currency could continue, although some warned of the danger of leaving politics and economics out of the equation.

"I continue to believe that it will not be a practical proposition for any member state to enter into the third stage of Economic and Monetary before 1999 at the earliest.

"But that said, I agree that the technical preparations should go ahead," British Chancellor of the Exchequer Kenneth Clarke told his colleagues during the opening, televised session of the meeting.

European Commission president Jacques Santer said the commission intended to produce by June a consultative Green Paper on the technical aspects of the switch to a single currency which would be presented to the finance ministers and then go to the EU summit in Cannes.

"The aim is to prepare the public for the transition to the single currency," he said, noting that under the Maastricht Treaty, all the technical preparations have to be in place by the end of 1996 in case the requisite majority of EU member states are ready to merge their currencies in 1997.

The ministers broadly welcomed the Green Paper, although Luxembourg, Britain and Germany all stressed that the key was getting the bloc's economies — and particularly national finances and unemployment — back under control.

"We need to take a careful look at all the technical and political problems so we don't simply treat this as a technical matter," Luxembourg Prime Minister and Finance Minister Jean-Claude Juncker said.

Santer also told the ministers that the commission intended to try to clear up a raft of indirect tax matters left over from last year, including deciding whether to levy value added tax at origin or destination, excise duties on alcohol and fuel and a voluntary framework for a carbon dioxide tax.

He added that the commission would emphasise the need to combat fraud against the bloc's 81-billion-European currency unit ($100bn) annual budget — a declaration that was applauded by all the ministers.

EU to explore ties with SA industry

(SLA) BD 27/2/95

BRUSSELS — The European Union would send a fact-finding mission to SA next month to explore industrial co-operation with Pretoria, Deputy President Thabo Mbeki said at the weekend.

Mbeki said after meeting EU industry commissioner Martin Bangemann that the EU team would travel to the country on March 22.

"The development of the industrial sector in SA forms a fundamental part of the reconstruction and development programme," said Mbeki, who is on a two-day visit to Brussels.

"(The industrial sector) is not only the most important contributor to GDP but is also one of the sectors which stands to benefit most from a closer interface with the EU," Mbeki said.

SA and the EU are negotiating a new agreement that will cover trade and aid relations.

Mbeki said that in 1958, SA exported more goods to the EU than Japan did. Now, Japan exports five times SA's export volume to to the EU.

"I know SA cannot be compared with Japan, but that does not mean we should ignore the reality of long-term trends. We can and should do something about it."

The development of SA's industrial sector stood to benefit most from close contact with the EU and development of the sector formed a fundamental part of the RDP.

The country's exports to the EU were still largely confined to the primary commodity sector.

The most striking feature of European trade since the signing of the Treaty of Rome in 1958 had been the decline of primary commodity imports into Europe.

There had been a shift in the EU away from importing raw materials to importing manufactured goods. This was a trend which SA could not ignore, Mbeki said.

He said that for this reason he had finalised arrangements during his stay in Brussels for a EU mission to the country to explore the potential for industrial co-operation.

The mission would be led by EU deputy director-general of industrial affairs Alexander Schaub and would include important European industrial interests. — Sapa-Reuter.

● See Page 7

Crisis devaluation for peseta and escudo

EU leaders fight for life of single currency

Star 7/3/95 (56A)

■ BY JEREMY LOVELL

Brussels — Leading European Union politicians began to fight for the life of the bloc's bruised plans to create a single currency yesterday after the crisis devaluations of the Spanish peseta and Portuguese escudo.

The decision to devalue the peseta by seven percent and the escudo by 3,5 percent came after a marathon 11-hour emergency meeting of the EU's monetary committee which had been called by Spain following weeks of incessant pressure on its currency culminating in abortive Bank of Spain support buying on Friday.

It was the fourth devaluation of the peseta and the third of the escudo since September 1992 when what was to prove to be nearly a year of crisis in the European monetary system's (EMS) exchange rate mechanism (ERM) first erupted.

"The measures underscore

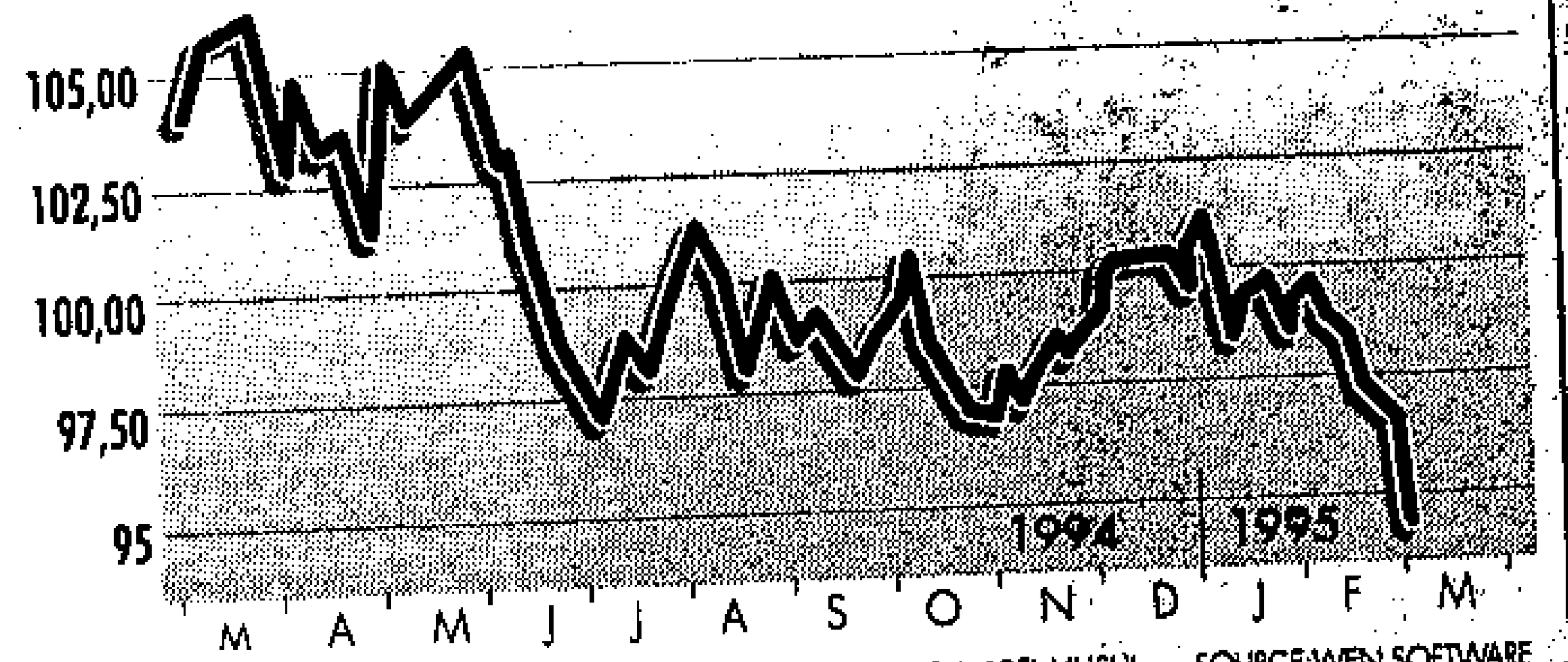
SHOCK devaluations spark European currency crisis

(our) readiness to make currency adjustments when necessary," German finance minister Theo Waigel said in Bonn. "This ensures the viability of the EMS for the future as well."

But while some economists began yesterday reading the last rites for the single currency, others argued that the reverse could equally be true.

Spain's woes have been triggered by political instability which has raised doubts about its ability to take the steps necessary to get its economy in order on the way to the bloc's goal of creating a single currency within the next four years.

The country pledged to do whatever was needed to keep the budget deficit below 5,9 percent of gross domestic product this year and 4,4 percent in 1996.



The strains in the currency grid — the vehicle supposed to carry the EU to its single monetary goal either in 1997 or by 1999 — have also been exacerbated by the flight of funds from the crisis-hit dollar into the safe-haven German mark.

Spanish foreign minister Javier Solana blamed the dollar for the peseta's problems.

"We would like to see, after the measures we have adopted, the relationship of the dollar and the mark stabilised," he said. In early trading yesterday the peseta was quoted at 90,40 to the mark after closing on Friday at 88,44 and compared with its new ERM floor of 98,79. The escudo was at 104,95 against its floor of 119,03. — Reuter

EU seeks special aid deal for SA

(299) (56A) CT (BR) 15/3/95

By John Fraser
ARGUS FOREIGN SERVICE

Brussels — European Union officials believe South Africa should continue to enjoy far more generous aid from Europe than any of its African neighbours.

Their proposal forms part of a broader plan for EU relations with South Africa — including vital proposals for trading relations, which are expected to lead to complex negotiations.

The blueprint is due to be adopted by the 20-strong European Commission this month before it goes to the EU foreign ministers for approval.

This year South Africa will receive EU aid worth about R550 million — a 25 percent increase over 1994.

Diplomats in Brussels say EU officials will recommend that the proposed plan for bilateral aid between the EU and South Africa should remain in place until the end of the decade.

The aim is to help the new democracy as much as possible as it tries to implement its reconstruction and development programme.

As a result, South Africa will not tap into the aid elements of the Lome Convention, the EU's development treaty with 70 African, Caribbean and Pacific (ACP) states.

EU officials argue that South Africa's current aid benefits are far superior to those on offer to Lome Convention states, and that if South Africa became a fully fledged member of Lome — an idea which no longer holds currency in Brussels — it would lose out significantly.

From the year 2000, South Africa would probably be put on a par with other ACP states. At that point, Lome itself may be replaced with a more regional strategy.

Outside the areas of trade and aid, South Africa can still expect to be offered some links, particularly political ones, with Lome, that will bind its continental neighbours.

In December Trevor Manuel, South African minister of trade, asked the EU to consider offering South Africa the closest possible alignment with the convention.

The "Lome minus" formula now being drawn up (the South Africans prefer the term "harmonisation" with Lome) would give South African ministers, members of parliament and diplomats a full voice at Lome Convention debates and meetings.

It would also allow South Africa to tap into regional co-operation programmes funded by the Lome Convention.

The other major element of EU relations with South Africa — and the most important for the South African government — is the trade dossier.

While Lome offers the most favourable trade package possible, it has become clear in talks over the past nine months that South Africa will not qualify for this and that its best bet is to negotiate a separate, tailor-made trade accord with the 15-nation EU.

EU officials are expected to respond favourably to the idea of a separate deal, and this could result in immediate improved access to Europe for SA exports, with a staggered dismantling of South Africa's own barriers on imports from Europe.

Total grants this year will be worth about R550 million, a 25 percent increase on 1994

The agreement, which would be similar to one the EU has with Russia, would be aimed at eventually establishing free trade between South Africa and Europe.

Brussels officials are also likely to stress that there is a regional element to future trade relations.

The EU's commissioner for South Africa, Joao de Deus Pinheiro, has revealed that he would eventually like to see a free trade common market among member countries of the Southern African Development Community. This grouping would, in turn, have free trade links with the EU.

However, in the short term, South Africa is unlikely to enjoy complete access to the EU market, as some sensitive exports — particularly agricultural produce — would cause big problems for European producers.

Therefore, Europe is expected to try to maintain some initial trade barriers against South Africa.

EU tariff concessions

BD 24/3/95

EUROPEAN Parliament envoy Alex Smith promised in Cape Town yesterday to promote targeted tariff concessions to ease SA access to European markets.

(56)

A delegation from the European Union will visit SA from March 23 to 31 to identify areas in which joint programmes between the EU and SA can be developed.

EU unveils SA trade plan

SPECIAL CORRESPONDENT

BRUSSELS: The European Union Commissioner responsible for South Africa, Mr Joao de deus Pinheiro, has unveiled a "twin track" strategy for relations between Brussels and Pretoria.

Next week, Mr Pinheiro will be presenting his EU colleagues with a detailed blueprint for relations with SA which, if approved, will form the basis for formal negotiations on a new trade and co-operation framework.

Mr Pinheiro told a European Parliament committee yesterday that the first element of his approach would involve a trade agreement with SA, with the eventual aim of free trade.

Under the second track, SA should be given "qualified membership" of the Lomé Convention.

This is the trade, aid and co-operation treaty linking the EU with 70 African, Caribbean and Pacific states.

In terms of the qualified membership, Mr Pinheiro suggested, political dialogue, regional co-operation and industrial support between Brussels and Pretoria could be dealt with inside the Lomé Convention; trade and aid, however, would NOT fall within the convention.

A team of ambassadors representing the Lomé Convention countries is currently in SA, as the existing members will need to give their approval to SA's partial membership.

Mr Pinheiro told European MPs he was seeking a "totally new" relationship between SA and Europe.

This highlighted the fact that Europe had made its relations with SA "a priority".

And he pledged to keep up the current level of EU aid for SA, which is more than that given to any other African country.

In a separate speech, Mr Pinheiro stressed the importance of the private sector in economic development.

Attacking poverty

"A prosperous private sector encourages a dynamic and sustainable economic development as well as larger and more equitable distribution of growth amid the population.

"At the same time it attacks unemployment and poverty at their very roots."

He said African governments should encourage investment "simply by creating stable conditions in the home country and by developing local financial markets".

"As regards foreign investment, most African governments favour it, but I think most fail to understand that a generally benevolent attitude towards foreign investors is not enough."

CT 24/3/95

CAPE TIMES

BUSINESS REPORT

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

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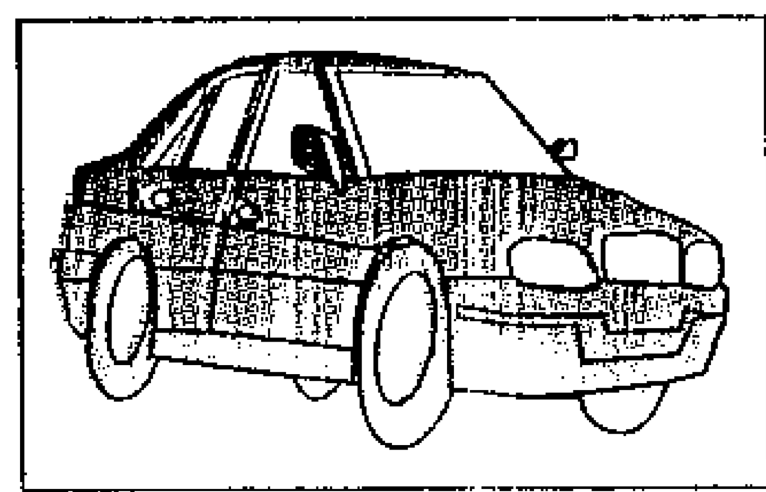

DRAGONS ON WHEELS
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HOSNI MUBARAK OPENS AFRICAN TRADE CONFERENCE

Europe extends a friendly hand even as it rejects SA's request

56A

EU commissioners are expected to agree today to negotiate a unique relationship with this country

BY JOHN FRASER
STAFF CORRESPONDENT

Brussels — South Africa will be told today that it does not qualify for full membership of the Lome convention, the treaty linking the European Union with 70 African, Caribbean and Pacific countries.

But European commissioners are expected to agree on a blueprint to negotiate a unique relationship with South Africa that will include "qualified" membership of Lome and a separate trade agreement.

A memorandum, which will go before by the 20-strong commission today, says Deputy President Thabo Mbeki's request in November for negotiations to establish "the closest possible relationship" with the convention, included elements that might be more appropriately accommodated outside Lome.

It says Europe's relations with South African cannot be handled under the convention because this would be "impossible to defend under Gatt".

The commission will therefore support "qualified" membership for South Africa, while elements for which the country is not eligible (such as general trade arrangements) or that need more coverage (for example, political dialogue) should be accommodated in a separate agreement.

The memorandum says the commissioners have concluded that the only way to approach South Africa's request for improved access to the EU market is via a free trade agreement.

"This agreement would grant South Africa a level of market access equal or similar to that under the Lome convention, while . . . its own market would gradually be further opened for EU products," the memorandum says.

The agreement's timetable should be "asymmetrical", allowing South Africa a "grace period" to get early improved access to the EU's markets without having to grant simultaneously preferential treatment to EU's exports.

There should be separate agreements on wine and spirits and on fisheries, the memorandum says.

The proposal must get the go-ahead from EU foreign ministers next month for formal negotiations to start.

The EU plans to keep up aid of about R550 million a year to South Africa — more than is given to any other African state.

Lomé still closed to SA

By SVEN LUNSCHE (56A)

THE government has expressed its disappointment over the European Union's latest plan for granting South Africa preferential trade terms.

Instead of preferential access to the EU through the Lomé convention, Joao de Deus Pinheiro, the EU's Commissioner responsible for South Africa, this week offered a two-track plan for trade-relations.

In terms of the strategy South Africa will only be granted qualified Lomé membership — in areas dealing with political dialogue, regional co-operation and industrial incentives — and will have to negotiate a separate bilateral free-trade agreement with the EU.

Lomé links the EU with 70 African, Caribbean and Pacific nations. South Africa wants to join the agreement as it provides favourable trade access, particularly for agricultural goods.

Mr Pinheiro will present his proposal to the European Council of Ministers for approval on April 10. If supported it will become official EU policy.

"We would be extremely disappointed if this proposal was carried by the Council of Ministers," says Faizel Ismail, consultant to Department of Trade and Industry on multilateral trade negotiations.

He says the SA government has been and will be lobbying European governments for a change in the proposal.

Mr Ismail says that the EU has entered similar bilateral trade agreements with other Eastern European countries, providing favourable trade access to these countries. A few years down the track the countries have to reciprocate with similar access to their markets.

Sensitive areas, such as agriculture, textiles and steel, could be excluded from the free-trade pact, Mr Ismail says.

ST(BT) 26/3/95

Borders go in seven EU countries

56A

Sun 27/3/95

Brussels — Internal border controls between seven of the European Union's (EU) 15 members disappeared yesterday in the most far-reaching move yet to create a bloc in which citizens can move unchecked.

The Schengen agreement, signed in 1985 by five countries and by a further two in 1992, embraces Belgium, the Netherlands, Luxembourg, France, Germany, Spain and Portugal. Other EU members might join later.

"Schengen can be understood as a precursor to complete freedom of movement in all of Europe," said German Foreign Minister Klaus Kinkel in a statement.

Passengers flying between the seven countries can now leave from domestic rather than international airport terminals and will not be subject to identity checks.

A group of members of the European Parliament flew into Brussels airport from different countries to mark the event.

"Controlling 10 000km of border will be much easier than controlling 40 000km, including all the internal borders," Belgian deputy Fernand Herman said as the parliamentarians sailed through arrivals without showing their passports.

Staff at the airport worked overnight to post special signs giving passengers directions.

Not all airports have managed to build special terminals on time. In Brussels, passengers from the Schengen zone have to make the trip from the plane to their terminal by bus.

The Schengen system involves strengthened external border controls and a centralised information system to track criminals. — Reuter.

BD 28/3/95

Trade forum plan fails to inspire SA

(56A) LINDA ENSOR (74)

LONDON — The trade-negotiating platform proposed by the European Commission — to be released later this week — fell far short of full SA membership of the Lomé Convention, sources said yesterday.

Government is said to be dissatisfied with the proposals. But in the short term it wants to get negotiations under way as soon as possible.

The EC is to propose part-membership of the Lomé Convention complemented by bilateral trade relations with European Union members.

The EC's proposed negotiating mandate will be presented to the full college of commissioners tomorrow.

An EC source said that SA membership of Lomé would be confined to the convention's rules of origin, and that trade and market access would be governed by bilateral agreements.

He gave three reasons for the restricted approach: GATT provisions made it difficult to give one-sided concessions to SA; the interests of the other Lomé members (African-Caribbean-Pacific nations) would be eroded by full SA membership; and certain European sectors could suffer if SA got general preference.

He said the EC would propose that EU member states establish "free trade area" relations with SA.

However, an SA embassy spokesman in Brussels said SA would not be able to agree to a free trade area agreement as it belonged to a customs union and could not impose reciprocity on its partners.

SA lobbies for full Lomé benefits

LINDA ENSOR

LONDON — The SA government has issued an urgent and strongly worded plea for SA products to be granted full preferential access into the EU market under the Lomé Convention.

Yesterday, on the eve of the EC disclosing its proposed negotiating platform for its pending trade talks with SA, SA ambassador in Brussels Neil van Heerden handed an aide memoire outlining SA's position to the commission.

The EC's proposals for a twin-track approach which excludes SA from the convention's trade preferences and suggests that a free trade agreement be signed between SA and the EU, falls far short of what SA wants.

Van Heerden stressed that improved access to the European market under the Lomé Convention was vital for the socioeconomic development of SA and southern Africa, and argued strongly against the proposal for a free trade agreement.

His memoire also highlighted the way SA exporters were being heavily discriminated against by the EU.

Van Heerden noted that SA exporters to EU markets still faced serious discrimination compared with its non-European competitors. An analysis of 156 of the most important SA exports to the EU showed that it continued to impose substantial Most Favoured Nation (MFN) tariffs on about one-third (45) of the items.

"The great majority of these products are not covered by the GSP offer already made to SA. Yet the EU offers substantial preference on many of the items to SA's competitors. For example, on just under half of the 45 products the EU provides all of SA's competitors with more favourable access."

Van Heerden said that some of these countries were more developed than SA, whose export profile was similar to most developing countries in Africa, the Caribbean and the Pacific. SA's 15 principal exports were in the category of primary and processed primary products.

He said the discrimination suffered by SA exporters "bears heavily on those labour-intensive industries the government wishes to support".

The aide memoire emphasised that SA required Lomé Convention access to support its current programmes to restructure its industries, develop its competitiveness and assist with regional co-operation.

BD 29/3/95

Rough road to Lomé

(SbA) ARG 29/3/95

Business Staff

BRITAIN is prepared to promote South Africa's interests in the European Union, but South Africa is unlikely to qualify for full membership of the Lomé convention, says British Trade Minister Richard Needham.

South Africa would probably have to negotiate a bilateral treaty with the EU, in addition to limited benefits derived from Lomé, which grants European trade concessions to 70 developing countries.

Mr Needham was speaking in Cape Town last night in an interview on board the royal yacht Britannia, venue for a British trade promotion function.

Britain was "100 percent" behind South Africa's bid for easier access to European markets, but the South African bid to join Lomé was complicated by the size of its economy, which was massive compared to the other Lomé nations.

While qualified membership of Lomé remained open to South Africa, further favourable trade terms for South Africa would have to be negotiated seperately with the EU, British government officials said.

Britain, along with other key EU members such as Germany, would support South Africa within the EU during such negotiations, as "the UK is clearly South Africa's natural champion in issues of this sort", said Andrew Sanders, group director of Britain's Department of Trade and Industry.

"Other members of the EU see South Africa as a threat, and there will inevitably be a negotiated settlement — at the end of the day South Africa has to come to its best negotiating position.

"We are prepared to promote South Africa's interests in the EU *par excellence*," he said.

Mr Needham said he was very pleased to back in South Africa after a 35-year absence, and vowed to return on another top-level trade mission later this year.

His visit forms part of the Britain Means Business campaign, which is aimed at cementing trade and business ties between the two countries.

Earlier Mr Needham encouraged South Africa not to shrink from privatisation.

Addressing a seminar aboard the Royal Yacht Britannia, he said South Africa should boost private investment in public enterprises.

"The arguments for encouraging private enterprise in South Africa are so powerful they cannot be ignored," Mr Needham added.

Lome Convention: EU looks at new blueprint

(SbA) Star 29/3/95

BY JOHN FRASER

STAR FOREIGN SERVICE

Brussels — South Africa will be formally told today that it does not qualify for full membership of the Lomé Convention. This is the treaty linking the European Union with 70 African, Carribean and Pacific (ACP) states.

European Union commissioners are expected to agree today on a blueprint for negotiations on a new relationship.

A memorandum which will go before the 20-strong commission notes that Deputy President Thabo Mbeki has asked the EU presidency in November 1994 to open negotiations with a view to establishing the closest possible relationship with the Lomé Convention.

"South Africa asks also that negotiations should cover a possible agreement with the EU on specific elements that might more appropriately be accommodated outside the Lomé Convention, to the benefit of the existing Lomé members and South Africa itself."

The memorandum notes that because of its membership of the Southern African Ddevelopment Community, its links with convention countries and its new political orientation "South Africa cannot remain totally disconnected from the ACP group". It "should be eligible for the maximum number of chapters and articles of the convention" but that a proper arrangement in a separate bilateral agreement would have to be found.

The memorandum notes that there was no precedent for such a negotiation.

Meanwhile, the EU is planning to keep up its aid to SA around the current R550 million a year.

EU move gives SA a 'window on Lomé'

(51A) (2?)

ALIDE DASNOIS
Deputy Business Editor

SOUTH Africa is set for tricky trade negotiations with Europe following the European Commission's reluctance to open its markets through the Lomé Convention.

The Commission decided yesterday on a framework for negotiations which offers South Africa only limited access to the benefits of the Convention.

The Lomé Convention links the European Union (EU) with a group of 70 countries in Africa, the Caribbean and the Pacific, including South Africa's neighbours.

Products from these countries, called the ACP group, have easy access to European markets without the ACP countries having to offer reciprocal access to European goods.

The "window on Lomé" suggested by the Commission does not include the crucial trade benefits which are the key to South Africa's application.

Instead, the Commission suggests South Africa and the EU should negotiate a bilateral agreement which could lead to the creation of a free trade area.

South Africa could be allowed to lower tariff barriers more slowly than the EU in terms of an "asymmetrical time frame" suggested by the Commission.

"This would allow South Africa at an early stage to get improved access to the EU's markets without having to grant simultaneously preferential treatment to the Union's exports," the Commission said in a statement following yesterday's meeting.

"South African industry would thereby win time to restructure and enhance its competitiveness and to prepare itself to a situation of decreased protection against EU exports. For certain sensitive products longer transitional periods may be necessary for both parties."

South African negotiators are unenthusiastic about a free trade area, claiming that SA would give up more than the EU in a mutual lowering of tariffs. Even after South African import barriers have been lowered to comply with the country's commitments to the General Agreement on Tariffs and Trade (GATT), tariff levels on imports to South Africa will be higher than most European tariffs.

South Africa has also argued that trade agreements with Europe must take into account the Southern African Customs Union, which will be strained by differential agreements between Europe and SA, on one hand, and Europe and the other four members of the SACU on the other.

The other members of the SACU — Botswana, Lesotho, Swaziland and Namibia — are all signatories to the Lomé Convention.

ARG 30/3/95

The Lomé Convention countries strongly support South Africa's bid to join. Lingering doubts about competition have been dispelled by South African negotiators who have promised that sensitive products — such as sugar for example — could be excluded.

But several European countries, particularly in southern Europe, fear competition from duty-free South African goods on their markets.

Closer ties for SA, Europe

CT 30/3/95

(SIA)

BRUSSELS: The European Union yesterday unveiled plans for closer ties with South Africa culminating in a free trade accord within a decade.

"This is an ambitious plan which confirms our determination to strengthening our links with South Africa," EU development commissioner Mr Joao Deus Pinheiro said.

Under the proposals approved yesterday by the EU's 20-member executive commission, South African goods will be given easier access to EU markets.

In return, South Africa should agree to open its markets gradually to European exports. Mr Deus Pinheiro said the EU would give South Africa about five years to bring its industry up to a level where it could compete with the EU.

"South Africa is a special case which deserves a special commitment from the European side," he said. —Sapa-AP

Europe spells out plans for ties with SA

JOHN DLUDLU

THE European Commission's proposals for relations with SA, announced yesterday, include partial Lomé membership and a separate accord with the European Union covering trade and aid. (5bA)

Commission deputy director-general Alexander Schaub said in Johannesburg that according to the proposals, SA would participate in all areas of Lomé except trade and aid. These would be dealt with in an accord between the EU and SA.

Lomé is a political, trade and aid accord linking the EU with 70 African, Caribbean and Pacific countries. BD 30/3/95

The EU-SA agreement would include financial, technical and economic co-operation, and would focus on promoting regional co-operation and integration.

The mooted free trade area, normally a reciprocal arrangement, would grant SA improved market access to the EU in the initial years without SA having to simultaneously open its markets, except "symbolically", so SA could overcome its lack of competitiveness. The EU would assist in increasing competitiveness through aid, but SA would eventually have to enter "the cold water of competition".

The proposals would be discussed by EU ministers in May, Schaub said.

DEBRA PERCIVAL reports from Brussels that EU development commissioner Joao de Deus Pinheiro said the European Commission had no choice but to exclude SA from full Lomé benefits because of World Trade Organisation rules.

EU to invest R2,5bn in small businesses

NICOLA JENVEY

DURBAN — The EU would invest R625m a year in SA over the next four years to promote small, medium and micro-enterprises and stimulate job creation, Commission of the European Communities industry deputy director-general Alexander Schaub said yesterday.

He told the President's conference on small business the European programme for reconstruction and development would assist government develop programmes to meet RDP objectives.

The programme would be coupled with the existing European Community Investment Partners joint venture programme — already extended to SA — and the launch of a low-cost trade linkage computer networking system which matched local and international partnerships.

The Commission of the European Communities industrial co-operation private investments and enterprise development head Luis Ritto said most of the R625m-a-year investment would support job creation, enterprise promotion and external trade diversification. The remainder would assist education and training, health and basic rural services.

The EU invested R2,8bn between 1986 and 1994 under its special budget line and last year financed a R6m programme to support small and medium enterprise development in Northern Transvaal.

● See Page 13

(30) (56A) BD 30/3/95

Manuel vows to fight limits on EU access

(SbA)

ARG 1/4/95

ALIDE DASNOIS
Deputy Business Editor

TRADE and Industry Minister Trevor Manuel intends to fight moves to limit South Africa's access to European markets — and he has the support of SA's neighbours.

In an interview with Weekend Argus, Mr Manuel said the position taken by the European Commission this week was "substantially flawed".

The commission recommended only partial membership for SA of the Lome Convention, which offers developing countries in the Africa-Caribbean-Pacific (ACP) group easy access to markets in the European Union.

"Abstracting South Africa out of the Lome framework will create difficulties for the region," Mr Manuel said.

Mr Manuel identified two positive aspects to the "window on Lome" proposed by the commission:

■ The application of cumulative rules of origin to South Africa, which means that goods produced in neighbouring countries with inputs from SA will qualify for free access to European markets;

■ Authorisation for South Africa to tender for development projects funded by the European Union.

But, he said, the commission's proposal of a bilateral agreement leading to a free trade area did not take account of other southern African countries.

"We need to live out our responsibilities to the region," Mr Manuel said. South Africa was coordinating the finance and inward investment portfolios of the Southern African Development Community (SADC) and was committed to regional integration. Differential access to European markets for countries in the region would not stimulate integration.

European countries argue that South Africa is not a developing country and that free access to European markets for South African products would edge out exports from the 70 ACP countries.

But ACP countries, including SA's neighbours, have given their support to South Africa's Lome bid.

In an interview, SADC senior economist Chungu Mwla in Gaborone said SADC was opposed to special treatment for South Africa.

"We consider it would weaken the ACP group to treat South Africa as a special case. Our position is that South Africa should be given access to all aspects of the Lome Convention because this will help develop the South African economy, to the benefit of the whole region."

Mr Mwla said with the exception of sugar, where Swaziland and Zambia had expressed concern about competition from SA on European markets, SADC countries were not worried about being overtaken by South African exports.

In some cases, SADC countries were not able to fill the quotas allocated by the European Union. Zimbabwean beef exporters, for instance, had recently taken up part of Botswana's beef quota because supplies from Botswana had not been sufficient.

European Union ambassador Erwan Fouere said the free trade proposal would be better for SA in the long term than full Lome membership.

"We are suggesting something unique, tailor-made for South Africa, which offers greater flexibility."

The proposal would be discussed by European Union foreign ministers on April 10 and could be adopted at their May monthly meeting. Formal negotiations could start by mid-year, he said.

■ Meanwhile, South Africa is considering applying to join the Cairns Group of 17 countries which export agricultural products, as an observer.

Questioned on an invitation by Australian Trade Minister Bob McMullan to join the Group, Mr Manuel said: "There's a lot to be said for interacting with groups like this who are grappling with strong lobbies like the United States and the European Union."

South Africa would "put out feelers" to other members of the group. "If they agree, we could do it."

SA resists EU's stance on Lomé

ST (BT) 2/4/95 (56H)

By SVEN LUNSCHE

THE European Union is pressing ahead with formalising its twin track approach towards trade with South Africa, despite strong resistance by the South African government this week.

Senior EU officials went to great lengths to stress the benefits of the deal, which comprises partial membership of the Lomé Convention — with the exclusion of the vital preferential trade terms — and a separate free trade accord (FTA).

South Africa is seeking full membership of Lomé, which provides 70 African, Caribbean and Pacific nations with favourable access to the EU market.

South African officials, led by Trade and Industry Minister Trevor Manuel, vowed to continue lobbying for SA admission to Lomé.

Mr Manuel said this week that the lobbying efforts would be directed at friendly EU governments and the European parliament.

Both parliament and the EU council of ministers have to ratify the twin track proposal. But the EU commissioner responsible for South Africa, Manuel de Deus Pinheiro, has effectively ruled out Lomé membership.

"The commission has concluded that there is only one way to address the SA request for improved access to the EU market: a free trade agreement," Mr Pinheiro says in a document prepared for the council of ministers.

In South Africa, EU officials put a positive spin on the offer. Dr Alexander Schaub, the EU's deputy director-general for industry, said: "Outside Lomé, this is the most generous and ambitious trade offer we have made to any country."

The EU document states the options are either sticking to the existing General System of Preferences (GSP) for SA goods to Europe or starting negotiations for the FTA.

It stresses the advantages that derive from the "asymmetrical timetable" that would be attached to the FTA: "It would allow South Africa, during a specified grace period, to get at an early stage improved access to the EU's market without having to grant similar treatment to EU exports.

"SA industry would therefore win time to restructure and enhance its competitiveness ..."

In an official memorandum, South Africa's ambassador to the EU, Neil van Heerden, counters that a free trade area "could jeopardise SA efforts to restructure uncompetitive industries and develop an integrated regional trade regime".

The bottom line, however, appears to be that instead of simply gaining access to the world's largest consumer market, South Africa has to open up its own market to competition, even if it is over a number of years.

South Africa is also worried that "sensitive products", such as agriculture, are likely to be excluded from the FTA for transitional periods.

Lomé would have ensured that South Africa's agricultural goods would have captured a significant amount of the EU market, and it is this fear that apparently prompted Spain and Italy, in particular, to object to SA membership.

However, Mr Pinheiro points out that political and legal obstacles, under the GATT rules, also stood against SA membership.

EU scheme banks to be named today

JOHN DLUDLU

THE European Union (EU) would today announce names of three SA banks which would administer the European Community Investment Partnership scheme on its behalf.

The scheme — which was extended to SA last year — is intended to promote joint ventures between European Community partners and companies from developing nations.

The programme provides "speedy, flexible" financial support.

Support comes through grants for feasibility studies, interest-free loans for preparation of projects, human resources development and equity loans for investments.

The focus of the programme, in which banks play a pivotal role, is largely on buoying small to medium-sized enterprises.

Although one bank, at most two, are selected to operate the scheme in many countries, the EU had selected three financial institutions, the union said at the weekend.

The step reflected the union's confidence in SA's ability to "rapidly take advantage of this facility".

A training seminar for the three institutions would be held today.

An information seminar would also be held to familiarise the business community with the practical mechanisms of the programme and to encourage "rapid take-up of the opportunities" the scheme would present.

Delegates attending the seminars would be addressed by EU ambassador to SA Erwan Fouéré, European Community Investment Partnership scheme head Tom Roe and representatives of the three banks involved.

Since the scheme's inception, six joint ventures had been sponsored.

Network tests

OTTAWA — A Canadian communications firm has announced it started test runs of a global network which will let small businesses trade using personal computers and modems.

Ottawa-based Global Business Alliance said when its International Business Exchange Network (Ibex) became operational later this year, subscribers could enter their company profiles and the goods or services they sold or sought.

It was not known whether Ibex would eventually have local representation outside North America, but it would be accessible around the globe. — Sapa.

New EU aid protocol for SA in the offing

BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — The EU is planning to sign an ambitious new aid protocol with South Africa next month.

The signing is to be held during a visit to SA by EU Commissioner Joao de Deus Pinheiro, who is responsible for relations with SA.

The protocol will mean that for the first time the SA Government will have a key role in helping to target EU aid.

Europe currently offers SA a more generous aid package than is given to any other African country, with a budget this year of around R555-million.

This figure is set to rise in the next few years if the European Parliament votes through expected increases.

Brussels officials have tried to target their aid so that it complements President Mandela's RDP. Most aid will go towards health care, education, training, help for the townships and for basic industry.

Non-governmental organisations, such as the trade unions and church bodies, have in the past played a key role in the distribution of EU aid.

Brussels officials say they intend to continue working through these groups wherever possible.

In the days of apartheid, all EU aid was channelled through the non-governmental organisations.

It was only this year that the EU first published full details of its aid to SA. Until then it had operated behind the scenes.

(56A) Star 3/4/95

Lome complaints rejected

(56A)

South Africa's exclusion from the Lome Convention's trade agreement is 'for the benefit of southern Africa' says the EU

BY JOHN FRASER
ARGUS FOREIGN SERVICE

Brussels — The European Union has rejected South African complaints about a new trade offer which will deprive the country of full membership to the Lome Convention.

European commissioner Joao de Deus Pinheiro insisted that South Africa would win a good trade deal, even if it could not be accommodated inside Lome, the treaty linking the 15-member union with 70 African, Caribbean and Pacific (ACP) countries and which offers the latter the most favourable trade access.

"I insist that the objectives of South Africa are absolutely possible — and much more easily obtained — through the kind of approach we are proposing," Pinheiro said.

"These include greater access to the European market, with the possibility of keeping some defences for their own market to protect some industries," he said. South Africa would not want a trade deal which was to the detriment of its neighbours, as many feared it would be, if South Africa achieved full membership of Lome.

South Africa's Brussels ambassador Neil van Heerden, earlier expressed "disappointment" at the strategy, which was approved by the 20-strong European Commission last week and still has to be put to the union's foreign ministers in Luxembourg today week.

Van Heerden's concern about the strategy is that the free trade agreement which the union envisages would mean the gradual dismantling of South Africa's own trade barriers. In contrast, EU trade concessions would not have to be matched. The separate trade negotiations were also envisaged as being protracted.

South Africa's proposed exclusion from the trade elements of Lome, Pinheiro said, would nonetheless result in "qualified" membership in other areas of the convention, like political dialogue.

"It would be impossible for the Lome Convention, with South Africa in it, to win a waiver from the Gatt free trade rules," he said.

"Secondly, the effects might have been detrimental to some ACP countries.

"Thirdly, I doubt that some European Union states would accept some of the concessions on trade under Lome."

Pinheiro said that South Africa will be able to negotiate a phased reduction of its own trade barriers against imports from Europe, to give continued protection to vulnerable industries.

"A prosperous and democratic South Africa brings a window of opportunity in southern Africa for the first time in many years."

"If southern Africa can join forces with South Africa, we will have a reliable partner with which we can build for the future."

EU foreign ministers are not expected to give speedy approval to the commission's strategy. Formal negotiations between Brussels and Pretoria may have to wait until May or June.

CT(BR) 3/4/95

Govt to have a say in EU aid targets

(56A)

BY JOHN FRASER
ARGUS FOREIGN SERVICE.

Brussels — The EU is planning to sign an ambitious new aid protocol with South Africa next month.

The signing is to be held during a visit to South Africa by EU commissioner Joao de Deus Pinheiro, who is responsible for relations with South Africa.

The protocol will mean that for the first time the South African government will have a key role in helping target EU aid.

Europe currently offers this country a more generous aid package than any other African country, with a budget this year of around R555 million.

This figure is set to rise in the next few years, if the European parliament votes through suggested increases.

Officials in Brussels have tried to target their aid to complement the RDP, so most of it goes towards healthcare, education, training, help for the townships and for basic industry.

Non-government organisations, such as trades union and church bodies, were instrumental in distributing EU aid in the past.

Brussels officials say that they intend to continue working through these groups wherever possible, despite the EU's improved relationship with the government.

It was only this year that the EU first published full details of its aid to South Africa. Until then, it had operated behind the scenes.

CT (BR) 3/4/95

EU appoints SA banks to help administer aid facility

(56A) BD 4/4/95

JOHN DLUDLU

THE European Union yesterday appointed three SA banks — Nedbank, First National and Standard Bank — to assist in administering the European Community Investment Partners (ECIP) facility on the EU's behalf.

The appointment of the three institutions has paved the way for SA companies to tap into this year's ECIP budget of about $50m.

The ECIP facility, which was extended to SA last year, is aimed at supporting joint ventures between European companies and partners from developing countries. It is designed to assist small and medium-sized enterprises.

ECIP provides for grants for project identification, feasibility studies, capital finance and management assistance, taking up equity and providing equity loans for investment.

ECIP head Tom Roe said the union would take a hands-off approach to the administration of projects, but maintain a watchful eye on the banks through regular audits of their books and missions to evaluate projects.

Joint venture projects with SA to date had been granted finance of R5,3m.

The EU has indicated its willingness to increase funds for SA through a combination of various budget lines, including tapping into the EU's R550m aid package to SA.

Roe noted a high standard of quality in project preparation received from SA companies, in contrast to ECIP's experience in many other countries.

The scheme was currently being reviewed by the EU. One of the proposals was to establish a mechanism to facilitate privatisation, which could be of interest to SA, he said.

EU group deliberates on SA access

LOUISE COOK

A EUROPEAN Union technical working group would meet today in Brussels to consider SA's trade access to Europe, German Food, Agriculture and Forestry secretary Wolfgang Grobl said yesterday.

Opening the first World Food and Farm exhibit at the Rand Easter Show yesterday, Grobl would not be drawn on the possible outcome of the EU deliberations, but said GATT made it necessary to work out a "new framework" between the EU and SA.

Grobl said Germany was looking for lower tariffs from SA to export agricultural machinery for small scale farming. Increased co-operation in wine making, brewing, meat processing, and cattle and dairy farming was also on the cards.

"Whereas Germany's overall balance of trade with SA is positive at DM1,7bn in 1993, Germany shows a negative balance in agricultural trade with SA. In 1993 Germany imported agricultural goods from SA worth DM370m, while exports totalled only around DM45m."

German agriculture ministry director Sonja Kreitmair said the EU deliberations were likely to be finalised within the next few months.

Also speaking at the trade show, Agriculture Minister Kraai van Niekerk called on the EU to lower import tariffs on goods from SA.

(SGA) BD 4/4/95

LOMÉ CONVENTION (SbA) N

Lobbying continues

FM 7/4/95

The European Union last week committed itself to giving SA Ecus500m in aid over the next five years. But it stopped short of allowing SA full membership to the coveted Lomé Convention, suggesting this could have negative consequences for member countries given SA's relatively strong economic performance.

"SA exports to the EU are the equivalent of more than 50% of the exports of all 70 countries combined," claims the union's Professor Joeo de Deus.

SA will, instead, enjoy what amounts to partial membership — preferential trade terms amounting to unfettered access to European markets will be excluded — and a trade and co-operation agreement that could lead to the establishment of a Free Trade Area.

"The proposal would allow SA, during a specified grace period, to get early access to the EU's market without having to grant similar treatment to EU exports. This would give SA industry time to restructure and enhance its competitiveness. Now, it is the only way to address SA's request for improved access to the EU market," states an EU document.

The EU proposal is not surprising, given the refusal of Gatt to grant SA developing-country status. SA is instead termed a country-in-transition, enjoying only some of the privileges accorded to developing countries.

Disappointed Trade & Industry Minister Trevor Manuel has vowed to continue lobbying for full admission to Lomé.

Government is particularly concerned that SA's agricultural products are likely to be excluded from the Free Trade Accord. Full membership to Lomé would have greatly enhanced SA's share of the EU agricultural market — a consideration thought to have motivated objections from Italy and Spain, in particular. Government also believes a free trade area could jeopardise SA efforts to restructure uncompetitive industries and develop an integrated regional trade regime. Organised labour would probably oppose creation of a free-trade area as it often leads to loss of privileges accorded by labour law.

Says a prominent SA businessman: "SA would do better to forfeit the Ecus500m aid component of the EU deal in favour of full Lomé membership. Aid allocations invariably get lost to bureaucracy. Access to EU markets would mean more jobs and real economic growth."

International trade consultant and former Trade & Industry assistant director Chris Gerber, however, says a free trade agreement could yield most of the privileges SA products need to obtain a foothold in EU markets. "Membership of Lomé also has potential pitfalls. SA's domestic needs could well have to give way to the regional needs of other members. This could be particularly detrimental since SA is the most socially and economically advanced country in the region."

Gerber concedes that there are numerous privileges that come with Lomé membership. But he stresses that if SA is to prosper in the long run, it needs to open up its own markets to competition rather than concentrate its efforts on gaining concessionary access to other markets. ■

SA faces tough EU trade talks

(56A)

CT(BR) 10/4/95

Southern Europeans expected to take a hard line on agricultural exports from SA

BY JOHN FRASER

ARGUS FOREIGN SERVICE

Brussels — European Union foreign ministers are to be presented with proposals today for a new accord between Europe and South Africa.

However, tough negotiation lies ahead, as some members will be reluctant to offer South African the full range of trade advantages.

The commissioner responsible for South Africa, Portugal's former foreign minister Joao de Deus Pinheiro, will be presenting his blueprint for European relations with South Africa.

Pinheiro will propose partial membership for South Africa of the Lome convention — the union's aid, trade and co-operation treaty with 70 African, Caribbean and Pacific states.

This will involve the maintenance of Europe's special programme of aid for South Africa — worth about R555 million this year.

Pinheiro will also propose a trade accord, with the eventual goal of free trade between Europe and South Africa.

This plan is likely to be the most divisive, with many southern European states fearful of competition from exports, especially in agriculture.

"We are very happy that our case is finally on the table," said Neil van Heerden, South Africa's ambassador to the union.

"This opens the door for our case to come to conclusion, although I don't expect a substantive discussion at this meeting."

He said the government would not accept all elements of Pinheiro's proposal, and would seek trade concessions inside the Lome convention.

This route has been rejected by Pinheiro, who argues that the Gatt world trade rules do not allow South Africa to benefit from the trade aspects of the Lome agreement.

Van Heerden warned that southern European states would resist opening up their markets to South Africa.

"Only 10 percent of our exports to Europe are agricultural products, but South Africa is strong in the agricultural export market, and that is a matter of concern for the southern Europeans."

"I expect the negotiations will be difficult, as the positions of the European Union and South Africa are some distance apart.

European Union foreign ministers were expected to instruct diplomats in Brussels today to study the proposals for negotiations, with a full debate planned for the next foreign ministers' meeting at the end of May.

That meeting was expected to give the go-ahead for full negotiations to begin.

Pinheiro will visit the country next month, and present a formal report to the 15 foreign ministers.

KEY ROLE *EU Commissioner Joao de Deus Pinheiro is to visit South Africa next month for talks on relations with Europe*

EU skims over proposals on SA

(56A) CT(BR) 18/4/95

By John Fraser

ARGUS FOREIGN SERVICE

Brussels — European Union foreign ministers gathered in Luxembourg last week to hear proposals for future relations between Brussels and Pretoria.

EU commissioner Joao de Deus Pinheiro gave the foreign ministers an outline of the proposals.

They nodded wisely, agreed that officials from the 15 EU nations should study the proposals, and sped on to the next item on the agenda.

South Africa's relations with Europe received very low billing in a meeting that was dominated by talks with Central European foreign ministers, and a brief squabble over fish quotas.

All this had been predicted by South African diplomats in Brussels, who are hoping there will be a fuller debate on EU-SA relations at next month's meeting of European foreign ministers.

Between now and next month, teams of officials will be going over the South African blueprint with a toothcomb.

They will be dissecting every detail and formulating a strategy for the forthcoming negotiations, which are expected to begin in June.

If there is a new row over fish quotas, fresh violence in Bosnia or Chechnya, the South Africa file will be glanced at, briefly discussed, and then handed back to the same officials.

South Africa has every reason to be worried about the way in which these matters are handled, if past experience is anything to go by.

Last year, in two separate negotiations, the EU admitted South Africa to a scheme known as the Generalised System of Preferences, which lowers tariffs on SA exports to Europe.

On the first occasion, involving industrial goods, a number of exceptions were made to the tariff cuts, under pressure from Europe's more protectionist nations.

Again, when agriculture was discussed, the protectionists won, and only a fifth of the products which could have won the benefits did win the tariff cuts.

EU foreign ministers are able to weigh up the political advantages of helping South Africa against what it will cost Europe's farmers and manufacturers.

Their officials, on the other hand, are more likely to study the fine print, to water down the benefits, and to tilt the balance away from South Africa's interests towards those of the EU.

That is why Pinheiro, who is visiting South Africa in the middle of next month, has such a key role.

It will be his task to give a political input at the discussions so that blinkered bureaucrats do not ignore the primary aim of EU relations with South Africa — which is to help South Africa.

And once the negotiations begin in earnest, he will again have an uphill struggle in persuading hard-headed officials from the EU governments to be generous to SA.

The good news is that Pinheiro, unlike the 15 foreign ministers, should be able to devote the time needed to ensuring that the negotiations result in a deal which is sufficiently generous to South Africa.

For the ministers, South Africa is just another item on an always crowded agenda.

Latest offer to SA 'puts Lomé at risk'

CT (BR) 24/4/95 (SbA)

BY BRUCE CAMERON
POLITICAL EDITOR

The entire Lomé agreement, under which developing countries have preferential trade access to the European Union, could be put at risk if Brussels sticks to its current offer to South Africa.

The warning was given by Trevor Manuel, minister of trade and industry, in an interview, on the war of words between South Africa and Brussels on membership of the Lomé club.

Manuel said part of the latest offer would result in Europe being given tariff-free access to South Africa after six years. This would have a dramatic affect on other countries in the region because of their links with South Africa.

"It could mean the end of Lomé."

He said it would be impossible for other countries in the region that needed protection to keep their markets closed when South Africa was open.

Problems would also be caused because of the structure of the Customs Union and the Southern African Development Community.

On top of this, Manuel said, he did not know if he could decide now whether to take the risk that South African business would be sufficiently competitive in six years' time to meet the challenges of trade without barriers. "A side of me says ~~do it, but~~ I can't take the risk that South African business will have been de-schooled from its bad habits of the past."

South Africa had received a bit of a setback with the latest proposals by Joao de deus Pinheiro, European Union commissioner, for a twin-track strategy, but the offer was "substantially better" than the existing trade arrangement.

Manuel said South Africa was still going full out for the first prize — membership of Lomé.

He was optimistic that it could be achieved but accepted it would be a tough fight. South African missions in Europe have been given instructions to go out and lobby hard for Lomé membership.

EU must 'rethink SA trade proposals'

(56A) BD 25/4/95

LINDA ENSOR

LONDON — The European Parliament's external and economic relations committee has been strongly urged to support better SA trade access into the European market than that proposed recently by the European Commission.

The call was made last week in a report by Alex Smith, the member of the European parliament responsible for compiling a report on EU trade relations with SA for adoption, hopefully in the European parliament June plenary session.

Smith had just returned from a trip to SA and had registered government's disappointment over the commission's proposals, especially because the political signals coming from Europe had been "extremely encouraging".

The proposals, Smith warned, threatened to disturb a delicate political balance inside SA and to hinder the policies of the new government.

SA had requested the closest possible relationship with the Lome Convention and found the commission's proposal of a non-symmetrical free trade agreement sorely wanting.

In terms of the proposals SA would not need to reciprocate access for European products immediately, allowing its industry sufficient time to become competitive.

The commission's draft negotiating mandate for future relations with SA is scheduled to be voted on at a council meeting on May 29.

But Smith told the parliamentary commitee: "Having spent my time in SA talking to representatives of the different industrial sectors, it is my view that against a background of decades of protectionism, lack of investment and unskilled labour, it is likely that SA's manufacturing industry will only be able to gear itself to compete with highly competitive European products in the long term.

"If SA industry finds itself in competition on its own market with highly competitive EU products, then this will undoubtedly lead to closures and loss of jobs.

"In a country where present levels of unemployment are already near 50%, this is likely to lead to serious social unrest and will threaten the processes of democratic consolidation," Smith said.

"At a time when SA is looking to move towards a more democratic and balanced relationship with the region, it cannot afford to negotiate a bilateral free trade agreement with Europe."

Such an agreement would decimate the Southern African Customs Union (SACU) countries' share of the SA market. Members of the union would be obliged to eliminate tariffs for EU exports. "This would mean that members Swaziland, Lesotho, Botswana and Namibia would lose the benefit of non-reciprocal Lome trade preferences."

Smith called on the commission to consult with SACU countries on its proposals as soon as possible and stressed the importance of finding a way forward out of the present polarisation which would support economic growth in SA.

"This will not only be crucial to the consolidation of democracy in SA but to stability in the Southern African region as a whole."

SA rejects Europe's free-trade offer

CT(BR) 26/4/95

By Claire Gebhardt
Economics Editor

South Africa has rejected the offer of a free trade agreement with the European Union and will press ahead for membership of the Lome convention, trade and industry department officials said yesterday.

The proposed free trade offer, an agreement in two phases, implies that in the first 10 years South African goods would be allowed preferential access into the EU, and in the second phase EU imports to South Africa would enjoy the same privileges.

Faizel Ismail, a consultant for the department, said the agreement would exacerbate the painful adjustment costs South African industries were experiencing in textiles and clothing.

South Africa had embarked on a path of trade diversification and such an agreement would lock South Africa into the EU market.

Ismail told a media briefing in Pretoria that the agreement would be of greater benefit to the EU than to South Africa.

"Approximately 77 percent of South Africa's exports in value terms entered the EU market at zero-duty in 1992 — thus only 23 percent of our exports will potentially benefit."

There was also a considerable overlap between the type of goods imported from the EU and from other states. Favouring the EU would discriminate against others.

He said the EU was being asked to level the playing fields. "We are asking them to remove discrimination and not make the government pay for the sins of the past."

As much as 80 percent of EU trade was with countries that enjoyed treatment better than most favoured nation status.

Many of South Africa's competitors in Europe, such as Israel and Turkey, paid lower tariffs.

About half of South Africa's trade is conducted with the EU while imports of South African goods into the EU constitute about 1 percent of the EU's total imports.

Ismail said the EU needed to support South Africa's transition and the reconstruction and development programme

"What we want is a package of trade-related measures contained in the Lome Convention. We believe the EU can still provide South Africa with limited access into the Lome Convention over a finite duration."

SA holds losing hand as EU debates trade links

(56A) CT 26/4/95

EU governments are reluctant to see trade with South Africa included in the Lomé Convention

BY JOHN FRASER
ARGUS FOREIGN SERVICE

Brussels — South Africa is fighting a losing battle to win full access for its exports to the EU market.

The 15 European Union governments have held their first full debate, in secret in Brussels, on a new blueprint for future trade links with South Africa.

Some key players have indicated that EU commissioners have been too generous in suggesting a framework for the future.

The EU commissioner for South Africa, Joao de Deus Pinheiro, had proposed offering South Africa a free trade accord with Europe, in which the EU would bring down its protectionist barriers faster than South Africa.

He has proposed maintaining the current aid relations, while offering South Africa partial membership of the Lomé Convention — the trade and aid framework between Brussels and 70 African, Caribbean and Pacific states.

South Africa's ambassador in Brussels, Neil Pieter van Heerden, has also said he would like trade to be within the Lomé framework.

This stance won some support in a debate last week by the European parliament's development committee. However, European diplomats have revealed that not one EU government is keen to see South African trade covered by the Lomé Convention.

This would give automatic low or nil tariff access for a large number of South Africa exports to the EU market, and would not require the reciprocal opening up of South Africa's market to imports from Europe.

"To make matters worse for South Africa, the Spanish and Italians have indicated they are very worried about a free trade agreement between Brussels and Pretoria," said a EU diplomat, who spoke on condition of anonymity.

"They are fearful, particularly of farmers being undercut by highly competitive farm products — such as fruit and fruit juice — from South Africa. Based on this first exchange of views by EU governments, the South Africans have a very difficult ride ahead."

He suggested that Spain is reluctant to allow too many South Africa farm exports into the EU, as these would compete with Latin American and North African produce. Spain is pressing hard for the EU to negotiate free trade agreements with Latin American and Southern Mediterranean states.

"The Spanish have their priority list in terms of which countries should benefit from trade liberalisation — and South Africa is not on it," said the diplomat. "South Africa will have to lobby more effectively . . . the signs are not good" he added.

He noted, however, that not all EU nations are hostile to the idea of offering South Africa a good trade deal: "The Scandinavian states are favourable, as are the Germans, the British and the Dutch."

"It is Europe's southern states, whose patterns of agriculture are very similar to those of South Africa, who feel most vulnerable, and who will fight hardest."

This is bad news for South Africa as negotiations kick off in the next few months. And from July, Spain takes over the influential presidency of the EU — followed by Italy. Meanwhile, normally protectionist France, which is the current holder of the presidency, may revert to form from the end of June, when Paris hands over the Euro-baton to Madrid.

Europe main investor in SA

(56A)

ANTHONY JOHNSON

CT 9/5/95

THE European Union is South Africa's largest foreign investor, trading partner and donor of development assistance, EU ambassador Mr Erwan Fouere said last night.

In a message to mark Europe Day today and the first anniversary of the first non-racial South African government tomorrow, he said the relationship would be boosted by the visit this week of the European Commissioner responsible for South Africa, Professor Joao de Deus Pinheiro.

Pinheiro stands firm on SA's exclusion from Lomé

CT(BR) 9/5/95 (56A)

By John Fraser

ARGUS FOREIGN SERVICE

The European Union commissioner, Joao de Deus Pinheiro, who is due in South Africa on Thursday, will warn President Mandela that the EU is not prepared to alter its proposals for future ties with South Africa.

The government has condemned EU proposals for future trade links, which would include the negotiation of a Free Trade Agreement.

Pretoria would prefer trade relations to be conducted inside the Lomé convention — the EU's trade and aid accord with 70 developing countries, including all the other SADC states.

However, the EU's development director, Steffen Smidt, said yesterday, that the South African government had been presented with the only possible alternative.

And he suggested that Pretoria take it or leave it.

"I am sure we have come up with the right formula," argued Smidt, who will be accompanying Pinheiro to South Africa.

"We will be asking EU governments to mandate us to see if South Africa wants a Free Trade Agreement with us.

"We can't impose it on them, but if they don't want it the alternative is not full Lomé treatment.

"I don't believe we should offer this to South Africa."

He added that if South Africa rejects a Free Trade Agreement with the EU, the only alternative route for boosting exports will be via an improvement in a scheme known as the Generalised System of Preferences.

However, this is regarded by Brussels as a second-rate alternative, as it would give only limited improvements in South Africa's trade access to the EU market. "If South Africa wants increased access to our markets, the only real route is through a Free Trade Agreement," Smidt argued.

"The commission does not believe that South Africa, with its strong economy, should have similar treatment to the other Lomé convention countries.

"If we proposed that, the commission would enable South Africa, under a non-reciprocal regime, to erode the benefits offered to other African, Caribbean and Pacific countries."

He said that if South Africa were to enter a Free Trade Agreement with the EU, this would "send a strong signal to the world" that the country's economy is in good shape. This, in turn, would boost investor confidence.

During his visit, Pinheiro will also sign accords on future EU aid to South Africa.

Chirac 'threat' to SA trade

(5bA) CT(BR) 10/5/95

By John Fraser

ARGUS FOREIGN SERVICE

Brussels — South Africa's attempts to win new trade concessions from the European Union may be threatened by the election of Jacques Chirac to the French presidency.

France holds the presidency of the EU for the first half of this year, and will be in the driving seat when trade negotiations are formally launched with South Africa — probably at the end of this month.

However, the French are traditionally the most protectionist nation in Europe, and are particularly worried about agricultural imports.

"Jacques Chirac is an unknown quantity, in that he tends to change his policies in accordance with the pressure that is applied to him," said a senior EU observer. "What this means is that if he comes under pressure from the European farmers' lobby, he may find it easier to give in to them than to be generous to South Africa.

"Once France has surrendered the presidency of the EU, at the end of June, it will be able to revert to a naked display of national interest."

There is also some concern in Brussels that Chirac may not feel bound by the promises which have been made to President Nelson Mandela by the outgoing French leader Francois Mitterand.

"If I were a South African negotiator, I would watch the French like a hawk, but treat them with as much mistrust as you would a scorpion," warned the EU observer.

South African observers in Europe believe that Chirac may be reluctant to see South Africa develop too close a relationship with the Lomé convention.

This is the treaty linking the European Union with 70 developing nations mainly in Africa.

"South Africa could upset the balance in the Lomé convention, which has a strong francophone element," warned a senior observer of South Africa.

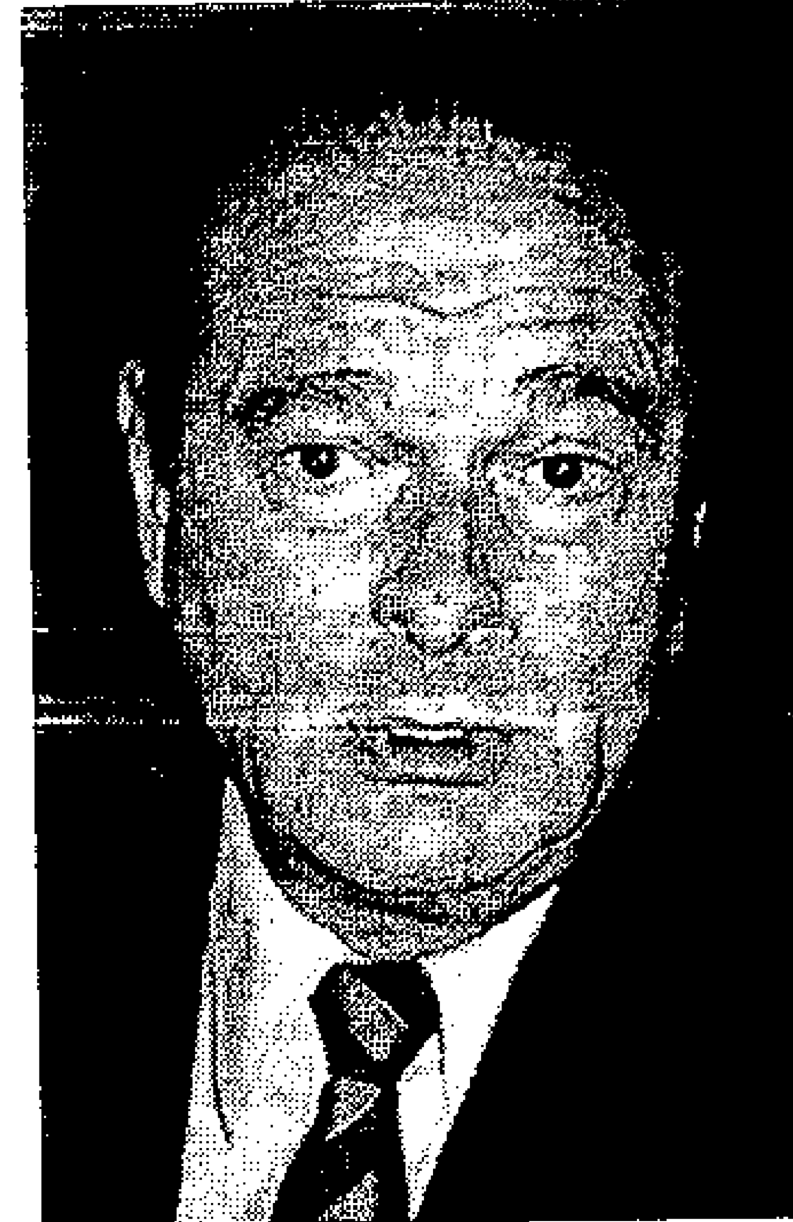
"However, this may be balanced by France's desire to develop a stronger presence in Africa and the Indian ocean region.

"Chirac may well want to step up political and economic co-operation with SA.

"He may be eager to see French countries benefit from the revival of South Africa.

"So it is difficult to see the overall effect of Chirac's rise to power on EU relations with South Africa.

"At the very least, the change of presidency in France must be a cause for concern to Pretoria. This is a key time for EU relations with South Africa, and any new element of uncertainty is a worry."



JAQUES CHIRAC

SADC supports SA's bid for Lomé status

CT(BR) 11/5/95

BRUCE CAMERON
POLITICAL EDITOR

The South African Development Community has underwritten South Africa's application for full membership of the Lomé trade accord with the European Union.

The issue is high on the agenda of the southern African summit organised by the Swiss-based World Economic Forum, which gets under way at the World Trade Centre in Kempton Park today.

The meeting will be opened by President Nelson Mandela this morning. Also present will be President Joaquim Chissano of Mozambique, President Ketumile Masire of Botswana, President Frederick Chiluba of Zambia, President Ntsu Mokhehle of Lesotho, Prime Minister Cleopa Msuya of Tanzania and President Robert Mugabe of Zimbabwe.

The controversy over South Africa's application for Lomé status comes under the spotlight with the arrival in Johannesburg today of the EU's senior official charged with southern African relations, Joao de Deus Pinheiro.

Pinheiro, who will be attending the summit, is pushing for South Africa to be given a special trade deal with the EU outside the Lomé agreement, initially giving South Africa preferential access to European markets, but leading to free trade between the two areas within six years.

Pinheiro will be signing a memorandum of understanding at Gallagher Estate in Midrand today on aid packages worth R550 million, with Jay Naidoo, minister responsible for the reconstruction and development programme.

Trevor Manuel, the minister of trade and industry, is adamant that Lomé membership will best serve South Africa and has received the endorsement of influential European Parliament committees.

Endorsement by the Southern African Development Community, of South Africa's application, made in November last year, will strengthen Manuel's case.

Kaire Mbuende, the organisation's executive secretary, said yesterday it was essential for the establishment of a southern African trading bloc that South Africa was accorded the same status in trade relations with Europe as other countries in the region.

He said South Africa's status outside the Lomé agreement was already affecting the ability of SADC countries, all Lomé signatories, to tender successfully for European Union contracts.

Mbuende said that because South Africa was not a Lomé member, it could not be sourced for equipment or supplies, pushing up costs for tender applicants who had to import from further afield.

Exclusion of South Africa from the Lomé agreement also affected the EU's rules of origin for imports, which would limit the cross-border manufacture of goods.

He said South Africa should be a full member of Lomé, but could be excluded from a number of the protocols dealing with specific goods, like bananas.

Mbuende's statements follow a recent warning by Manuel that South Africa's exclusion from Lomé may lead to the break-up of the 70-nation grouping because of the stresses placed on trade and investment in the region.

However there is disagreement on the issue in South Africa.

A number of academics and businessmen support the Pinheiro option, because they see trade barriers as anti-competitive. There is also concern that the Lomé arrangement may collapse because of lack of support in Europe.

There are 450 business delegates at the summit representing top companies from South Africa and 54 other countries.

Mbuende told a news conference yesterday that South Africa was now an important part of SADC. Tremendous advances had been made in electrification of the region as a result of South Africa's membership, while important contributions were being made in mining technology.

Mbuende said it was inevitable that South African goods would initially dominate and that the country would attract the largest share of investment, but that this would spill over to the region.

"South Africa is aware that it has to assist with regional development or South Africa itself will be destroyed." He said indications of South African concerns were reflected in plans to relax exchange control regulations.

Klaus Schwab, president of the World Economic Forum, told the news conference that investment conditions had to be better in southern Africa than in other regions of the world because of the tight competition for investment. These would be improved by greater competitiveness, he said.

MANDELA *Opening the EU's southern African summit*

PINHEIRO *Pushing for special trade status for SA*

EU clears way for R555m aid package

CT(BR) 11/5/95

By John Fraser

Argus Foreign Service

Brussels — The European Union commission yesterday agreed on a legal framework for future aid to South Africa.

This clears the way for the signing of a deal with the government on this year's R555 million EU aid package. The framework will allow Europe to work directly with the South African authorities.

This contrasts with the EU's stance during the apartheid era, when it side-stepped the Pretoria regime and gave aid directly to non-governmental organisations (NGOs).

The EU's commissioner for SA Joao de Deus Pinheiro is to sign the agreement during a three-day visit beginning today. One important new element of the EU's approach to aid is that it will be focusing on programmes which span more than one year. Many NGOs will closely watch what happens to ensure they continue to receive funding on which they have come to depend.

Pinheiro recently gave an assurance that the EU does want to see some of its aid continuing to go to NGOs even if the money initially passes through the government.

The European Parliament will also watch the new set-up to ensure proper scrutiny of assisted projects and that schemes are effectively evaluated before they are funded. If all seems above-board, the EU assembly is expected to boost aid to South Africa in the next few years.

EU agree on aid for SA

(SbA) (2...)

BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — The EU Commission yesterday agreed on a legal framework for future aid to South Africa.

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This contrasts with the EU's stance during the apartheid era, when it side-stepped the SA government, and gave aid directly to non-governmental organisations (NGOs).

The EU's Commissioner for SA, Joao de Deus Pinheiro, is expected to agree on aid policy with SA ministers during a three-day visit, begining today.

One important new element of the EU's approach to aid is that it will be focussing on programmes which span more than one year.

Star 11/5/95

EU wins over SA on trade package

ST (BT) 14/5/95 (56A)

By KEVIN DAVIE and SVEN LUNSCHE

EUROPEAN Union trade commissioner Joao de Deus Pinheiro flew back to Brussels this weekend with an agreement from the SA government to negotiate a free-trade deal with the EU.

The proposed agreement will give most SA products immediate duty-free access to Europe's $7 000-billion market but allow "10 or more years" for scaling down tariffs which protect the sensitive areas of SA industry.

Trevor Manuel, Minister for Trade and Industry, welcomed the EU's "flexible approach" to trade negotiations but said South Africa would seek an agreement "as close as possible to the Lomé Convention".

Mr Pinheiro told a meeting of the SA Institute of International Affairs on Friday that there were possibly as few as 20 "sensitive" products that would require special negotiation.

There were "five or six" agricultural products where difficulties may arise but "there is a good probability of success that we can accommodate the main concerns".

SA officials have been arguing for full membership of Lomé, which gives preferential, but limited, EU market access to 70 African, Caribbean and Pacific countries. Unlike the free-trade offer, it does not require a reciprocal phasing down of tariffs.

Mr Manuel told a news conference on Friday that he was pleased with the EU's open attitude towards negotiations. The talks are expected to begin formally on May 29, when Mr Pinheiro will be officially mandated to negotiate the package on the EU's behalf.

Mr Manuel said the key to the success of the future trade relations would depend on a sectoral analysis of "sensitive areas for SA industry", such as clothing and textiles, motor manufacturing and agriculture.

Mr Manuel said there was "nothing wrong" with spurring local industries into competition but that it should be done on a "rational basis".

Mr Manuel admitted that the EU debate "has pitched us against a fairly tight mindset in the business sector".

A study is being undertaken by the Industrial Development Corporation to determine the impact [illegible] de area will have on [illegible] industry.

Mr Pinheiro said the European Commission, the bureaucracy which runs the EU, had not decided on formal timetables for the asymmetrical phasing down of tariffs between the EU and South Africa.

But Mr Pinheiro indicated that the EU would be prepared to allow "more than 10 years" in the case of sensitive products.

Mr Pinheiro told the SAIIA that "clouds appeared to exist" before his visit this week, but after meetings with President Nelson Mandela, Mr Manuel, Minister without Portfolio Jay Naidoo and Deputy President Thabo Mbeki "there is no cloud whatsoever. We're on the same footing and the same approach."

It is understood that EU officials had impressed upon the government the need to be supportive of Mr Pinheiro's free-trade initiative.

Continued insistence by South Africa for market access through Lomé could have led to the European Commission dropping its offer to create a free-trade area.

Mr Pinheiro said the EU was in principle opposed to granting free-trade status to outside countries, but that the Commission believes that its proposals, which include limited (non-trade) Lomé membership for South Africa, were the best deal both for South Africa and the region.

Mr Pinheiro stressed that full membership of Lomé was not an option for South Africa as a special waiver required in terms of World Trade Organisation rules would be blocked by WTO members.

"Full Lomé membership is simply not possible."

Men who will shape dealings with Europe

(SLA) CT(BR) 16/5/95

BRUCE CAMERON
POLITICAL EDITOR

The two men who will decide the future of South Africa's trade relations with Europe come from very different backgrounds but both have been associated with momentous events in history.

On the side of South Africa is Trevor Manuel, essentially a revolutionary, who along with many others played a significant role in the fall of apartheid.

He was born in Cape Town on January 31 1956 and was to grow up to become the hero of many on the Cape Flats as he challenged the system in the dark years of the late seventies and eighties, suffering detention, banning, house arrest and persecution.

Manuel emerged as one of the leaders of the mass democratic movement in the eighties. After the ANC was unbanned in February 1990 he was accepted into the new leadership structure, slotting into the economic group within the party. He came to be seen as the shadow finance minister and slowly earned respect from business with a pragmatic approach.

He has been subject to criticism for not moving fast enough since taking over the difficult trade and industry portfolio.

However, Manuel is acknowledged to have a tough job, not only in restructuring his department but also in developing new policies to deal with a range of problems. These include the greater importance being given to labour as well as the need to overcome the legacy of an economy which became uncompetitive behind barriers constructed during the apartheid years.

Manuel has come down on the side of a free-market economy with the phasing out of trade barriers to create a more efficient industrial base for the country. But this is not at any cost. He is equally concerned about the effect on employment.

Across the table Manuel faces Joao de Deus Pinheiro, who was born in Lisbon in July 1945.

He started his working life as a teacher, moving to Mozambique to lecture at the university in Maputo in the early seventies when the war for liberation in the country was well under way.

He left Mozambique for home at the height of the revolution in Portugal. He went on to study in Britain where he obtained a PhD in chemical engineering and a DSc in engineering sciences.

In 1981 he was appointed the senior civil servant in charge of education in Portugal before becoming minister for education and culture in 1984 and minister of foreign affairs in 1987.

In 1993 he became a member of the European Commission responsible for relations with the European parliament and member states. In November last year he took over his current position in charge of dealing with the world's 70 poorest nations and South Africa.

European states may reject trade package

56A

BD 16/5/95

Linda Ensor

LONDON — There are indications that the trade package proposed by the European Commission for SA — and rejected by the SA government as being too restrictive — could be dismissed by European member states as overly generous.

The European Council of Ministers representing all union member states is to discuss the proposals at a meeting on May 29.

Sources in Brussels said yesterday that some member states were opposed to the idea of a free trade area — as proposed by the commission — as this would allow SA products into the European market.

Under World Trade Organisation rules it is not possible to exclude whole sectors from the operation of a free trade area. Member states vulnerable to competition from SA products — for example, agricultural products — would therefore oppose granting SA access to the European market under a free trade area agreement.

Inside sources believed that in these circumstances such an agreement would be the best SA could hope for, despite SA pressure for full membership of the Lomé Convention, and rejection of the free trade area option as insufficient for its needs.

The commission proposals mean SA need not at once give reciprocal access under the free trade area agreement. SA industry would be allowed time to become competitive.

The decision on the negotiating mandate to form the basis on which the European Commission debates a trade agreement with SA can be made only by the Council of Ministers. EC commissioner responsible for SA, Joao de Deus Pinheiro — currently in SA — has no power to change the package proposed.

Even though there is a wide gap between what the European Parliament may wish to offer SA and what the European Commission has proposed, the parliament will vote only on the outcome of the SA talks with the commission, and not the mandate for them.

By the time Parliament voted on the issue, an SA deal with the commission would have been reached, making its role one of a rubber stamp.

EU proposes a deal for SA beyond Lomé

CT(BR) 19/5/95

The European Union (EU) has put forward a proposal that while relations between the union and South Africa should fall under the Lomé Convention, trade should be covered by a separate agreement.

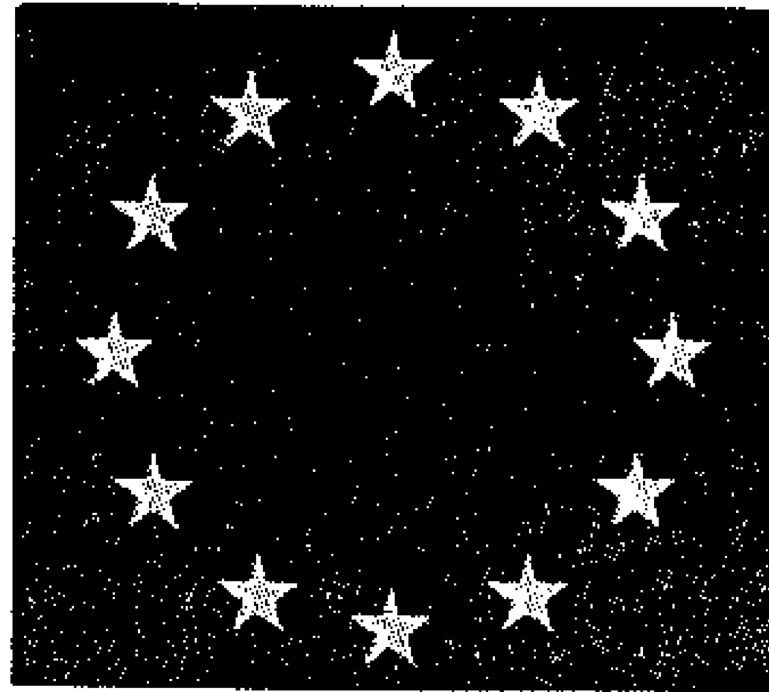
Joao de Deus Pinheiro, EU commissioner responsible for African relations, recently travelled to South Africa to meet senior members of the government, including President Nelson Mandela, to explain the EU's stance on the Lomé Convention in its relations with South Africa.

Pinheiro said that although the EU favoured Lomé to cover most areas of the relationship, when it came to trade, the EU believed a separate free trade agreement would be more beneficial.

He said: "South Africa is a dualistic society — part of the country is a developing society and the rest has the capacity for international competition.

"How do we address this dualism with the standard agreements that we have? The EU believes it is necessary to devise a totally original approach in which we would follow a dual track.

"We would seek to grant South Africa access to as much as possible of the Lomé Convention and I believe South Africa could benefit from all the chapters with the exception of general trade." Lomé's general trade section grants a num-



ber of trade preferences to African, Caribbean and Pacific countries.

However, Pinheiro said that those preferences were given in breach of Gatt and a special waiver had been negotiated.

Reopening negotiations to include South Africa would put the waiver as a whole in jeopardy, and it would be highly unlikely that the preferences would be extended to this country.

Furthermore, such negotiations would take a considerable amount of time.

On the other hand, a free trade agreement would not require such a waiver provided it covered the bulk of the trade between the parties to the agreement — at least 90 percent of products and 80 percent of services and intellectual property.

Lomé is a more focused approach that concentrates on specific products or industries and lacks the broad coverage of a trade agreement, and thus falls foul of Gatt. Said Pinheiro: "Bearing all these factors in mind we have offered South Africa the possibility of having a trade and co-operation agreement on those areas not covered by Lomé. We are so open in this regard that we are even prepared to go to a free trade agreement of an asymmetric nature.

"This would mean that the pulling down of barriers to free trade on the South African side would be much slower than for the union.

"Market access under a free trade agreement would be at least as good as under the Lomé Convention.

"In addition, it is on a firmer basis as there is no time limit and will only end when one or more of the parties gives several years notice in advance.

"However, it is not a precondition that we negotiate towards a free trade area. Nor is this something we would press towards.

"Inside the EU the idea is not particularly popular as conventional wisdom tells people it would be bad for the union.

"Because the EU's market is larger, the agreement to open the two markets offers more opportunities for South Africa. If the EU's council of ministers gives its blessing to the idea, it would be an important breakthrough for South Africa."

Qualified 'yes' for SA in Lomé

(7W) (SLA)

BY JOHN FRASER

ARGUS FOREIGN SERVICE

CT(BR) 23/5/95

Brussels — Ambassadors from 70 developing countries are today expected to vote in favour of South Africa's partial membership of the Lomé convention.

This is the treaty linking the EU to 70 African, Caribbean and Pacific (ACP) states — including all South Africa's neighbours.

The ambassadors will discuss a report which in general terms supports SA's adhesion to the Lomé convention. However, the ACP states suggest SA should not be able to benefit from certain elements of the convention, as this would reduce the benefits to existing signatories.

The areas highlighted are the protocols governing bananas, sugar, rum and beef, as well as funds for supporting mining and basic commodities.

The ambassadors are also expected to vote against South African eligibility for a "structural adjustment fund" — which offers Lomé countries special financial help. The ACP countries argue SA receives separate aid from the EU, totalling R555 million this year.

Ambassadors back SA Lomé membership

CT(BR) 24/5/95 (56A) (24)

By John Fraser
Argus Foreign Service

Brussels — Ambassadors from 70 African, Caribbean and Pacific (ACP) states yesterday voted their support for South Africa's bid to join the Lomé Convention.

This is the trade, aid and co-operation treaty linking the European Union with the ACP nations. The ambassadors' recommendations will go to a ministerial meeting of ACP states in Brussels on Monday. The ambassadors adopted a formula which is the brainchild of Neil van Heerden, South Africa's ambassador to the EU. The formula was used when Namibia applied to join the club. On that occasion, a special clause was added to the convention supporting Windhoek's bid for membership — but leaving the fine print to be negotiated at a later stage.

This meant there were no delays in admitting Namibia, once negotiations had been completed.

"We are going to do the same thing for South Africa as we did for Namibia," said an ACP official.

"This gives the political green light to membership, but recognises that there are difficult problems to be sorted out in negotiations."

Although South Africa would enjoy most of the benefits of the convention, the ACP states would want it to be excluded from two funds which protect developing nations from changes in commodity and mineral prices.

South Africa would also be excluded from assistance for producers of sugar, bananas, beef and rum and would not be offered the benefits of the Structural Adjustment Fund.

Trade development

BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — Ambassadors from 70 African, Carribean and Pacific (ACP) states yesterday voted their support for South Africa's bid to join the Lomé Convention.

This is the trade, aid and cooperation treaty linking the Union with the ACP nations — former colonies of EU states.

The ambassadors' recommendations will now go to a ministerial meeting of ACP states in Brussels on Monday.

The ambassadors adopted a formula which is the brainchild of SA's ambassador to the EU, Neil van Heerden.

Van Heerden persuaded the ACP bloc to copy the formula which was used when Namibia applied to join the club.

(56A) Star 24/5/95

Is Lomé the best deal for SA?

WM (BM) 26/5-1/6/95 (56A)

Reg Rumney

WHILE the government is pressing on with attempts to get South Africa preferential trade access to the European Union (EU) in terms of the Lomé Convention, business seems lukewarm.

The Lomé Convention gives products from underdeveloped countries access to European markets, and could boost sales in Europe of certain South African products, particularly agricultural products.

South African Foreign Trade Organisation (Safto) general manager Anne Moore says: "What is important is that South Africa gets the best possible deal. It doesn't have to be Lomé."

Organised business does not seem to be as taken with the idea as it could be — and not only because it might bracket us with the least developed countries in the world.

The South African Chamber of Business (Sacob), for one, has not taken a strong stance. Perhaps this is because it feels left out of the loop.

A Sacob representative says: "It is absolutely necessary for the government to talk to business on a regular basis about issues of trade relations or the result might be unacceptable to business." What this statement reflects is a feeling that business would like to have been more involved in the negotiations on Lomé — and other matters.

The Department of Trade and Industry (DTI), on the other hand, seems determined that access to Lomé is the target. While South Africa is not strictly an undeveloped country, and so not eligible for Lomé treatment, the South African argument is that it has a per capita income lower than more than 10 of Lomé's member states. Moreover, the United Nations Development Programme (UNDP) human development index, a broader measure of development, ranks South Africa 70th in the world, much further down the development ladder than many developing countries.

Instead of access to European markets in terms of Lomé, the EU has offered a free trade agreement (FTA).

According to some economists, trade fuels economic growth for either party, hence the best possible situation is completely free trade, unencumbered on either side by tariffs. From that point of view, the EU's offer might seem more than fair. Why would South Africa want more?

FTAs are usually "asymmetrical". This means the EU opens its markets to South African goods for, say, five years, and after that South Africa has to open its market completely to EU products. Over-protected South African industries would have time to adjust to the cold winds of international competition.

■ To PAGE B2

P.T.O.

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SA fears EU stalling on Lomé

CT (BR) 29/5/95 56A

By John Fraser
ARGUS FOREIGN SERVICE

Brussels — South African observers in Brussels are nervous that the European Union (EU) is dragging its feet in launching trade talks with Pretoria.

This follows the news that EU relations with South Africa are off the agenda for today's monthly meeting of European foreign ministers.

It is hoped that the 15 foreign ministers will discuss South Africa when they next gather, in Luxembourg, on June 12.

If not, there is a real danger that a decision on the launch of the negotiations may have to await the end of the EU's annual August break.

South African sources in Brussels say they are very anxious to see the EU ministers take a decision to launch negotiations before the end of next month.

This is because the EU is expected by then to have agreed on the review of the Lomé convention; its main trade, aid and co-operation treaty with Africa.

South Africa would hope that its partial admission to Lomé, which is one of the aims of the forthcoming negotiations with Brussels, could be accommodated inside this review.

South African ambassador to Brussels, Neil-Pieter van Heerden, has suggested that a clause could be inserted into the Lomé convention, agreeing in principle to South African membership.

This could be adopted as part of the review process in the same way as Namibia's earlier membership bid was handled.

The details could then be left to be worked out in later negotiations.

"However, if this clause is not agreed to during the mid-term review of the Lomé convention, any later agreement to admit South Africa would have to be ratified separately," said a South African source. Senior British diplomats have said there is "nothing sinister" in the delay by EU ministers in launching trade negotiations with South Africa.

They add that they hope there will be an agreement to launch negotiations at next month's meeting of EU foreign ministers.

Already it is clear that there is a split among EU governments on how generous to be to South Africa.

The northern European states, such as Germany, Britain and the Scandinavian countries, want to give South Africa a favourable trade accord.

However, southern EU states, like France, Spain and Italy, are worried about competition from South Africa, particularly for agricultural products such as fresh and canned fruit, fruit juices and wine.

It is now fairly certain that South Africa will not be given everything it is seeking in the trade negotiations with Europe.

The Pretoria government had sought for trade relations to be covered inside the framework of the Lomé convention, which EU officials say would be impossible, a view shared by EU governments.

South Africa is now subtly changing its stance, saying it wants a trade deal equivalent to that which it would get from full membership of the Lomé convention.

This is expected to be rejected by the EU, as Lomé trade concessions do not have to be matched by the country receiving them.

"EU commissioner João de Deus Pinheiro has proposed a free trade agreement which would eventually mean SA opening up its market," said one senior British diplomat. "This is the best deal South Africa is likely to get, as we would be prepared to slant it in their favour in the early years."

South African trade officials have expressed nervousness about this approach, as they are worried that the EU may pile on the pressure for concessions.

recurring management apology. However, the reduction in acci-

EU reviews SA's role today

(56A) BD 24/5/95

John Dludlu

THE European Union's council of ministers — the highest decision making body — meets today to consider SA's requests for a closer association with developing African, Carribean and Pacific (ACP) countries and a long-term bilateral relationship with the 15-nation union.

Today's meeting will discuss the Pinheiro proposals — a negotiations mandate drawn up by commissioner Joao de Deus Pinheiro to address SA's request.

Pinheiro proposed SA's partial accession to the Lome Convention — a trade, political and aid accord between the EU and the ACP — but its exclusion from aid and generous unilateral trade protocols.

The accord would mean that SA would not be readily expected to open up its markets to the union.

Although SA initially rejected the free trade accord, its negotiators are understood to have softened their position.

In his recent visit to SA, Pinheiro stressed the long-term nature of his proposals compared to Lome which comes under review in 1999.

SA's rejection was based on the fear that a free trade accord might see its Customs Union partners — currently Lome beneficiaries — prematurely forfeiting their benefits through the common external tariff arrangement.

Following Pinheiro's recent mission to SA, the EU and SA agreed to involve the ACP nations — especially Botswana, Lesotho, Namibia and Swaziland — in the talks towards a long-term arrangement, and to study the effect a free trade accord would have on SA industry.

Today's meeting is also expected to give a schedule for the official start of talks with SA, according to sources.

SA at Lomé's door today

By John Fraser

Argus Foreign Service

Brussels — The South African ambassador to the European Union, Neil-Pieter van Heerden, is to call today for South Africa to be admitted to the Lomé Convention.

He will be addressing a meeting of foreign ministers from the 70 African, Caribbean and Pacific states, which make up the membership of the Lomé Convention.

South Africa wants trade benefits in terms of the convention and is expected to win the broad support of its members.

The issue was expected to be raised yesterday, but had been put off until this morning's session of the members' foreign ministers.

However, they are likely to highlight a list of commodities on which South Africa should not be given trade benefits under the convention. These include bananas, sugar and beef.

EU foreign ministers were due to have discussed South Africa yesterday, but failed to do so.

Instead, the discussion was postponed until June 12.

EU sparring could delay SA trade deal

CT (BR) 30/5/95 (SbA)

By Andrew Marshall
THE INDEPENDENT

Disputes between European Union member states could delay a plan for free trade between Europe and South Africa, diplomats and officials in Brussels say.

Joao de Deus Pinheiro, the European commissioner for development who recently visited South Africa, underlined the priority he puts on the agreement.

"South Africa is, I think, the great hope of Africa," he said.

Reconstructing its economy is vital to underpinning democracy, but also to assisting the whole region, where peace has returned to Mozambique and the outlook in Angola is better.

"For the first time, there is a real prospect of improvement in southern Africa," he said.

Relations with the government are shaping up as a key test of EU relations with Africa and strategy towards developing countries in general.

The European Commission has proposed a deal that would eventually allow free trade between South Africa and the EU. Europe would drop its trade barriers first, allowing South African industry to adjust. After four or five years, South Africa would follow, creating free trade in 10 or 12 years' time.

The idea initially caused controversy because South Africa thought it should be allowed access to the EU's preferential trade scheme reserved for developing countries. The Lomé convention covers trade and aid relations with 70 developing countries in Africa, the Caribbean and the Pacific (ACP).

Because parts of the South African economy are far more developed than the rest of Africa's the commission rejected that, though a "two-track" policy gives the country some links to Lomé.

No agreement

On his visit Pinheiro resolved most South African doubts. But he has still to win the agreement of the 15 EU member states. Some continue to disagree about the free trade idea, fearing it may undermine their own producers — particularly in sensitive agricultural sectors such as fruit.

But commission sources and diplomats say that a larger problem may be emerging.

The agreement of EU governments to the mandate under which European officials would negotiate with South Africa may be held hostage to a deal to increase the aid available under the European Development Fund (EDF), a scheme for assisting the 70 ACP states.

Britain and Germany are opposing plans for a substantial increase in the EDF, but they are the two principal supporters of free trade with South Africa. France, president of the EU, has put more cash for the EDF at the top of its priorities. It could use the South African deal as leverage.

It was hoped the negotiating mandate could be agreed yesterday, but it may take several more weeks, officials said.

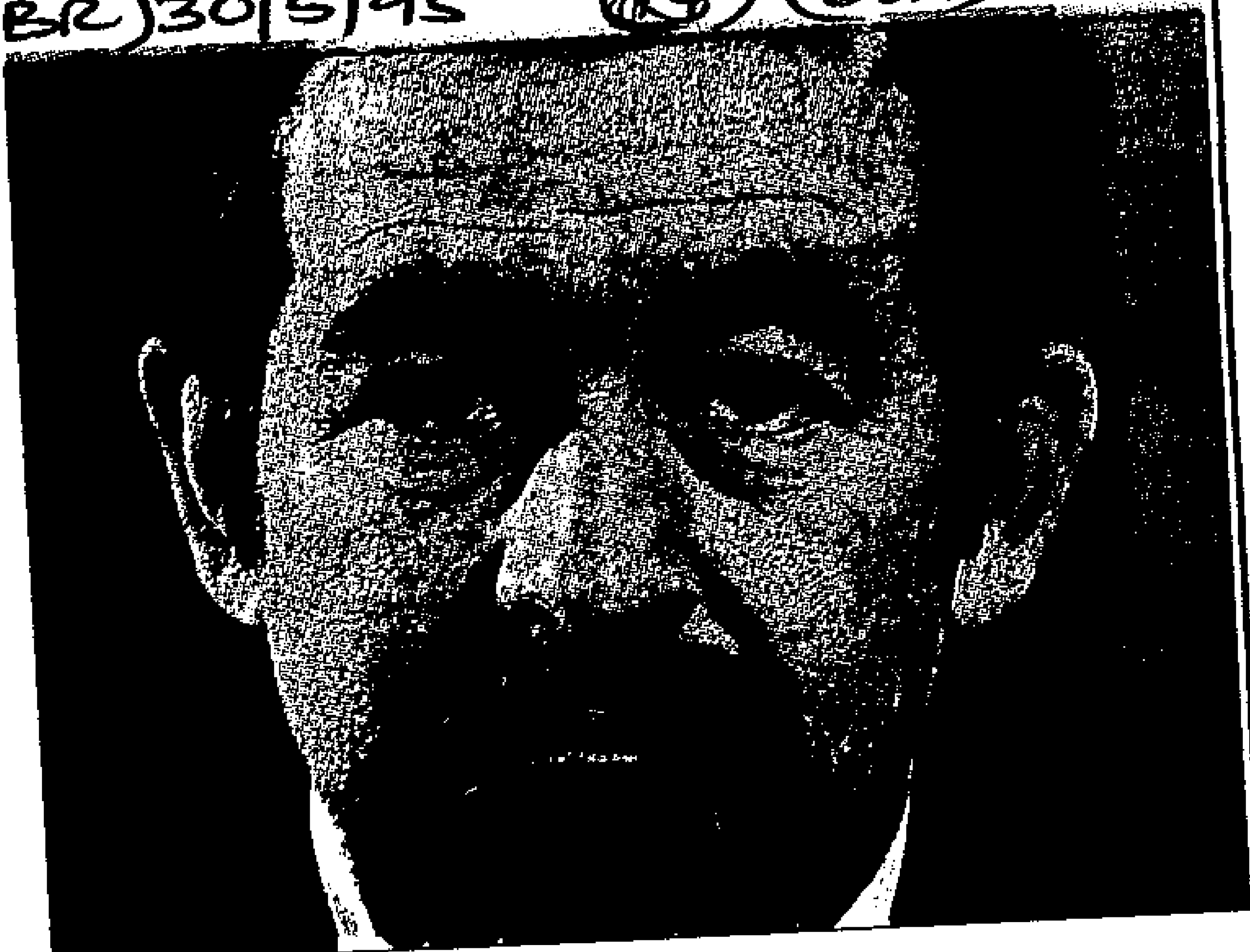
The trade agreement is pivotal for the commission and South Africa. Pinheiro, a former Portuguese foreign minister, thinks the EU can and should play an important role in South Africa because of its economic involvement — it is South Africa's leading trade partner. The EU is also offering £100 million of aid a year for five years to the reconstruction and development programme.

But the commission also hopes the deal with Pretoria can serve as the nucleus of a strategy for southern Africa, and this was one of the major themes of discussion between Pinheiro and Deputy President Thabo Mbeki. "Because we think South Africa will be decisive in the region, we intend to be generous," said Pinheiro.

The commission is offering new support for regional integration through the Southern African Development Community.

Analysts hope the changes in South Africa will refocus European attention on the continent. With Eastern Europe, Latin America and the Mediterranean all absorbing much time and money in Brussels, and the former colonial powers now look to Asia for economic opportunities, Africa has started to slide off the agenda.

Foreign investment has collapsed. A study by the institute of development studies at Sussex University shows rapid disinvestment by British firms in the early 1990s.



PRIORITY *The EU's commissioner for development, Joao de Deus Pinheiro, sees South Africa as the great hope of Africa*

SA will be focus of EU meeting

John Dludlu (5bA)
BD 31/5/95

THE EU council of finance ministers would meet tomorrow to approve a decision to extend operations of the European Investment Bank to SA, EU ambassador in Pretoria Erwan Fouere said yesterday.

The move was expected to unlock R1,2bn in funds for the country.

Fouere said the next "legal step" would be to table the decision for final approval to the bank's board of governors at its annual meeting on June 19.

It is understood that a senior delegation from the bank would then visit SA to officially launch the bank's activities in the country.

The two-year loan package already has the support of the EU parliament.

The Luxembourg-based bank provides loans for infrastructural projects.

Meanwhile, **Linda Ensor** reports from London that less than 10% of the EU's 125-million ecu aid budget for SA this year had been committed by end-April. This raised the possibility that last year's eleventh hour approval of projects might be repeated.

European Parliament development committee spokesman David Lowe said yesterday administrative bottlenecks in Brussels were mainly responsible for the delays.

Lowe leaves for SA today with European Parliament member Glynnis Kinnock. They will meet Trade and Industry Minister Trevor Manuel and Minister without Portfolio Jay Naidoo, and have discussions with non-governmental organisations.

...salary package is negotiable.

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SA promise to neighbours over trade deal

BY JOHN FRASER
STAR FOREIGN SERVICE

Brussels — South Africa yesterday delivered a pledge to its African neighbours that it will do nothing to undermine their benefits from the European Union.

The pledge was delivered by South Africa's ambassador to the EU, Niel Pieter van Heerden, to a meeting in Brussels of ministers from 70 developing states.

The 70 African, Carribean and Pacific (ACP) countries are signatories to the Lomé Convention — a trade, aid and cooperation accord with the European Union.

South Africa has applied for membership of the convention, and this bid won broad support at yesterday's meeting in Brussels.

However, there was clear nervousness among the ACP states that they will lose out if powerful South Africa gobbles up all the benefits in the Lomé Convention.

"I am instructed to assure the council, once again, that South Africa will not seek to take up any of the benefits available in the Lomé Convention, at the expense of the current membership," said Van Heerden.

"Neither will South Africa be party to a relationship with the European Union which is detrimental to the interests of the ACP countries."

He added, however, that South Africa was seeking access to the European Market "comparable to preferences granted in terms of the Lomé Convention."

EU Commissioner Joao de Deus Pinheiro has told South Africa that it cannot win trade concessions inside the convention.

Instead, SA will be offered "qualified membership" of Lomé — and a separate trade deal will have to be negotiated.

Van Heerden was making an important point when he stressed that South Africa was insisting on trade benefits "comparable" to those available under Lomé.

South Africa is well aware that Lomé Convention countries receiving special access to the EU market do not have to offer EU countries similar rights in return.

However, the danger is that South Africa will be forced into a corner in forthcoming trade negotiations with Europe, and will be under pressure to agree to two-way trade access.

This would mean fragile South African industries facing the prospect of fierce competition from Europe.

EU countries have already voiced some opposition to being too generous to SA — with the Mediterranean states particularly woried about competition involving agricultural products, such as fresh and canned fruit, fruit juices and wine.

SA on verge of being a 'gangster nation'

CT(BR) 31/5/95

By Claire Gebhardt
Economics Editor

South Africa was on the threshold of becoming a gangster nation with crime escalating to unprecedented levels, Piet Liebenberg, Chamber of South African Business (Cosab) chief executive warned.

One serious crime was committed every 17 seconds and police were investigating more than 22 000 reported cases of fraud involving more than R7 billion.

At least 278 organised crime syndicates were operating in the country.

Liebenberg said that despite the wave of euphoria that swept across South Africa since President Nelson Mandela's inauguration last year, crime statistics were grim and reflected a growing potential for anarchy and economic ruin.

Although the crime rate was a legacy of apartheid, the country faced a new class of criminal — one that had infiltrated the legitimate business world. he said.

This "corporate sickness" posed a serious threat to economic stability and had a negative effect on foreign investment.

David Brink, Business South Africa (BSA) chairman said the police force lacked resources and was unable, to cope with the escalating crime rate.

About 1 000 business leaders from Southern Africa will be joining forces at a one-day conference on 15 August.

The event will be hosted by BSA and Cosab at the World Trade Centre in Kempton Park to formulate an action plan for restoring law and order and economic growth to the region.

The conference is entitled A Business Initiative against Corruption and Crime.

It is in support of Mandela's call for the country to be put on a new moral footing.

SA reassures Lomé members

CT(BR) 31/5/95 (56A)

By John Fraser
Argus Foreign Service

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He added, however, that South Africa was seeking access to the European market "comparable to preferences granted in terms of the Lomé Convention".

Joao de Deus Pinheiro, the EU's commissioner for development, has told South Africa that it would not be able to win trade concessions inside the Lomé Convention.

Instead, South Africa would be offered "qualified membership" of Lomé — and a separate trade deal would have to be negotiated.

South Africa is well aware that Lomé countries receiving special access to the EU market do not have to offer EU countries similar rights in return. However, the danger is that South Africa will be forced into a corner in forthcoming trade negotiations with Europe, and will be under pressure to agree to two-way trade access.

Fragile South African industries would then face the prospect of fierce competition from Europe.

Single currency 'by 2003'

(56A) CT(BR) 1/6/95

BY MICHAEL DYNES

THE TIMES

Brussels — Whether it is called the ecu, the Eurodollar, the Franken or the Hamburger, the notes and coins of the new European single currency will not be in people's pockets until 2003, the European Commission is expected to announce.

Overcoming public hostility towards the new money and preventing turmoil on the international currency markets during the transition to the single currency, will be the main obstacles facing the introduction of the new Euro-currency, according to a leaked commission document.

Unveiling the long-awaited Green Paper on the technical preparations for economic and monetary union, Yves-Thibault de Silguy, the economic affairs commissioner responsible for introducing the single currency, will announce that the transition will take place in three stages.

Stage one will take place when European Union leaders decide which of the 15 EU members states fulfil the Maastricht treaty's economic convergence targets for reducing government debts and deficits, enabling them to proceed with full economic and monetary union in 1999.

Stage two will begin in the following year when EU governments, banks and business executives begin detailed talks on the practicalities of introducing the new currency, such as modifying the EU's 3,5 million cash dispensers, and altering the millions of vending machines and cash registers. At this stage, the single currency will exist side by side with national currencies, although largely confined to banking and financial circles.

The final stage will take place when the new notes and coins are eased into general circulation, replacing national currencies. But because of the time needed to design, print and mint the new money, "the man in the street will not get coins or notes for another two to four years," effectively delaying the full transition until around 2003.

No decision has yet been taken on what to call the new money. That will be decided in 1999 between the prime ministers and central bankers of those countries which decide to go ahead with the single currency. If Britain and Denmark decide to exercise their single currency opt out, they will have no say in the naming of the new currency.

Suggestions that the new European currency unit will be called the Franken are unfounded. As Franken is a region in Northern Bavaria, that would be the equivalent of calling the new money the Yorkshire or the Bordeaux. Unless a common name can be agreed on, the new currency may simply be called the mark in Germany, the franc in France, and the pound in Britain.

But currency from one country would be legal tender in all others. Convincing Europe's financial institutions and consumers that the transition will take place is going to be an uphill struggle, according to a draft copy of the Green Paper, obtained by The Times.

"Certain sectors of public opinion have been seized by doubt," the document says. "In economic and financial circles, the desirability, credibility and feasibility of the single currency, have been questioned." Admitting that "the single currency cannot be brought about by decree", the Green Paper says that the commission "will have to foster a pride among Europeans in their currency". A "vast communications campaign is needed to bring home to European citizens the advantages of the single currency", the document says.

The campaign will include a high profile advertising campaign to promote the case for the single currency throughout the EU. Television and newspaper advertisements will be used to explain the commission's case to adults, while a review of school curriculums and teaching materials will be used to ensure that a similar message reaches school children.

The Green Paper also warns that international financial markets can be expected to test the viability of the transition to the new currency. "If the market does not see this decision as fully credible, participating currencies would not be seen by the market as perfect substitutes (for each other), and this could result in tensions among the currencies," the document said.

European MP suggests SA gets a 5-year breather

CT(BR) 1/6/95 (56A)

BY JOHN FRASER

ARGUS FOREIGN SERVICE

Brussels — A leading member of the European Parliament is recommending that South Africa should be given a five-year breathing space before being asked to open up its markets to the EU.

The report was presented to the assembly's external relations committee on Tuesday by its author, Alex Smith, a Scottish European MP. He drafted his report after visiting South Africa and it is highly supportive of South Africa, arguing that Europe should be as generous as possible.

It notes that improved trade with Europe will be critical to the consolidation of South Africa's "fragile democracy".

It calls for "a strategy aimed at the granting of substantial improvements in market access for those commodities and sectors which will have a real impact on the economic recovery and development of South Africa".

Smith argues in an addendum to the report against a proposal by EU commissioner for South Africa, Joao de Deus Pinheiro.

The commissioner has suggested that South Africa should be given partial membership of the Lomé Convention.

Pinheiro adds that trade relations should be handled outside Lomé, in a free trade accord between Brussels and Pretoria.

Smith is opposed to this latter suggestion and recommends that there should be a five-year agreement between South Africa and the EU, with South Africa winning "on a non-reciprocal basis, market access equal or similar to that available under Lomé".

Then there should be the option of a free trade agreement, in which Europe would bring down its remaining trade barriers at a faster speed than South Africa.

Mbeki calls on Europe to stop dragging feet over SA

Foreign Service (SLA) (ARG 3/6/95)

BRUSSELS. — South Africa has appealed to European Union governments to stop dragging their feet in launching negotiations with Pretoria.

The appeal came in letters sent yesterday by Deputy President Thabo Mbeki to the 15 foreign ministers and another, tougher, letter to French Prime Minister Alain Juppe.

The negotiations will give SA a chance to bid for partial access to the Lome Convention, the EU treaty with 70 African, Carribean and Pacific states.

South Africa would also aim at securing easier access to the European market for its exports.

However, nervous EU governments are dragging their feet, with southern states nervous that competition from South Africa could put their producers out of business.

Mr Mbeki's letters call for an end to delays and hopes that a decision to begin negotiations can be taken on Monday, June 12.

That is when the 15 foreign ministers next meet, in Luxembourg.

Mr Mbeki's letter to Mr Juppe was sent because France holds the Presidency of the EU — and will have an influence in setting the agenda for the Foreign Ministers' meeting.

If no decision to begin negotiations is taken there will inevitably be delays in implementing a future deal.

Mbeki in plea to EU for quick start to trade negotiations

By JOHN FRASER
ARGUS FOREIGN SERVICE

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The appeal came in letters sent yesterday by Deputy President Thabo Mbeki to the 15 EU foreign ministers and another, tougher, letter to French Prime Minister Alain Juppe.

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Star 3/5/95

SA would also aim at securing easier access to the EU market for its exports. But wary EU governments are dragging their feet, with southern states nervous that competition from SA could put their producers out of business.

Mbeki's letters call for an end to delays by the EU side, with the hope that a decision to begin negotiations can be taken on June 12, when the 15 EU foreign ministers next meet in Luxembourg.

Mbeki's letter to Juppe was sent because France currently holds the presidency of the EU, and will have an influence in setting the agenda.

If no decision to begin negotiations is taken by the EU side this month, there will inevitably be delays in implementing a future deal.

Mbeki urges SA-EU trade pact haste

BD 5/6/95

Debra Percival

BRUSSELS — Letters from Vice-President Thabo Mbeki urging haste in the adoption of a negotiating mandate for a new EU-SA trade pact were dispatched to 15 European foreign ministers at the weekend.

SA ambassadors delivered the letters which outlined SA's arguments for a non-reciprocal trade agreement and French Foreign Minister Alain Juppe was also asked to ensure that the item was included on the agenda of the next meeting of foreign ministers on June 12.

SA ambassador to the European Union Neil van Heerden said SA regarded it as important for the mandate to be discussed on the 12th. He said Pretoria wanted to tag the item onto the current mid-term review of the Lomé IV Convention at the forthcoming summit of heads of state in Cannes on June 26-27.

"There is a psychological barrier in the EU concerning SA that it is a country that will dump high quality, low-priced produce on the European market." This myth would be removed by SA negotiators, he said.

This month EU foreign ministers are expected to agree on a temporary package of improved access for SA's fruit and vegetables under the EU's Generalised System of Preferences (GSP).

The European Commission is believed to be putting its finishing touches to the package before EU foreign ministers seal its content. The package will be valid for just six months until the EU brings in new GSP access next year, when there will be fairer distribution of preferences.

EU prepares for 21st century

(56A) CT(BR)5/6/95

BY JEREMY GAUNT

SAPA-REUTER

Taormina, Sicily — Deep divisions over what the European Union should be like in the 21st century are bubbling to the surface as the 15-nation bloc prepares for a politically-charged review next year of how it works.

Senior officials from EU countries and institutions began drafting the agenda for the review, known as the inter-governmental conference, at a weekend meeting in the Sicilian resort of Taormina.

At issue is how the EU can work with more than a dozen new members when it expands into eastern Europe and the Mediterranean early next century.

There is widespread agreement that EU procedures are already unwieldy and are likely to become unworkable in a union of 25 or more countries.

Reform treaties

"The most important (objective) is to make enlargement possible," said Carlos Westendorp, the Spanish European affairs minister who is chairing the agenda-drafting group.

"We have to reform the treaties to facilitate this historic task."

David Davis, Britain's European affairs minister and delegate to the group, said his country would block any move to change the EU's decision-making process at the expense of national governments' power.

He was specific about refusing to countenance any shift away from the required unanimity for major changes and towards more majority voting in the union.

Almost every other country and institution believes this is necessary if an enlarged EU is to be able to take any decisions.

"The right of veto has to be very restrictive otherwise there is no efficiency," said Spain's Marcelino Oreja, the European commissioner for institutional affairs.

Germany, the EU's dominant power, is adamant that it wants next year's review to come up with a political union to match the economic merger it agreed to under the Maastricht treaty.

German regional governments have called for the European parliament, the EU's only directly elected body, to be given equal footing in decision-making with the council of ministers representing member states.

Collision course

This has put Germany on a collision course with its chief ally, France, which has little time for the European parliament.

French president Jacques Chirac has called for a strengthening of the council of ministers, the body in which EU member states are represented.

EU observers believe that France and Germany will find a way to reconcile their differences, as they often do, but few have any idea how.

EU gears up for Lomé talks with SA

(SA) (5bH)

By John Fraser

Argus Foreign Service

ET (BR) 5/6/95

Brussels — European Union officials are this week expected to prepare the way for the launch of trade negotiations with South Africa.

This would enable EU foreign ministers to give their formal approval next Monday.

However, South African diplomats remain worried that protectionist EU states may still try to delay the process.

The EU commissioner for southern Africa, Joao de Deus Pinheiro, has proposed a twin-track approach for South Africa.

South Africa would be offered partial membership of the Lomé Convention and a special trade accord would be negotiated.

There are some EU nations — particularly the Mediterranean nations with strong farm lobbies — which believe Europe should be strict with South Africa.

"They think of us as some sort of colossus, and they are worried about the effect we could have on their producers," said South Africa's ambassador to the EU, Neil van Heerden. "However, once we get the chance to begin negotiations, I hope we can dispel some of these myths and fears."

Glenys Kinnock fights SA's bat square deal from the Europea

(56A) CT. (BR) 5/6/95

By Bruce Cameron
Political Editor

Out batting for South Africa in the on-going saga of its future relationship with the European Union is feisty Glenys Kinnock, member of the European parliament, and head of its development and co-operation committee.

Married to Neil Kinnock, former British Labour Party leader, now the European Union transport commissioner, she is also the senior vice president of the joint assembly of the European parliament and representatives of the parliaments of the 70 African, Caribbean, and Pacific (ACP) countries, who are signatories to the Lomé preferential agreements for the poorer countries of the world.

In South Africa at the moment, Kinnock is determined to ensure South Africa gets a square deal from the EU.

In an interview with Business Report, Kinnock said she was concerned about delays in the start of negotiations between South Africa and the European Union on the plan proposed by Joao de Deus Pinheiro, EU commissioner.

The plan is intended to give South Africa limited Lomé status, with a separate trade agreement aimed at an eventual free trade agreement.

Last week, after a second delay in putting the Pinheiro plan to the EU council of ministers for approval, EU parliamentary members gave EU commission officials "a bit of a roasting".

Kinnock said the Pinheiro plan was now scheduled to be put before the council of ministers next month.

"The delays are very wrong. South Africa cannot afford delays.

"The commission keeps moving the goal posts. First it said the ACP countries would object to South Africa being a Lomé signatory. The ACP countries approved South Africa. Then issues of the General Agreement of Tariffs and Trade were raised. Ron Brown, the American trade secretary, said there was no problem. Then it was Latin America."

Kinnock conceded there were difficulties that had to be resolved but "they are not insurmountable". She also pointed out that no one had ever suggested that South Africa should have all the benefits of Lomé.

She said although an EU parliamentary delegation to South Africa had initially supported South African opposition to the Pinheiro plan, the plan was pragmatic.

It was clear that Pinheiro wished to do his best for South Africa.

In moving towards a free trade zone, every effort had to be made to ensure infant and uncompetitive industries in South Africa were protected, she said. They had to be able to compete with goods from the EU.

Kinnock said the Pinheiro plan was also receiving opposition from some of the southern EU members who were concerned that a free trade zone would damage trade in their products.

> *'Europeans do not realise that South Africa has many of the problems of other African countries'*

The opinions of the Mediterranean countries had to be taken into account.

She said a step had been taken in resolving the problem by the EU commission's agreement to her request that a full impact study be undertaken into the effect of South African products on southern EU members.

Recent research done at Sussex University in Britain had shown that the impact would not be as severe as was made out.

A proper impact study would make negotiations easier.

However negotiations would still have to be on a product-by-product basis.

She said part of the reason she was in South Africa was to assess views on the Pinheiro plans since the meetings between Pinheiro and the South African government.

It was important to remember that the European parliament, as the budgetary authority, played an important role as it had to agree to the final outcome of the negotiations, Kinnock said. The EU parliament could take other initiatives before the commission reported to the parliament if there were difficulties.

"There is a huge responsibility on the EU parliament to continue to fight for the highest level of aid to South Africa and to get the best trade deal.

"This is crucial to help build an economy that will provide for a better future for all South Africans."

Kinnock believes many people in Europe are ignorant of the problems of South Africa.

"They do not realise that South Africa has many of the problems of other African countries — there is the same low level of life expectancy, education, and health care. The social indicators are as bad as any other country in Africa.

"There are enormous gaps that must be filled in housing, water provision and education of children."

The other reason Kinnock is in South Africa is to assess the EU aid that is going to non-governmental organisations.

Kinnock said bottlenecks at both ends were slowing down the aid coming to NGOs.

Although she was in agreement with the South African government controlling macro aid, it was essential that direct funding of NGOs continued.

There may no longer be a need for some of the smaller NGOs but it was important that the wealth of experience in education, human rights and building civil society, built up by the NGOs in apartheid years, be retained, she said.

It was also important for the EU to maintain levels of aid for South Africa.

The fight was not only for aid for South Africa but also for other poor countries because the attention of Europe had turned to providing increased aid for eastern and southern Europe.

She said it was absolutely critical that aid from the north to the south be maintained, whatever the future of assistance programmes like Lomé.

Help for South Africa was essential if the region's problems and those of the rest of Africa were to be resolved.

FEISTY *Glenys Kinnock says it is important for the E*

ınock fights SA's battle for a ɹl from the European Union

(56A)(...) CT(BR) 5/6/96

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FEISTY *Glenys Kinnock says it is important for the European Union to maintain aid to South Africa*

Mixed response to EU deal with banks

John Dludlu

(56A) BD 6/6/95

THE European Union yesterday signed contracts with three SA banks to enable them to administer the EC Investment Partners scheme in SA.

Sources said the formalisation of contracts with Nedbank, First National and Standard would pave the way for SA companies to tap into the body's $50m budget for the current financial year.

Investment Partners was designed to assist in facilitating ventures between Europe and firms from developing nations.

The scheme, available to countries outside the Lomé Convention, was extended to SA last year.

Yesterday representatives from the three banks reported a mixed response from SA business.

One source said the response from SA corporate interest had been "lukewarm". He attributed this to lack of knowledge about the facilities offered under the scheme, and said there was a need for a concerted publicity campaign.

An EU source said the banks had a pivotal role to play in the implementation of the scheme.

"Following the signing of contracts, we (the EU mission in SA) are only asked for comment in special cases, but much work — including publicity activities — depends on the banks and Brussels (EC Investment Partners' head office)."

The scheme aims to support development in the recipient country by providing grants for feasibility studies, interest-free loans for project preparation and human resources development, and by granting equity loans for investments.

Another banking source said his bank had been "overwhelmed with applications" from SA and European companies, and would soon be forwarding deals to Brussels.

The source said interest came from companies operating in the food, clothing and light manufacturing industries, which had experience in exporting to the European Community markets.

On his recent visit to SA, EC Investment Partners head Tom Roe said the scheme was being reviewed to include mechanisms to facilitate privatisation.

EU finally set to open talks on SA

CT (BR) 9/6/95 (56A)

By John Fraser

Argus Foreign Service

Brussels — European Union (EU) foreign ministers are set to launch negotiations on a new relationship with South Africa, when they meet in Luxembourg on Monday.

This follows an agreement by the 15 EU ambassadors to put South Africa on the agenda for Monday's meeting.

The ministers failed to debate South Africa at their last meeting. Protest letters were sent as a result to all 15 EU foreign ministers by Deputy President Thabo Mbeki.

Mbeki urged the EU governments to speed up their consideration of South Africa's request for closer ties with Europe.

EU diplomats have revealed that the 15 EU governments are expected to follow the guidelines set out by European commissioner Joao de Deus Pinheiro.

These foresee a continuation of the EU's special aid programme for South Africa, a new trade accord between Brussels and Pretoria and partial South African membership of the Lomé convention.

The convention is the treaty linking the EU to 70 developing nations in Africa, the Carribean and the Pacific (ACP).

South African diplomats were worried that there could have been a delay in launching negotiations with Brussels.

EU foreign ministers are expected to agree on Monday that South Africa's entry into the Lomé convention can be included in a review of the convention, which is due to be agreed this month.

"This means that the ratification of South African membership can begin at once, with the details to be filled in later," an EU diplomat said.

"The effect will be to speed up South Africa's admission. A similar formula was agreed for Namibia, when it was awaiting independence," the diplomat said.

Trade

The framework for trade access will be the most difficult element of the negotiations between Brussels and Pretoria.

South Africa has sought rights equivalent to those of the ACP nations — which have beneficial access to the EU market without being obliged to open up their own markets.

EU officials say that South Africa must agree to dismantle its protectionist barriers — although they are prepared to allow this to happen over time.

The Mediterranean nations, known as the "olive belt", fear competition from South Africa.

"Launching the negotiations is just the beginning of the battle," said a senior European diplomat.

"South Africa has a tough battle ahead to convince the protectionist Europeans to open their markets."

It appears some EU governments are trying to whittle down the benefits available to South Africa. They want to outlaw South Africa from eligibility for the European Development Fund's emergency aid programme.

They also want to restrict South Africa's right to bid for tenders under the Lomé convention.

Meanwhile, Spain is insisting that there be no agreement on a four year EU aid programme for South Africa until the EU has agreed aid allocations for Eastern Europe, North Africa and Latin America.

South Africa is set to continue to receive EU aid, worth about R550 million, over four years.

Meanwhile, Germany is insisting that an agreement with South Africa must include a commitment by Pretoria to accept the return of South African citizens who have illegally immigrated to the EU.

The European Parliament is expected to debate a report later this month, calling for generous treatment for South Africa.

The report — by Scottish European MP Alex Smith — argues that South Africa needs better access to the EU market to help pay for the reconstruction and development programme.

Negotiations between the EU and South Africa are expected to be in two stages.

The first stage would cover South African access to the Lomé convention, and a separate co-operation agreement between Brussels and Pretoria.

The second stage would be a trade accord, possibly with the eventual aim of free trade — if South Africa is prepared to accept this.

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EU meets today on aid deals

ET (BR) 12/6/95 (56A)

BY ANGUS MACKINNON
SAPA-AFP

Luxembourg — European Union foreign ministers meet here today in an attempt to strike a deal on foreign aid priorities of the world's richest economic bloc.

At the heart of the issue is a long-running battle over the balance of spending between the former Warsaw Pact countries of eastern Europe and states on the European Union's Mediterranean flank.

But the dispute also has knock-on implications for aid to Asia, South Africa and 70 Third World countries linked to the EU under the Lomé Convention.

EU spending on eastern Europe currently outstrips that on the Mediterranean region by five to one on a per capita basis, according to the European Commission, which has tabled proposals to tilt the balance to the south by the end of the century.

It has suggested total 1995-99 aid of 5,160 billion ecus ($6,6 billion) for the Mediterranean in 1995-99, while eastern Europe (not including the former Soviet Union) would get 6,7 billion ecus ($8,6 billion), reducing the spending ratio to two to one in favour of the east.

Southern members of the EU have pushed hard for this rebalancing, partly because it serves their economic interests but also because of increasing concern about political instability in north Africa, notably in light of the civil war in Algeria and the potential for mass migration to the north.

But this proposed increase has been fiercely resisted by Germany, which has the greatest political and economic interest in fostering the economic advancement of the former communist countries on its eastern doorstep.

Today's meeting was expected to see agreement on a five-year package of 625 million ecus in aid to South Africa and the approval of a mandate for the commission to negotiate a free trade accord between the EU and the republic.

Agreement had seemed a formality but France has been making noises about a potential link between the aid to Pretoria and its attempt to increase funding for 70 African, Caribbean and Pacific states within the European Development Fund.

Lome still country's first choice

56A

■ BY ALIDE DASNOIS

South Africa's bid for easier access to markets in Europe will be discussed by European foreign ministers this week, with South African negotiators still pressing for membership of the Lome Convention.

"We are still going for Lome first," said Department of Trade and Industry consultant Faizel Ismail.

At the last minute the question of South Africa's trade with Europe was moved off the agenda at the meeting of EU foreign ministers last month.

Ministers meet again in Brussels today.

Ismail said European Commissioner Joao de Deus Pinheiro had assured South African negotiators he would seek a flexible mandate from the ministers to accommodate South Africa's concerns.

Pinheiro has suggested a free trade agreement between the two, but the government is concerned that reciprocal opening of markets will expose vulnerable sectors of South African industry to harsh competition.

Star 12/6/95

EU ministers agree to open talks with SA

BY JOHN FRASER

ARGUS FOREIGN SERVICE

CT 13/6/95

Luxembourg — The 15 European Union foreign ministers last night agreed to launch negotiations on a new relationship with South Africa. The decision was taken after just five minutes of debate.

The EU commissioner for South Africa, Joao de Deus Pinheiro, now has the green light to begin talks with the South African side.

"Everybody here has shown full trust in the future of South Africa," he said. "The EU wishes to make South Africa and southern Africa very special partners."

The EU foreign ministers adopted a strategy for relations with South Africa put forward by Pinheiro which will maintain EU annual aid at R555 million. However, aid to South Africa will still be subject to discussions at the EU summit later this month.

Meanwhile, South Africa will be given partial membership of the Lomé Convention — the EU's treaty with other southern African states.

Finally, there would be a separate trade agreement, possibly leading to free trade.

The British foreign secretary, Douglas Hurd, last night said the agreement would have to be "asymetrical".

"It can't be wholly symetrical; it will have to be balanced in South Africa's favour initially. But we think this is abundantly worthwhile."

Manuel due to thrash out accord with EU

TRADE and Industry Minister Trevor Manuel would visit Brussels before the end of this month to begin talks on a new trade and co-operation accord with the European Union, a spokesman said in Brussels yesterday. (56A)(7)

"We still have to fix an exact date but the negotiations will definitely begin in the final days of June," the spokesman said.

Sapa-AFP reports that Manuel will meet the commissioner with responsibility for southern Africa, Joao de Deus Pinheiro, to begin thrashing out the details of the new framework for EU-SA relations.

The announcement of the early start came the day after EU foreign ministers agreed on a negotiating mandate for the new accord. The mandate envisages SA as having qualified membership of the Lomé convention, through which 70 of the world's poorest countries are linked to the EU. BD 14/6/95

As a relatively "rich" country, SA will not be accorded Lomé trade concessions, but the EU has held out the offer of negotiating a free trade agreement favourable to SA.

John Dludlu reports the SA mission yesterday calmed fears that the union's generous R550m aid package to SA might come under threat following disagreements by member states on Monday over the EU's foreign aid commitments.

EU ambassador to SA Erwan Fouere said the disagreements at the ministers' council did not apply to SA, but were on "broad principles governing foreign aid commitments".

Reports from Brussels this week said Spain — which takes over the rotating presidency of the union next month — had opposed the move to continue the generous package to SA over the life of the government of national unity.

The 15 member states had endorsed a proposal to continue aid to SA until 1999, using this year's figure as a guide for subsequent allocations.

SA faces tough trade talks

BD 19/6/95 (SBA)

Linda Ensor

LONDON — Negotiations on a trade agreement between SA and the EU are due to begin later this month, with June 30 cited as a likely date for the opening ceremony.

Trade and Industry Minister Trevor Manuel is expected to attend the first day of the talks in Brussels.

The French government, which has a deep involvement with Africa, wants to ensure that negotiations get under way before its presidency expires on June 30.

There are fears in some quarters that negotiations might be delayed once Spain takes over the presidency as, along with other Meditteranean countries, it strongly opposes SA agricultural products being given favourable market access in Europe.

"It is important to get the negotiations rolling as soon as possible," a source in Brussels said. They were expected to last for 12 to 18 months.

Last week European commissioner in charge of SA Joao de Deus Pinheiro told the European Parliament he expected the talks to continue well into 1996, but did not think they would extend into 1997.

He reiterated he was not prepared to grant Lomé membership to SA as this would require an application for a waiver from the World Trade Organisation, and that, he said, would endanger the entire Convention.

The two negotiating teams have yet to be announced, but it is considered likely that the European Commission director-general in charge of relations with African-Caribbean-Pacific countries, Steffen Smidt, will lead the European team.

SA ambassador Neil van Heerden has been suggested as a likely candidate to head the SA side.

SA given access to R1bn in EU contracts

(56A)

CT (BR) 20/6/95

BY BRUCE CAMERON

POLITICAL EDITOR

South Africa has been given access to more than R1 billion a year in European Union development contracts, Trevor Manuel, the minister of trade and industry, announced on the eve of his departure to Europe to open negotiations with the EU.

In an interview with Business Report, Manuel said negotiations on trade would be drawn out and multi-faceted. Yesterday, Sapa announced that the governors of the European Investment Bank (EIB), the long-term lending institution of the European Union, cleared the way for the bank to begin offering loans in South Africa.

The annual meeting of the EIB's board approved the extension of credit to South Africa within a ceiling of 300 million ecus ($390 million dollars) over two years. Disbursement of the money will be dependent on finding financially sound projects.

Manuel said labour and business would both be consulted on an ongoing basis on the EU trade negotiations, mainly through the Nation Economic Development and Labour Council.

The way to negotiations was opened by the recent approval by the Council of European Ministers of a negotiating package, which gave South Africa access to most protocols of the Lomé agreement.

Manuel said he would be arguing for the negotiations on trade to start on the basis of the "full" Lomé basket from which items could be extracted, rather than starting with an empty basket and building up concessions.

He also wanted the aim of free trade to be based on different sectors of the markets being reciprocal at different stages.

SA to grapple with EU on trade agreements

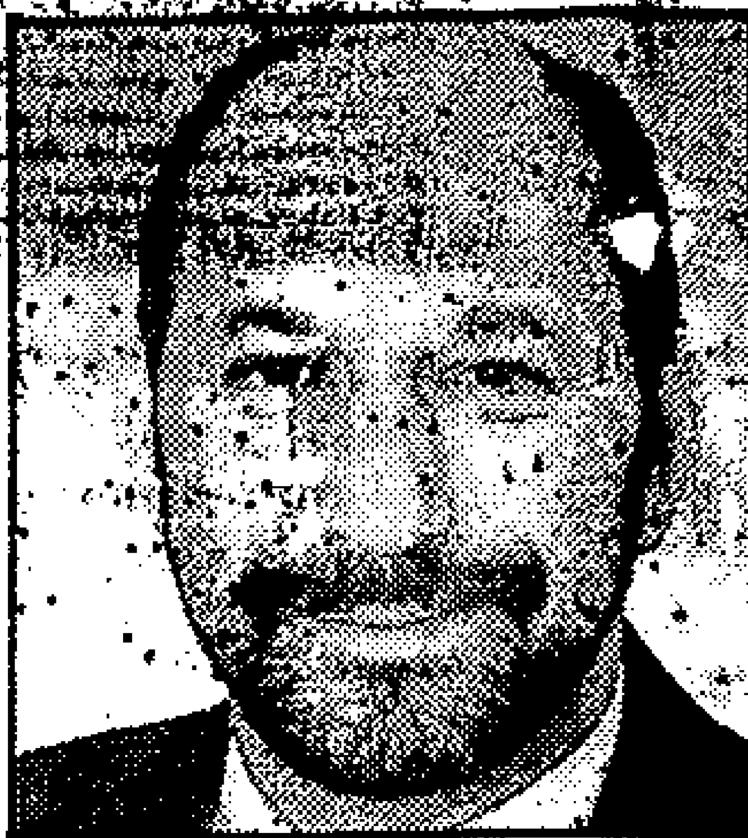
FOREIGN SERVICE

Brussels — On Friday, more than a year after the historic multiparty election, the European Union will at last open trade negotiations with South Africa.

South Africa's team will be headed by Trade and Industry Minister Trevor Manuel, who will fly to Brussels for Friday's official opening of negotiations.

His opposite number will be the EU's commissioner for South Africa, Portuguese Foreign Minister Joao de Deus Pinheiro.

South Africa's aim in the discussions with the EU is already clear: to win the maximum access for its exports to the EU market.



HOPING FOR ACCESS: Trevor Manuel to head delegation at official opening

Also on the SA agenda is a membership bid for the Lome Convention. The negotiations are likely to drag on into next year.

There is a fear among the Europeans that South Africa will snatch jobs from EU producers, particularly in the agriculture sector.

There is also concern to find the right formula for trade relations, as any deal too slanted in SA's favour could be challenged in the World Trade Organisation, the successor to Gatt.

Unfortunately Spain, which has been identified by South African officials as the EU country most hostile to Pretoria's demands, takes over the EU presidency from next Saturday.

Star 24/6/95 (5LA)

EU enters foreign aid row

Cannes, France — An unresolved row over foreign aid priorities from now to the end of the century has set the scene for some explosive exchanges when European Union leaders meet here today and tomorrow.

Divisions on preparations for a European single currency, the transeuropean police intelligence agency, Europol, and reform of the Union's decision-making, also loom over a Riviera resort better known for its pleasure palaces than political punch-ups.

The summit, which could be the last for Britain's John Major and Spain's Felipe Gonzalez, both battling for their political lives at home, will be the first for Austria, Finland and Sweden since they joined the EU in January.

The host, new French President Jacques Chirac, is also making his debut.

At the heart of the aid dispute is a fight between Germany and the Union's "Club Med" group, Greece, Italy and Spain, over the balance of EU spending on the new democracies of Eastern Europe and the countries of the Mediterranean region. (SbA)

A fragile compromise was reached earlier this month with figures set only for 1996 and an agreement that these would be a floor for the three following years.

That now has been shattered by German objections to a 27% year-on-year increase for the Med and an accompanying text which set the goal of establishing a "balance" in EU spending on the two regions by 1999.

Bonn insists that firm figures should be set until the end of the century with a guarantee that the ratio of spending will be at least 60-40 in favour of the eastern Europeans.

A senior German official said: "It is a strategic and budgetary postion. EU resources are finite. Priorities have to be established. In our view that means spending more on those countries which are going to become EU members in the future." — Sapa-AFP.

Star 26/6/95

Single European currency debate centre stage

Cannes — The debate over how and when the European Union will undertake the transition to a single currency begins in earnest here today when EU leaders hold their first formal discussion on the technical preparations for monetary union.

But in talks today, the EU heads of state and government are expected to give a political steer to the preparatory work to be carried out between now and then. EU finance ministers agreed last week that the option of 1997, the earliest possible date for monetary union.

That position is expected to be endorsed by their bosses here but officials do not expect the summit to adopt an explicit stand on the issue.

The European Commission has lobbied the 1997 option to be kept alive, at least on paper, for fear that any backsliding could see 1999, the latest date envisaged in Maastricht, also go out of the window.

Instead, the EU leaders are expected to emphasise the need for member states to make an extra effort to bring down debt and budget deficits to achieve the convergence seen as necessary to prevent major economic dislocation after exchange rates are locked. — Sapa-AFP.

Star 26/6/95 (56A)

EU tackles joblessness

CT(BR)28/6/95

By Alastair Macdonald

(5LA)

REUTER

Cannes — European Union leaders, aware that public impatience at mass unemployment poses the greatest threat to often abstract plans for a single currency, pledged yesterday to step up efforts to create jobs.

"The EU must provide an improved response to its citizens' legitimate expectations — that is to say it must make it a priority to mobilise all its resources ... effectively to combat the scourge of unemployment," the 15 leaders said in their closing statement after a two-day summit in Cannes, France.

With EU unemployment running at some 11 percent and set to remain "unacceptably high" this year despite renewed economic growth, many governments are anxious to outflank opponents eager to pin the blame for job losses on austerity programmes aimed at qualifying for membership of an end-of-century monetary union.

The summit host, French President Jacques Chirac, earlier warned delegates that the EU had to show it was relevant to the public — or face the prospect of elaborate plans for cementing cross-border ties with a single currency blowing up in its face.

EU rules out full Lomé benefits

Manuel seeks 'grace period' from Europe

BD 3/7/95

(5bA)

Debra Percival

LONDON — SA wanted to put off opening its market further to European Union (EU) goods and produce for a 10-year "grace period" under a first-time bilateral trade agreement with the EU, it emerged at the launch of the talks on Friday.

Trade Minister Trevor Manuel headed the SA side in the two days of opening talks. At the opening ceremony he said, "SA's objective is to negotiate a comprehensive trade and co-operation agreement with the EU for the duration of the next 15 years at least.

"During the first 10 years the agreement should, in our view, contain features as close as possible to the Lome Convention to support the current transition under way in SA and southern Africa as a whole."

He made it clear that after the initial 10 years, when SA industries had adapted to competition and market openings demanded by the World Trade Organisation, SA would be in a position to open its market at a faster pace. He said "equivalent access" for SA as given to fellow African, Caribbean and Pacific (ACP) nations which had signed the 10-year Lome IV Convention would mean "immediate economic benefits" for SA.

John Dludlu reports an SA business source said Manuel's grace period proposal looked set to raise objections both from within and outside the EU.

The EU commissioner for ACP nations and SA, Joao de Deus Pinheiro, noted that straight Lomé benefits for SA were off the agenda because of the "effects on the trade of ACP nations and EU economies".

The EU proposal provides for SA's partial accession to non-trade and aid protocols of the Lome Convention, and a long-term bilateral trade and co-operation agreement.

Pinheiro reiterated at a news conference that the best way to improve SA's access to the EU market was a free trade pact. He avoided comment on the length of the grace period requested by Manuel. But he is a supporter of so-called "asymmetrical free trade", which involves an acceptance by the EU that it would open its market faster than SA in certain sectors.

Commission officials hope the trade agreement will be in place by January 1 1997. Concurrent with the trade negotiations are negotiations on the terms of SA's membership of the Lome IV Convention as its 71st member.

At the talks Manuel played down EU fears of SA exports and emphasised the importance of the duration of the talks.

Manuel requested the EU help SA farmers by immediately opening markets to more agricultural produce.

He also sought to reassure European farmers by saying only 0,1% of the EU's farm trade would be affected by the increase in SA imports.

Pinheiro said the European Commission — the union's executive — would this week propose improved preferences for SA's agricultural exports.

Pinheiro said the union acknowledged the central role that SA played in the southern Africa region.

The EU has committed itself to a five-year bilateral aid package. This year the package stands at R550m.

A trade strategy which ignores Africa is a loser

(74)

BD 5/7/95

FRANCIS KORNEGAY

(74)

PARLIAMENTARY critics of the foreign affairs department have criticised what they consider to be the "Eurocentric" priorities regarding foreign missions. The expectation is that Pretoria's foreign policy and economic relations will be directed more toward Africa and the "South".

Indicators of government's intentions might be better judged by the level of priority the finance, and trade and industry ministries (as well as foreign affairs) attach to such issues as:

□ Joining the Preferential Trade Area (PTA) of the Common Market for Eastern and Southern Africa (Comesa);

□ Fast-tracking negotiations on the Southern African Customs Union and renewing the trade agreement with Zimbabwe; and

□ Shedding its ambivalence about joining the African Development Bank while participating actively in resolving the crisis over choosing a new president for the bank, a crisis which to some extent reflects France's divisive influence in inter-African affairs.

These are critical areas for setting strategic policy priorities, equal to, if not more so than, the scramble to join Lomé and reach a trade agreement with the European Union (EU).

Certainly, Trade and Industry Minister Trevor Manuel's focus on Lomé/EU should not be divorced from factoring in SA's interest in inter-African trade.

Why this is so has everything to do with the multipolar dynamics of a global economy reorganising into regional trading blocs, with the eventual prospect of a Western hemispheric free trade zone building on such subregional groups as Mercosur (including Brazil and the Latin American "southern cone"); the Asia-Pacific Economic Co-operation Forum promising a superpower bloc consisting of Japan, China and the Asian "tigers"; and the EU, with the the idea being a link to the North American Free Trade Agreement to form a "transatlantic free-trade area".

Africa is nowhere to be seen on this new geo-economic map. Yet the freeing of SA from its apartheid past makes it a competitive actor in this new world of regional economic politics. Seen in this context, government's focus on the Southern African Development Community (SADC) at the expense of the PTA/Comesa along with its scramble to join Lomé and forge trade links with the EU, may run counter to the interests of Africa as a whole, as well as to SA's own interests.

In the absence of an inter-African free trade outlet for SA manufactured and capital goods, the proposed reduction of tariff barriers in the motor, components, textile and clothing industries could be self-defeating. If SA is to become an African newly industrialising country, it will have to develop a capital goods and manufacturing industry instead of relying on imports.

Such liberalisation may play well in the G-7 while hurting domestic white-controlled industry, but black employment will suffer in the absence of an industrialisation strategy targeting the remainder of the continent which, in turn, can maximise SA's emerging market advantage as the "gateway" for foreign investment in the region.

Will SA's preoccupation with Lomé and an EU trade agreement accomplish what an Africa-centred strategy has the potential to deliver? About 77% of SA's mineral exports already go to the EU duty free because of their classification as raw materials. SA agricultural and textile products are not only marginal as exports to Europe but are items that are already generating tensions between SA and the EU (given southern European dependency on the same sectors).

MANUEL

The Lomé part of this arrangement is equally awkward for a semi-developed, middle-income country which might be better off joining the OECD with Australia and other middle-income developing and newly industrialising countries.

This means concentrating on the South Atlantic and especially the Indian Ocean/Asia/Pacific, anchored in an expanding African market. This will require a reorientation in Pretoria's thinking. Here, SA's concentration on SADC at the expense of Comesa is inexplicable.

The SADC is by no means irrelevant to an African common market strategy in terms of co-ordinating the infrastructural development of strategic sectors. But SADC is not into inter-African trade, the mandate of Comesa, one of the subregional building blocs of the OAU's African Common Market. Moreover, SADC seems increasingly preoccupied with political and security issues, embraced by the prospective Association of Southern African States. In a related move, member states of SADC have proposed "the formation of a common parliamentary forum as a prelude to the establishment of a regional parliament". SADC, therefore, could be evolving into a transitional vehicle on the road to regional political integration, though these ends might be better served by collapsing the customs union into a regional political federation. In any case such a development would be a logical outgrowth of SA's transition and a necessary corollary to managing regional security concerns as well as immigration and population flows en route to the cross-border free movement of peoples. This, in turn, carries with it the need for a regional reconstruction and development programme — all dovetailing with the need for South and Southern African integration into an African common market.

In spite of President Nelson Mandela's professions of working vigorously for African unity, Pretoria is backtracking on lifting tariff barriers to neighbouring states. The domestic demand among industrial and agricultural interests for retaining tariffs combined with the conservative influence of the big business-big labour relationship in the National Economic Development and Labour Council on tariff issues makes for a strong lobby against free trade with Africa.

To the detriment of SA, this unwitting conspiracy threatens to postpone SA's reindustrialisation in the very export-orientated growth sectors of manufacturing that promise the most returns in terms of job creation for future generations, in the process benefiting the rest of Africa while strengthening SA's hand in navigating the new world economic order.

Yet, SA's trade with the rest of Africa leapt almost two-thirds last year, expanding sales in neighbouring states and making inroads into East Africa. And, according to the IMF's World Economic Outlook, African growth rates show signs of catching up with Asia with projections of GDP growth at 3,7% this year and 5,3% next year.

These are trends government's parliamentary watchdogs might ponder as they assess the direction of SA's foreign affairs, especially trade. From this vantage point, an ANC-led SA ironically runs the risk of becoming the biggest impediment to African unity and the continent's economic liberation.

□ **Kornegay is director of the African-American Institute.**

EU ministers to speed up work on single currency

By Henry Engler

Reuter

Brussels — European Union finance ministers yesterday pledged to speed up work on a single currency despite growing worries over potential currency instability.

Increasing concern over the future relationship between those countries joining a single currency and those left outside has prompted many members to call for additional study by the EU's Spanish presidency on how such an arrangement would work.

The EU leader meeting last month in Cannes, France, charged their finance ministers with developing a transition scenario for the single currency in time for the EU's Madrid summit in December.

Under the Maastricht treaty's guidelines, countries must meet strict criteria on inflation, deficits and interest rates. To date, only three are in compliance with the rules — Germany, Ireland and Luxembourg.

It is widely assumed that for monetary union to work, a greater number of countries must join at the start date, now expected to be in 1999.

But for those possibly joining the single currency, worries have arisen over the ability of outsiders to devalue their currencies to gain a competitive edge in certain industries.

There is also a general sense that currency instability might be increased between the two groups, and could be disastrous for internal markets.

Diplomats said several countries, notably Portugal, Spain and Greece, were rankled by the language of the recommendations which includes the threat of their "cohesion funds" — to help them catch up — being suspended should they fail to make progress in reducing their deficits.

On the subject of cross-border payments, a subject of particular concern to small businesses and individuals, there was no agreement on how to standardise banking laws.

ET(BR) 11/7/95 (5bA)

INTERNATIONAL

WTO agrees on financial services accord

By ROBERT EVANS

REUTER

Geneva — World Trade Organisation members agreed on Friday on a legal framework for a pact on financial services which makes conclusion of a deal next week — without the United States — almost certain, envoys said.

Protocols for a interim accord, sponsored by the European Union, were approved by the organisation's services council, with both Japan and South Korea giving the nod.

The protocols would free the multi-billion dollar global trade in banking, insurance and securities.

"I really don't see anything stopping us finalising a deal next week now," said a senior developing country ambassador.

The fledgling body was now on track for an accord that would give time for wider openings allowing Washington, which pulled out of talks late last month, to come on board later, said Renato Ruggiero, World Trade Organisation director-general.

Only final approval by governments in Tokyo and Seoul, which had wanted the United States back in, was needed for the pact to be finalised, said diplomats.

The accord was to go into force in August next year and last until the end of 1997.

Officials from Japan and South Korea said on Friday they had instructions to approve the draft protocol pending formal decisions in their capitals.

Trade diplomats from other countries said they expected announcements from Japan and South Korea in time for a meeting of the organisation's financial services committee next Wednesday, two days before a new deadline for agreement runs out.

The advance was eased by an informal agreement that a more authoritative group would be set up in the organisation to work on expanding accords on the movement around the world of "natural persons" involved in providing services.

There had been some fears that differences in Tokyo between the powerful ministry of finance, which was reluctant to back a pact without inclusion of the United States, and the ministry of foreign affairs might keep Japan on the fence too long for a deal by July 28.

But although Japan hedged its support for the protocol by insisting that its approval was purely procedural, diplomats from other Asian countries said they felt Tokyo was now moving towards declaring full support.

Japan and South Korea, with their major markets in the sector, were vital for a deal.

The package would link the European Union with key Asian and Latin American countries in a pact under which they would extend their best market-opening offers to all other signatories.

The United States walked out of negotiations at the end of June, a day before a global package was due for completion, saying offers from many developing countries were not enough to make an accord worthwhile.

It said it would seek to make only bilateral deals — rather than the joint multilateral package being prepared in the World Trade Organisation — with countries ready to offer reciprocal liberal access to their banking, insurance and investment service markets.

The European Union, desperate to save openings already offered by developing countries in one of the most dynamic sectors of the world economy, won backing to extend the deadline to July 28.

Currency storm continues as EU fails to destroy doubts

BY ANGUS MACKINNON

SAPA-AFP

Alcudia, Spain — European money markets are braced for fresh turmoil this week after a European Union summit failed to kill off speculation that internal divisions could wreck plans to create a single currency.

Rather than eliminating uncertainty, the summit only served to underline the strains within the union which have left the Maastricht Treaty's framework and timetable for monetary union looking extremely fragile.

The storm generated by German Finance Minister Theo Waigel's remarks last week that Italy would not meet Maastricht's tough economic conditions by the 1999 deadline catapulted the explosive single-currency issue to the top of the informal summit's agenda.

Officially the message that emerged was a rebuke to Waigel, with even Helmut Kohl, the German chancellor,insisting that there was no question of rewriting the Maastricht targets.

"It is not for any one country or any one minister to decide who will participate in the transition to a single currency or when it will happen," said Jacques Santer, the president of the commission, reflecting widespread irritation at what was seen as Germany flexing its economic muscles.

Kohl, in a move that reflected Bonn's concern about the potential consequences of the Waigel affair, made an appearance on Italian television where he effectively disowned Waigel's comments.

Inside the meeting, however, the German chancellor struck a different note, warning his counterparts of the huge political risk that the German public or parliament could refuse to swap the mark for a Eurocurrency.

Germany's determination to avoid this by ensuring that the new currency is at least as strong as the mark lies behind Waigel's campaign to tighten the rules on budget deficits for those countries which decide to go ahead with a single currency.

Kohl indicated that he saw no need for extra restrictions, but he insisted that the Maastricht objectives would have to be followed to the letter, even if that meant postponing the launch of the single currency.

The pressures on the Maastricht programme for a single currency are not purely economic.

The political compromise which the treaty embodies effectively amounts to Germany agreeing to give up the mark in return for its partners agreeing to Bonn's ambitions for political union, which include new powers for the European parliament.

Star (BR) 25/9/95 (5bA)

SINGLE EUROPEAN CURRENCY HOPES FADE

Economic, monetary union may be delayed

CT 26/9/95 (5bA)

BRUSSELS: The viability of the Maastricht Treaty is placed in doubt by fears that not enough member states will be able to have a single currency before the end of the century.

EUROPEAN UNION leaders have stepped on a political landmine by mentioning the unmentionable — a prospect that Economic and Monetary Union may be delayed beyond a projected 1999 deadline.

The risk that a single currency will not be realised among a sufficient majority of member states until the next century raises critical questions about the viability of the Maastricht Treaty.

"You might say that by speaking the unspeakable the whole process is in danger of running into the sand," says Mr Robin Marshall, chief economist at Chase Manhattan Bank in London.

European leaders have sought to dispel any notion that monetary union is coming apart at the seams.

In a bid to re-establish solidarity at the EU's summit in Majorca this weekend, Spain's Prime Minister Mr Felipe Gonzalez, the summit's host, said "monetary union is reaffirmed as an irrevocable aim".

The European Commission, effectively the guardians of the treaty, said yesterday criteria for monetary union should not be changed for fear of opening up a "Pandora's box".

But the row over EMU, ignited by German Finance Minister Mr Theo Waigel's suggestion that Italy would not be among the first wave of participants, has set in motion a process without a clear end.

At issue is whether there will be a strict interpretation of the treaty's economic criteria for monetary union.

Secondary

The Germans have stood firm against any loosening of standards.

Bundesbank president Mr Hans Tietmeyer stoked the diplomatic fires by suggesting the timetable for monetary union is secondary to a proper foundation.

Against this position is the view floated by Italian Prime Minister Mr Lamberto Dini that monetary union should be delayed a year or two to allow countries like Italy to get their fiscal affairs in order.

French Prime Minister Mr Alain Juppe said yesterday there was no reason to tighten treaty rules on reducing budget deficits.

But some say France's position is intriguing and together with Germany it may in the end be critical to the success or failure of EMU.

"There is an underlying problem about the political will of the Franco-German axis to monetary union," said one EU diplomat in Brussels, who noted that France was perhaps coming to the realisation that monetary union was not domestically feasible.

Faced with lofty budget deficits and a high unemployment rate, the French government faces an unwelcome choice between domestic tranquillity and European unity.

On Monday, the Organisation for Economic Co-operation and Development said France would have to take tougher action to reduce its budget deficit in line with the treaty's criteria. Many observers, including the Germans, acknowledge monetary union is unthinkable without France.

In the end, France's willingness to participate may be the deciding factor in whether a "hard-core" group of countries form a single currency. — Reuter

● See Page 20

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EU's 'open trade' claim is disputed

CT (BR) 26/7/95 (56A)

BY ROBERT EVANS

REUTER

Geneva — The European Union argued in a report published yesterday that it was among the most open to foreign trade of the major world economies and ahead of the other two top traders, the United States and Japan.

But diplomats said the assertion was disputed at a closed-door meeting of delegations to the World Trade Organisation (WTO) by EU trading partners, including the United States, Canada and Australia.

The EU made the claim in an analysis given to the WTO as part of the new global trade watchdog's programme of reviews of the trade policies of its 100 members.

Trade figures since the last review two years ago under the old General Agreement on Tariffs and Trade "demonstrate that the European Community has remained one of the most open of all major economies," the Brussels report declared.

On the basis of the the percentage of GDP contributed by trade in external goods and services, the EU, with a relatively consistent 22-25 percent over the past 15 years, was more open than the United States, with 21 to 22 percent, it said.

It was well ahead of Japan, for whom the percentage contribution of trade to GDP had declined sharply since the early 1980s to a low of 16 percent, the report said.

A report by the WTO Secretariat did not contest the claim. It focused on describing EU trade policies in neutral terms.

Debate

However trade diplomats said Brussels came under heavy fire from a range of trading nations during debate in the WTO, launched on January 1 to absorb Gatt by the years end.

They said Central American countries bitterly criticised the EU over its banana import restrictions, maintained to protect imports from former European colonies despite Gatt findings that they violate world trade rules.

The United States has hit out strongly this year at EU policies ranging from the grain trade and the banana issues to what it sees as Germany's refusal to open up its power generating industry to tenders from American firms.

The WTO report and the debate coincided with talks in Washington between Leon Brittan, the EU trade commissioner, and top American officials on the overall relationship between the two big traders.

In its report the WTO Secretariat noted that the EU "remains one of the most frequent users of anti-dumping remedies" in the Gatt/WTO system, with 156 measures in force at the end of last year.

In meat, dairy products and cereals, it said tighter rules agreed under last year's world trade treaty on export subsidies and subsidised export volumes could gradually narrow the extent of disposal of surpluses and their effect on world markets.

It said the EU had made "significant headway" in liberalising the telecommunications equipment and services markets, but noted it had made no access commitments to other countries on audiovisual services.

'Club Med' countries block way to Europe

(5bA) (ST 30/7/95)

By CHERILYN IRETON in London and DEBRA PERCIVAL in Brussels

STRONG WORDS ... Neil van Heerden is unhappy with Brussels' indecision on South Africa

FRANCE, Italy and Spain are believed to be obstructing South Africa's path to getting its agricultural goods and products into Europe on more favourable terms.

A strongly worded statement from Neil van Heerden, South Africa's ambassador to the European Union, exposed the difficulty in getting a better deal for farm produce entering Europe this year.

He said it was a great disappointment, especially in the light of continued expressions of support for the new South Africa, that the European Commission's proposal for benefits under the Generalised Scheme of Preferences had not been considered by the 15 ambassadors to the EU before their summer break.

Without pointing fingers, he said the attitude of certain member states set a negative tone.

Diplomatic sources in Brussels identified the three so-called Club Med nations, themselves agricultural exporters, as obstructing attempts to allow South African products and agricultural produce into Europe on preferential terms usually given to developing nations.

Although the GSP proposals being considered are an interim measure, it means that the earliest possible date that the benefits will apply is early October. They may then be applied retroactively, but it wipes out the possibility of any exporters preparing, shipping or marketing their produce in time to exploit the 1995 benefits, which should have been in place by July 1 according to a pledge given by the EU ministers in December.

With Brussels virtually at a standstill, it was impossible to get the French and Italian representatives to comment. But a representative for Spain, which currently holds the presidency of the EU, said time had been a problem in getting the GSP proposal considered.

He admitted that some delegations were afraid that if they handed South Africa too favourable a GSP package now, it would raise Pretoria's ambitions in bilateral and free trade talks.

The EU's entire GSP system is being overhauled in January and the new agreement comes on steam in 1997.

The interim GSP proposal for South Africa, filed by the European Commission at the beginning of the month, said South Africa should benefit from 66 percent of the preferential access to the EU market.

The EU's legislative process means the 15 Brussels-based ambassadors to the EU must look at each piece of legislation before it is approved. They are expected to water down the 66 percent proposal because of the strong lobby of agricultural exporting nations who fear competition from South Africa.

Mr van Heerden said there were misconceptions concerning the agricultural industry which did not take account of the potential for a partnership between European and South African producers.

He was referring in part to the seasonal differences between the north and south which should remove the threat of direct competition.

South Africa set to tackle a fractured Europe

South Africa resumes negotiations with the European Union today. Foreign editor Dale Lautenbach was invited to Brussels to measure South Africa's interests against those of Goliath Europe. This is the first of a two-part series. Tomorrow's article will look at the negotiations so far

CT (BR) 12/10/95 (5bA)

South Africa bites into its negotiations with the European Union at a grumpy time for that powerful but unequal spread of 15 member states.

The EU is in the paradoxical grip of considering wider union to encompass new members from the former Eastern bloc while grappling with the question of deeper union through a single currency.

European monetary union demands adherence to strict convergence criteria demanding in turn that politically painful process of slashing budget deficits and generally getting the house in order. This will have a necessarily direct effect on the ordinary European in the street, assuming of course that Italians, Greeks or provincial French farmers consider themselves Europeans at all.

The proposed move cuts right to the heart of a core question — no matter how burning the desire for greater European union among Brussels Eurocrats and some top politicians, how far can they go while retaining popular support in their separate domestic constituencies?

At present, only two, perhaps three at a push, member states meet the convergence criteria and as Germany is foremost of these, other members grouse that it is all very well for them to get monetary union on their terms, in other words the mark by another name.

What this has to do with South Africa's immediate concern in securing a good deal with the EU might be hard to judge from faraway Pretoria but when one is in Europe, the importance of appreciating this complex and fractious collective becomes very clear. South Africa would be wise to recall at each tricky moment in the negotiations, and there will be many, that Europe is not a monolith.

The 15 members sustain a sophisticated dialogue among themselves, born bloodily out of the wars in which they have engaged each other over centuries. Now they dance carefully around their enmities; their formula for reaching accord is canny and often cynical.

Even in Brussels where the EU heart ticks, union is broken down into the fractions of the Council of Ministers, the commission and the parliament which together we call the EU. The strains between these components are managed with extraordinary finesse but one steers a path between them only if it is calculated and wise to the tensions.

Beneficial

In its negotiations, South Africa is dealing principally with the commission, the EU bureaucracy. Here officials from all member states work together with a common objective, the interests of the EU itself.

In South Africa's case, the interests are those of striking a mutually beneficial deal but the commission is all too aware that its work must face the scrutiny of the council where the separate interests of the members find expression. If one or several countries do not like what is on the table, there might be room for horse trading on unrelated issues and the commission must have an exact feel for where its bargaining chips lie.

South Africa has often complained in its experience of the EU so far that a decision has been delayed or seemingly deliberately held up. But is the answer the council must be offered something akin to a cheese board on which there are enough ripe offerings over which to haggle? If South Africa has been left off, it might be for want of sufficiently mature cheeses of quite a different character but necessary if South Africa's camembert is going to be viewed as palatable to those happy to eat it and those whose appetites need to be satisfied by a fruitier blue, for example.

That is probably an unfairly crude characterisation of a complex process but it would be just as well for South Africa to know its place. We might keep in mind Poland, for example, a country which is of strategic interest to the EU if only by geography. Poland would like to enter the EU now. During a recent visit by EU President Jacques Santer to Poland, Lech Walesa, the Polish president, complained tetchily that the EU was in Poland but Poland was not in the EU.

He was speaking of the goods for sale on Polish shelves and batting for Polish interests but the timeframe for Poland's accession is at least two years.

Leading the South African negotiating team is ambassador to the EU Neil van Heerden. He combines negotiating skill with an understanding of Europe which some in Pretoria might interpret as Eurocentricity but which will surely prove crucial to the cause.

He is optimistic that South Africa has an opportunity to improve on what it has now — its most-favoured-nation status and partial access to the non-negotiable generalised system of preferences.

The opportunity to negotiate is not automatic and Van Heerden hopes that the prevailing spirit will be that of the Luxembourg Declaration in which, in April last year, the EU welcomed the democratic South Africa to the fold and promised co-operation in a powerful statement of political intent.

"There is a strong and benevolent political will on the side of the EU," says Van Heerden. However, he says that it will diminish in time. "We must have a sense of now in this."

He couches his approach in the understanding that negotiations are about mutual interest and, as South Africa talks tentatively about a possible free-trade agreement with the EU, that you do not get if you do not give.

"We will be reminding Goliath that we cannot buy 'your Mercedes and cut flowers if you don't buy our apples and coal'."

On the other side, a senior member of the commission who is engaged in the process, speaking on condition of anonymity, says: "South Africa enjoys a very positive image in the commission at the moment but it will not last for 10 years and is not attractive enough (for the EU) to make real sacrifices or incur a loss of benefits.

"You start negotiations with a big political credit but that's not enough to get benefits — the economists give benefits."

He is speaking for the commission alone and he cautions South Africa not to overestimate the level of sympathy among member states of the EU. That sympathy is not across countries and not across sectors like farming.

While it is clear that South Africa's political miracle drew the attention of most Europeans, that does not translate into the nitty gritty of trade and other benefits.

"You're off the front pages," says the commission source. He puts it into perspective with the caution that the World Cup, South Africa's moment of glory, was not televised in 12 of the 15 member states. Why? No interest.

Lomé may be on its last legs

CT (BR) 30/10/95 (56A)

By Peter Blackburn

Brussels — Ministers from some of the world's richest and poorest countries will converge on the Indian Ocean island of Mauritius next weekend to put what may become the final seal on a special relationship of 20 years.

Close to the island's palm-fringed beaches, ministers from 15 European Union (EU) and a group of 70 countries from Africa, the Caribbean and the Pacific (ACP) are due to sign a new aid package under the Lomé convention.

The convention, hailed as a model for co-operation between industrialised and developing countries at its launch in 1975, is unlikely to be renewed when it expires in 2000.

Increasingly seen as a relic of the colonial past, its financial and commercial advantages have become difficult to defend against competing claims from poorer Asian and Latin American countries as well as those of eastern Europe.

But the EU has agreed to pump in an extra 22 percent in aid, worth $19 billion, to help the 500 million people in the ACP countries over the next five years.

"This increase demonstrates the EU's determination to keep the ACP states and their development at the top of the agenda," said Joao De Deus Pinheiro, the EU development aid commissioner.

But he also said the EU was making a special effort to assist prospective new members from eastern Europe and had increased aid to north African countries.

In an effort to revitalise the ageing Lomé partnership and to soothe public unease, the EU introduced new measures to ensure that human rights were respected and that aid was used as effectively as possible.

Democratic government and rule of law were added to the convention's objectives in addition to a clause allowing for aid and trade benefits to be frozen if human rights were violated.

Pinheiro said efficiency would be the key word for aid. The EU had taken steps to speed up aid disbursement by cutting red tape and playing a bigger role in preparing development projects.

Although the EU granted some extra trade concessions, the main emphasis would be on helping the ACP countries to compete on world markets and develop dynamic small businesses.

Despite important trade benefits, the ACP share of the EU market has been halved to less than 4 percent since the first pact was signed in Togo 20 years ago.

Under Lomé, the EU offers free access to all ACP industrial goods and many agricultural products so it appears there is little scope for further concessions.

Successive rounds of tariff cuts under world trade accords have eroded privileges enjoyed by the ACP states and focussed attention on the need to compete and develop regional trade.

Although it may be on its last legs, the Lomé convention has still attracted South Africa as a prospective associate member but because of its economic size and relative wealth it can get only limited trade breaks.

Mauritius, with its mountainous peaks and coral reefs, has been a major beneficiary from Lomé. The convention helped it to diversify from sugar into textiles and tourism, and rise into the ranks of middle-income developing countries. — Reuter

EU battles as economic recovery loses steam

CT(BR) 23/11/95 (56A)

By Jeremy Gaunt

Brussels — The European Union's economic recovery from the 1992-3 recession lost considerable steam in the first six months of this year, the European Commission said in its annual economic forecast published yesterday.

"The pace of output growth has progressively slowed down from 3,5 percent to 4 percent throughout most of 1994 , to below 2,0 percent in the second quarter of 1995," it said in an accompanying report.

In the same report, the EU's executive saw overall economic growth in the bloc slipping from an estimated 2,7 percent this year to 2,6 percent in 1996. It forecast an upturn to 2,9 percent by 1997.

Overall, the commission said that healthy fundamentals and positive growth forces should lead to a pick-up in 1996, along with moderate improvement in the labour market.

In some places, however, unemployment looked to remain dire. Consumers, meanwhile, should benefit from an overall drop in inflation — to 3,0 percent last year and 2,7 percent in 1997.

Concerning criteria for a single currency, the commission said there had been moderate reductions in budget deficits.

The government debt of four countries — Luxembourg, Britain, France and Germany — was expected to be below the 60 percent of GDP Maastricht requirement in 1996, although it would be close in Germany. — Reuter

Controversy over EU currency

(56A)
M+G (MM) 1-7/12/95

John Palmer in Brussels

AN embarrassed European Commission last week sought to limit the political fallout after a member, Neil Kinnock, former leader of the British Labour Party, broke ranks and dismissed the target date of January 1999 for economic and monetary union as "unrealistic".

His comments added to growing unease over the timetable and criteria for a single currency, highlighted by the continuing division between France and Germany.

Jean Arthuis, French finance minister, reportedly clashed with German colleague, Theo Waigel, over the latter's proposals to postpone until early 1998 — just before French parliamentary elections — the decision on which countries qualify for monetary union.

But Waigel did signal a willingness to negotiate on his plan to set up a "stability pact" under which swingeing fines on Economic Monetary Union (EMU) members breaking even tougher monetary criteria would be imposed.

"We do not want (the pact) to delay EMU; we don't want to reopen negotiations and to change the stability criteria." Senior members of the Commission insisted that Kinnock's views were "purely personal" and did not alter their collective determination to begin monetary union in three years' time.

"The goal of a single currency in 1999 is desirable, necessary and possible," the commission president, Jacques Santer, declared.

The doubt about the EMU timetable expressed by Kinnock has created dismay. His precise words were being closely examined to discover whether they reflected any move by the British Labour Party's leadership to distance itself from a firm commitment to the 1999 monetary union deadline.

Kinnock insisted that additional tests to those set out in the Maastricht treaty should be met before countries could move to a single currency.

EU finance ministers failed to agree on all aspects of the detailed strategy for moving to a single currency. These issues will be passed for decision to the EU heads of government who meet in Madrid on December 15. — *The Guardian*

Little prospect of consensus within EU

(5bA) BD 7/12/95

BRUSSELS — Next year's attempt at reforming the European Union's institutions is threatened with severe gridlock judging by a road map produced on Tuesday, according to yesterday's Wall Street Journal Europe.

A group of national officials charged with identifying possible solutions to the problems plaguing the EU themselves fell victim to the internal divisions they were supposed to help overcome.

The UK in particular looks set to oppose any push for expanding the union's powers.

The group produced a 49-page report that shows a lack of consensus on how to tackle institutional reform at next year's constitution conference.

And it is clear from the report that such pressing questions as monetary union, agricultural reform and aid to poorer regions will be left off the agenda.

The 18 officials spent six months preparing the report as an agenda for the so-called intergovernmental conference to review Europe's institutions and prepare for further expansion of the union.

That gathering is scheduled to start next year, and is expected to continue into 1997.

"There were differences of view between us, but that's natural," said Spanish European Affairs Minister Carlos Westendorp, who directed the group's work. "Our job was to pave the way for the conference."

In fact, the work of the reflection group proved to be a recitation of national views rather than the exercise in deep thinking implied by its name. Westendorp called the group's mission "an almost impossible exercise".

The group's disagreements do not mean the end of hopes for reform. The 15 EU member states are not likely to budge on their positions until the serious negotiating begins next year.

The report does conclude that 1996's conference needs to focus on the main tasks of restoring public confidence in the EU, preparing for the addition of new member states and giving the union more powers over foreign policy.

But the conference could easily sink into an ugly scrap over important but obscure issues such as how many commissioners each state can appoint, and when to apply majority voting at meetings of ministers.

Much, of course, depends on France and Germany.

French Minister for Europe Michel Barnier — a member of the group that drafted the study — insisted on Tuesday that his country and Germany saw eye to eye on most issues. But the two sides do disagree on some of the issues.

The report also shows that the UK continues to stand alone on many hot-button issues.

Although the report studiously avoided naming countries, it is peppered with references to "one member" that opposes any extension of majority voting "on principle", rejects expanding the powers of the European parliament, and wants to limit the effect of rulings by the EU's highest court, the European Court of Justice in Luxembourg. — AP-DJ.

SOUTH AFRICA'S NATIONAL FINANCIAL DAILY

MONDAY DECEMBER 18 1995

EC leaders agree on the 'euro' despite Major's reservations

(SLA) ET (BR) 18/12/95

BY NEIL BEHRMANN

London — Europe moved decisively towards a single European currency, which government leaders agreed would be called the "euro", during a summit in Madrid at the end of last week.

The majority of European leaders ignored reservations about economic consequences from the British prime minister, John Major.

At a summit in 1998, it will be decided which European Community nations will join in.

"This significant political event has considerable implications for global financial markets," said Graeme Bishop, a European monetary specialist of Salomon Brothers. "If the Madrid decisions were to be flawed, investors would become increasingly nervous."

They will be worried about assumptions on the speed of conversion and economic constraints on the 15 members of the European Community, he said.

"The economic and political consequences of the whole project will thus have to be monitored carefully."

Those who doubt the viability of a single currency fear that weaker European nations, particularly those in the south, will be constricted by the powerful German mark and tight money policies of the Bundesbank. European unemployment, already 21 million or 11 percent of the labour force, would rise.

South African exporters and importers would need to watch the progress of the mark closely and see if there was any major divergence from currencies such as sterling and the Italian lire. There could be competitive devaluations before the introduction of the euro.

The phased introduction of the euro will take place between 1999 and July 2002, according to the summit's proposals. A European central bank will be formed.

The nations that are first expected to join the single currency are Germany, the Netherlands, Luxembourg and France.

The euro will be launched in 1999 on a one-to-one conversion rate against the official basket of the European Currency Unit. The ECU is a weighted composite of 11 European Union currencies. Countries in the single currency bloc will lock their exchange rates the same day.

Euro banknotes and coins will be issued starting on January 1, 2002 and will fully replace national currencies six months later.

Those that wish to join the unitary system must meet stringent economic criteria laid out in the Maastricht Treaty. Other nations will be phased in.

"A high degree of economic convergence is a precondition for the treaty objective to create a stable single currency," the leaders said in their final communique.

According to the most recent EU commission forecasts, only two of the EU's members, Germany and Luxembourg, irrefutably meet the treaty's tough criteria.

EUROPEON ECONOMIC COMMUNITY

1996 — 1997

European community battle with currency

MtG (BM) 5-11/1/96 (56A)

Scott Kraft in Paris

AS a train conductor in the French capital, Alain Trille has a guaranteed job, retirement at nearly full pay at age 50, five weeks' vacation and free train tickets. But his company, the state-run railway, operates 6 000km of money-losing lines, has twice the number of employees it needs and spends $35-billion a year more than it makes.

That was the battle line in the 24-day public transport workers strike that ended in France last month, and it offers a disquieting picture of what is in store for much of the rest of Europe this year.

European governments are under intense pressure to stabilise their currencies, increase economic growth and reduce state deficits

As do other industrialised regions, Europe faces slow growth: The Organisation for Economic Cooperation and Development (OECD) recently cut its growth forecast for European countries to 2,6 percent from an earlier projection of three percent.

Among the OECD's 18 countries, the worst hit are Germany, France and Britain, where growth "has slowed sharply" because of "a weakening of final demand", the Paris-based international research organisation said.

Moreover, governments — under pressure to meet guidelines for inclusion in the planned single European currency — are moving to cut public spending, privatise state companies and deregulate industries.

And those reforms face stiff resistance from Europeans wedded to worker perks and generous social welfare benefits.

At issue, for the workers and consumers, is nothing less than a way of life that has grown up in Europe since World War II.

Having come to depend on inexpensive high-quality government services, from mail delivery to health care, Europeans now fear their countries are heading toward United States-style, profit-driven economies that will bring a lower quality of life.

Europeans now fear their countries are heading toward United States-style, profit-driven economies that will bring a lower quality of life

"These are not really perks. We've earned them," insisted Trille, 44, speaking at a protest march through the streets here. "We're willing to make sacrifices, but this is too much."

The French strike has ended, but perhaps only temporarily.

Prime Minister Alain Juppé has agreed to redraw his plan to restructure the state railway, to postpone an overhaul in the tax system and to protect French public services from the deregulation ordered by the European Commission.

But his overall reform plan remains mostly intact, including reduced health benefits and welfare charges that will affect all French workers. After long post-strike meetings with Juppé, union leaders now predict more labour unrest in the new year.

Even as France's strike was ending, trouble was spreading elsewhere. Rail and air workers in Belgium went on strike over job cut plans, and similar labour trouble is expected in the public sectors of Spain and Italy, two countries that desperately want to reduce their deficits in time to qualify for European monetary union.

European leaders insist that monetary union is necessary to boost intra-European trade by reducing the billions of dollars spent annually on money exchanges and to enhance the trading power of the continent.

They say it's on track, and, last month, they even chose a name for the new currency: the "euro". If all goes as planned, 15 national currencies will be replaced by a single one on January 1 1999.

But it will take more than a new name to make monetary union work. And the European Union's council of ministers will decide in 1998, on the basis of 1997 economic performance, which European countries will be allowed to join.

So far, only Germany, the economic powerhouse of Europe, is assured of meeting the guidelines.

Most other European governments are under intense pressure to stabilise their currencies, increase economic growth and reduce state deficits.

For most, that will mean picking fights with increasingly restive citizens who appear unwilling to endure short-term pain for any long-term gain. — *The Washington Post*

EU missions under attack

(56A) CT(BR) 16/1/96

By John Fraser

Brussels — Free-spending European Union chiefs are under attack, with claims that they are squandering R850 million a year on overseas outposts.

Each of the 126 EU's overseas missions has a full diplomatic team. Many of the far-flung Eurocrats earn more than prime ministers in European capitals — and it is believed that some are required to do very little work for their pay. They can easily pocket R550 000 a year, once salaries, accommodation allowances, and other perks are taken into account.

Even when individual EU governments have fully staffed embassies in the African, Caribbean, South Pacific and South American countries concerned, EU diplomats set up their own bureaux, refusing to save money and to trust national diplomats to represent the union.

The EU diplomats are responsible for administering EU aid around the world, for trade relations, and for promoting the union.

At a time when national governments are having to rein in their expenditure, the EU is expanding. In 1990, there were 102 EU diplomatic missions worldwide. The figure now has shot up to 126. The average cost for the delegations is more than R5,5 million a year, borne by the taxpayer.

Brussels officials say the overseas missions are needed to monitor aid programmes and to deal with EU trade matters.

However, the British government is deeply hostile to the Brussels empire-building, and cut its share of the EU aid budget last year because of concern about inefficiencies in its administration.

European members of parliament are so worried about the expenditure on EU overseas delegations that they have frozen part of this year's budget for funding them.

The issue of the EU's empire-building activities erupted after a damning article in the London Sunday Express. — Independent Foreign Service

EU bid to eject poverty

(56A) (2...)

FLORENCE – The European Union (EU) and six Central American nations met here yesterday to discuss ways to consolidate the region's fragile democracies, alleviate poverty and promote regional economic integration.

Mr Mendel Goldstein, who is the European Commission's official in charge of Central America, said structural adjustment policies followed by Central American governments had had a "very negative" impact on the poor and notably the Indians.

Sowetan 22/3/96

Involvement

He said this was one reason why the EU wished to pursue its involvement in Central America within the framework of the so-called San Jose dialogue – so-named after the venue of the first meeting in the capital of Costa Rica in 1984.

The 15 EU countries particularly want to see improvements in the field of human rights and the rights of indigenous Indians and in the role of trade unions.

In 1995, EU economic aid to the six Central American nations – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama – came to 175 million ECUs (228 million dollars). – *Sapa-AFP.*

WO

EU's envoy confident SA links will be strengthened

BD 15/4/96 (56A)

John Dludlu

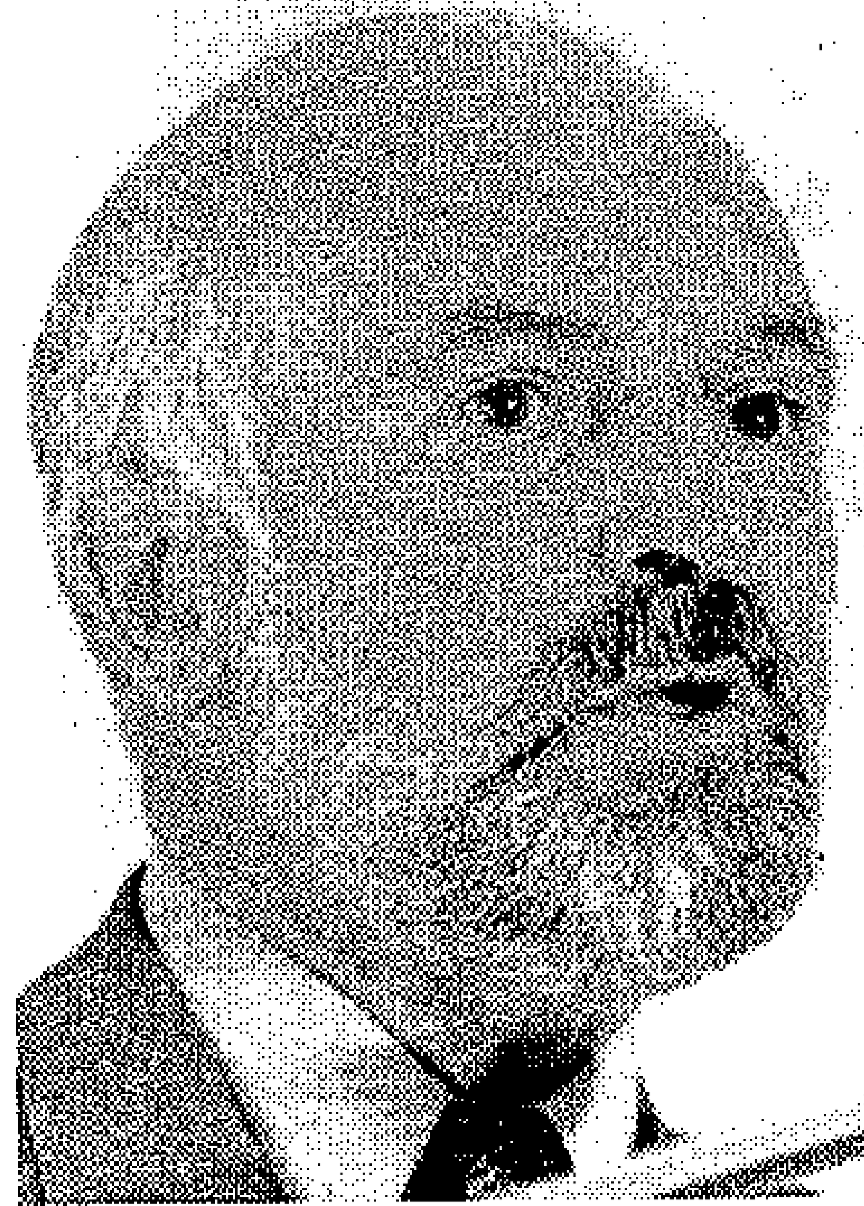
THE EU's relations with SA are expected to be strengthened over the next few weeks, ahead of the conclusion of talks on a comprehensive co-operation accord between them, according to EU ambassador in SA, Erwan Fouèrè.

Speaking at a function at the Rand Easter show last week, Fouèrè said the next few weeks would see a steady flow of EU visitors to this country as the relationship between the 15-nation union and SA developed.

One of the visitors would be João de Deus Pinheiro, the EU commissioner in charge of relations with SA, who is expected to launch formal negotiations with SA next month. Pinheiro, author of the twin-track approach for relations with SA, would be followed by Jacques Santer, president of the European Commission — the executive arm of the EU — and four commissioners.

Fouèrè said the EU stand at the annual show in Nasrec, as well as the constant inflow of trade missions from EU states, reflected the growing links between SA and the union.

A conference on the information highway — to be hosted by SA — would be held, further reinforcing the relations between SA and the EU.



FOUÈRÈ.

The challenge now, he said, was to harness the high degree of interest into concrete results — an apparent reference to the conclusion of a formal co-operation agreement.

In terms of a mandate given to the commission, the accord would comprise several aspects. Key components of the agreement would be SA's partial accession to the Lomé convention and an assymetrical free trade accord, covering more than 90% of all trade between SA and the EU.

Recently EU ministers approved a mandate for the commission to negotiate a free trade accord, excluding 38,6% of SA's farm exports from preferential access to the EU.

Greg Mills, of the SA Institute of International Relations, said this year was a historic moment in EU-SA relations, "not because of the mad cow disease or Sarafina 2" but because of the forthcoming negotiations of the free trade accord.

He said although the trade mandate proposed to exclude only 4% of SA's agricultural products, the exclusions remained areas of concern for Pretoria.

The challenge ahead, he said, was how the proposed accord would evolve to be compatible with SA's obligations to its partners in the five-nation Southern African Customs Union.

However, Mills said, the upcoming talks would be tough and required a great deal of caution to deal with the sensitivities involved.

EU seeks partnerships

MTT (PM) 2-8/8/96 (56A)

The EU is putting pressure on business to co-operate in boosting employment, writes John Palmer

BUSINESS leaders are coming under increasing pressure to co-operate with European Union governments in the creation of jobs in the voluntary, or "socially useful", sector of the economy.

As fears for the chances of a jobless economic recovery later this year grow, the private sector is being encouraged to join partnership schemes with national and regional authorities across the EU to boost employment in the "social economy".

According to a European Commission study, about three million people are already working in the voluntary or "third sector" of the European economy in non-profit enterprises.

These include some 300 000 co-operatives, mutual societies and other associations, as well as the caring services and work on the protection of the environment.

The Association for Innovative Co-operation says 13% of the net new jobs created in France, Germany and the United States between 1980 and 1990 were in the non-profit sector.

The Irish government, which has presidency of the EU, has made action on unemployment a key priority.

Ireland's Finance Minister Ruairi Quinn said he would like to see both the private and public sectors co-operate in generating jobs through local employment pacts.

The Irish government wants the EU heads of government summit to agree on a series of job initiatives including action on local employment pacts.

These could include partnership schemes, under which private businesses help finance new non-profit enterprises, or provide management and financial expertise for socially useful employment projects.

Those who are pressing business to play a bigger role in job creation in local communities say firms like Marks and Spencer show what can be done.

"It is in their own interest that the employers work with the wider community in tackling mass unemployment," insists Padraig Flynn, the European social affairs commissioner.

"If we can reduce unemployment, governments can be helped to reduce their Budget deficits to prepare for monetary union."

However, moves to involve the private sector more directly in supporting socially useful employment schemes are controversial.

The extent of the responsibilities of business in tackling unemployment in society led to some sharp exchanges between employers' leaders, European trade unions and the commission.

The European Trade Union Confederation (ETUC) believes the socially useful sector is potentially rich as a source of new jobs.

'Much more work needs to be done on how to support job creation here to make up for the continuing loss of jobs in private industry not only due to recession but to technological change and corporate restructuring," says Peter Coldrick, an ETUC official.

The commission is also focusing on how best to help the "alternative" economic sectors generate jobs.

But most industrialists insist their responsibility is to ensure the success of their businesses. They worry this may be made difficult by having to support social economy projects.

This view is being seriously challenged. Flynn said: "I did point out in Dublin that business, by and large, is doing pretty well. Profits are high and the rate of return on invested capital is better than for decades past."

But Francois Perigot, president of the EU employers' organisation, Unice, warned that business would not look favourably at moves to introduce a "jobs tax" on the private sector.

"The best way to achieve the creation of the jobs that we all want to see is by helping European industry ensure that it is globally competitive," he said.

 (56A)

AD ABSURDUM

FM 23/8/96

A recent European Commission ruling on permissible ingredients in chocolates is laughable. But the mindset behind such decisions is too dangerous to be taken lightly.

Belgians, Swiss and Italians have always made their chocolates differently and Europe is no worse off for that. But herein lies the fatal flaw in the creation of the European Union — ignoring the differences of nations.

National characteristics affect not only attitudes to food but also to economic and financial behaviour. The European Monetary Union is already causing tensions among nations. Though integrationists and sceptics point out these dangers, EU politicians remain rigidly removed from reality.

Chocolate rulings were announced about the same time as news in May that most EU countries would not meet Maastricht criteria. Now reports reveal pension liabilities — previously disregarded — are causing a debt mountain with grim implications for a single currency.

Integrationist Wilhelm Noelling, a former member of the Bundesbank council, urges a delay in union. He says it will flounder if political union and harmonising of legal and political systems are not achieved first. He fears countries may change to a common currency regardless of persistent and significant structural differences. In contrast, most European governments think the EMU will force the changes.

Helmut Kohl

In trying to meet stringent monetary union criteria, EU governments are focusing on statistics rather than reality.

"The numbers may be there on time," says Thierry Naudin, economics editor of *The European* newspaper. "But the nitty gritty of separate legal and economic systems that used to interact so well with national central banks may not respond as effectively when a single interest rate is determined for several countries by one European central bank."

For example, a given interest rate may be low enough to spur growth and employment in the Netherlands but could prove high enough to prompt a slowdown and more unemployment in Spain.

The differences in response reflect the different economies having evolved financial and other structures independently over many decades. Barclays de Zoete Wedd Securities, in a recent study, says: "These are unlikely to be swept away by merely meeting the Maastricht criteria."

London brokers warn that if credit policy changes lead to dramatically differing economic performance among members of the monetary union, it could make people question the value of that union.

Europe's soaring pension liabilities could cause intolerable strains within the single currency. Trillions of dollars of public debt from State pension liabilities could force some countries to bail out others.

State pension funds, on which each European Union member relies — apart from Britain, Ireland and the Netherlands — are not funded by past contributions from the ranks of the elderly but from taxes on the younger generation. An ageing population and growing unemployment has meant more dependants on and fewer contributors to the system.

Unfunded liabilities, as a proportion of national income, run at 69% in France, 122% in Germany and 107% in Italy.

Response to the problem is slow. Chancellor Helmut Kohl recently reformed legislation to raise the age at which Germans can take pensions — in stages between 2000 and 2001. But statistics show the state of the coffers will become critical long before then. There is some action in Italy but France remains complacent.

EU countries will be jointly and severally responsible for the EU's probity, says Jonathan Hoffman of Crédit Suisse First Boston. As a result, countries like England may have to fork out subsidies.

"This is the most compelling argument for Britain not to join," says Hoffman.

Brussels admitted in June that the European single market has been a failure in terms of job creation and prosperity. It was established three-and-a-half years ago as a precursor to closer integration. And millions of jobs were expected to flow from the creation of a market of 300m consumers.

In reality, states have plunged into recession and job insecurity. Says single market commissioner Mario Monti: "The single market has not delivered as we had hoped at the macro-economic level."

That is not surprising. In setting their sights on European Union, leaders are disregarding a more fundamental and vital process of change that is taking place. Europe's traditional social, political and economic models are suffering under global pressures.

These crises may draw leaders' attention to the real issues. Without stability in individual countries, especially Germany and France, EMU will never succeed. As economist Rudiger Dornbusch has urged: "Europe should abandon fiscal cosmetics and get fit for the new, more competitive world."

EMU ready to fly on world money markets

(56A) BD 3/10/96

WASHINGTON — The European monetary union is finally getting some respect. International finance ministers and central bankers meeting in Washington this week say there has been a major upsurge of interest in the potential far-reaching international implications of the euro, Europe's planned single currency.

While behind-the-scenes accounts vary on whether the non-European countries are really just now waking up to the possible impact of the union plan, all seem to agree there is a new thirst for information on the planned 1999 currency union.

At the meeting of top monetary officials from the Group of Seven richest countries last weekend, the US, Japan and Canada appeared much more interested in the euro at this G-7 round than they had in the past, says one senior German official.

Yves-Thibault de Silguy, the European Commission's commissioner for monetary affairs, commented: "It's clear there's been a fantastic change in the perception in the US about the determination of Europe to go through with phase three of European economic and monetary union."

Criteria

In the third phase of the union, countries that respect certain macroeconomic criteria will lock their currencies together starting from January 1 1999, and will adopt a common monetary policy.

One of the worries of the non-Europeans is what the potential impact of the euro on international exchange rates will be, officials say. De Silguy said there was some concern that the euro might have a destabilising rather than a stabilising influence. "They are concerned that if something goes awry in putting the euro in place that the dollar could soar," said a German official.

German Finance Minister Theo Waigel said after the G-7 meeting on Saturday: "The US side asked if the euro will take on the character of a world currency." He added that the union will continue to be on the agenda for future G-7 meetings. Italian Treasury Minister Carlo Azeglio Ciampi also remarked on the interest shown by the US, while French Finance Minister Jean Arthuis noted that the single currency and its potential impact on the international monetary system have been topics at the past two G-7 meetings.

Why the sudden interest? There are two main reasons the euro is being taken more seriously now by non-Europeans.

The German official says: "They see that there is a political will for the currency union to happen, from statements by people such as Kohl and Chirac saying that it will happen.

"And they see commercial banks are about to invest lots of money in preparing for the changeover to the euro."

Austrian Finance Minister Viktor Klima noted this week: "I had the impression that for the first time the US finally began to consider the impact of a strong euro. Up to this point, they had the feeling it's not going to happen."

The euro's seeping into the international consciousness was underlined by seminars at the Washington meetings with titles such as: A Single European Currency?

At one panel discussion, a speaker joked that until recently, people in the US have mainly thought of EMU (union) as an "ostrich-like bird, not a currency".

Austrian central bank president Klaus Liebscher added that "the euro has clear consequences for the Americans, and now they are trying very intensively" to make out what the possible impact will be. US officials reject suggestions they have not paid attention to plans for the euro, noting that the US could equally be accused of being interventionist if it showed too much interest.

It is also a bit puzzling that Europeans question the doubts shown by the US in the union, particularly after past issues where union has had setbacks, such as when Italy and the UK left the European monetary system exchange rate mechanism in 1992.

But US officials do confirm that they are now watching developments closely because of the potential ramifications for sharp dollar appreciation if the single-currency initiative is botched. A weak euro would give European exporters a competitive advantage.

Deutsche Bundesbank president Hans Tietmeyer painted a picture of the US side walking a fine line between keeping a polite distance from European political matters but making clear their own interests in the project.

On the decision to have a currency union, Tietmeyer said: "The Americans say that it is Europe's decision, but if Europe is going to do it, it is in the US interest that it remains stable.

"Other countries are concerned that when the Deutschmark disappears that the new currency should be just as stable," Tietmeyer said, noting the topic has as much relevance for the US, Canada and Japan as it does for the EU.

Betting

"The interesting thing is that the market is betting on EMU," said Robert Hormats, a senior executive with Goldman Sachs and Company in Washington, noting that yield spreads are already narrowing in Europe.

But, he noted, if the euro changeover is mishandled, there is a danger investors could flee European investments including in Germany, leading to a strong appreciation of the dollar.

Ironically, says a German official, this sudden heightened consciousness has prompted the US participants to start playing the role of "big overseers", urging that EU countries stick to the Maastricht Treaty criteria.

In effect, they are taking up a theme that European officials have been touting for years.

European officials have been taking pains in trying to soothe any fears over the new currency and its impact on official reserves and investment portfolios. "We will do everything to make sure the euro isn't weaker than the Deutschmark," Tietmeyer said.

Juergen Sarrazin, chairman of Germany's powerful Dresdner Bank AG, forecast that "the euro will be the No 2 currency in the world and will become a stronger force than the Deutschmark is these days".

European officials in Washington are stressing plans for the "stability pact" proposed by Waigel that is aimed at keeping members of the currency union in line with Maastricht Treaty criteria after the single currency is launched. The plan has been endorsed in principle by EU leaders, though details still have to be worked out. —AP-DJ.

Unions attack Lomé Convention's lack of success

(56A) BD 7/11/96

John Dludlu

TRADE unions in Europe and from African, Caribbean and Pacific (ACP) nations have criticised the Lomé Convention, saying the longstanding trade, political and aid accord between the EU and its former ACP colonies is failing in its key objectives.

The criticisms are contained in a 12-page joint submission by the International Confederation of Free Trade Unions, the European Trade Union Confederation and the World Confederation of Labour to the proposed green paper on EU/ACP relations.

The green paper, it is hoped, will chart the future of the convention, of which SA wants to be a member, beyond the end of the century. The most serious charge levelled against the accord, which is financed by EU members' contributions through the European Development Fund, is that, in some places, the agreement has led to "racketeering and corruption" and has created a network of the rich in poor nations.

"There is something wrong when between 60% and 80% of the Lomé budget goes into the pockets of European operators in the form of contracts for equipment and work to the detriment of local or national ACP operators."

The union paper says despite its achievements the convention deprives the majority of ACP communities from benefiting through its programme.

Although joining the convention was Pretoria's first prize in deepening relations with the EU, this was turned down due, in part, to fears that SA's relatively bigger economy might raise objections from the World Trade Organisation which has waived international trade rules for the Lomé Convention.

Instead, Brussels has offered SA partial accession to the convention, but has barred SA from enjoying trade-related benefits.

FOCUS

European monetary union outcome double-edged for SA business

(56A) BD 12/11/96

The advent of European monetary union is likely to have important consequences for SA — both positive and negative, reports Neil Behrmann from London

THE die is cast. Despite considerable financial and economic obstacles, key European nations are determined to introduce European monetary union by the end of the millennium. And the implications for SA business people will be considerable.

Forward planning is thus essential, even though there is considerable debate among European central bankers and economists who are concerned that several nations will not meet the tough economic requirements for a unified currency.

Despite their worries and the widespread anxiety of labour unions and businesses, politicians of Germany, France, Belgium, Luxembourg, Netherlands, Austria, and even Ireland and Finland, want their nations to become members of the monetary union on January 1 1999. The leaders of Spain and Portugal are also keen on entry and the remaining European community states, notably Britain and Italy, have the option of entering at a later stage.

The Euro, the new common currency, is planned to be phased in by the year 2002. New notes and coins will be issued to the general public. Investment bank JP Morgan and other banks bet that almost all the present 15 EU member states will be monetary union members by then. However, Britain and Denmark do not have the political will to join up, and will probably wait to see if it works before deciding.

Since a major united currency and capital market bloc will be created in only 26 months, SA businessmen need to focus on the programme and the likely political and economic scenarios and consequences.

The key to monetary union is economic and financial convergence of candidate nations. The requirements are already in place and the deadline is April 1998. In terms of the Maastricht treaty, signed in February 1992 and which came into force in November 1993, there are four convergence criteria — notably inflation, budget deficits and government debt levels, currency stability and bond yields.

Although there will be minor revisions for individual countries to make adjustments, potential members should achieve the following targets by the European spring of 1998:

□ First, the inflation rate of a nation must not exceed the three best performing member states by more than 1,5%;

□ Second, as per the 1992 Maastricht treaty and subsequent European finance minister meetings, governments have agreed on a "stability pact" to contain budgets. Countries which wish to join the union must reduce spending or raise taxes if their budget deficits rise above 3% of GDP. Governments which fail to comply will be fined unless they are encumbered by "exceptional circumstances". Meanwhile, the proportion of government debt to GDP should be lowered to 60% or less;

□ Third, foreign exchange rate stability ahead of union will first be achieved via membership of the European exchange rate mechanism. Under the mechanism, currencies will be allowed to fluctuate 15% either way. Core members are expected to negotiate narrower bands when they meet in Dublin in December this year. The states which have kept exchange rates within the required band for two years prior to unity will be eligible for membership; and

□ Fourth, the long-term bond yield of a country should not exceed the three best performing members by more than 2%.

These goals are already having an effect on SA's business people.

Only a few countries will beat or match debt levels under the Maastricht rules. Those nations which are forecast to match or better the 3% budget deficit target are Denmark followed by Finland, Ireland, Netherlands, Belgium and Germany.

The gold mining industry is worried about market rumours that candidate nations will sell a portion of their gold reserves to reduce their deficits. Present gold reserves are calculated at prices which are much lower than current prices, so there would be automatic profits to boost government income.

Central banks have not confirmed that they intend selling, but the discussions discourage long-term investors from buying gold.

Inflation and bond yield differentials of European countries have narrowed considerably. Since the European foreign exchange crisis just more than three years ago, currencies are once again fluctuating in narrow bands.

In practice, this means that the Dutch guilder, French and Belgian francs and several other key European currencies are tagging the German mark. A bet on the French franc and Dutch guilder is thus effectively a bet on the Deutschmark.

Since the rand is so weak, SA exports are now very competitive in Europe. Any stabilisation of the SA currency and renewed confidence may raise European investment in SA in the next few years. On the other hand, import prices for goods bought in Germany, France, Britain, Italy and others have soared.

Businessmen also need to consider the economic and sociological risks of monetary union. Economic conditions of union nation candidates are unlikely to be buoyant in the coming year. Nations will be forced to constrain spending to meet the Maastricht criteria and unemployment will remain high.

In the past year there has been a recession and strikes in France. These factors can hurt sales of SA exporting companies and delay shipment of imports.

Those who are in favour of monetary union believe that a fixed exchange rate will boost economies in the long term. For SA business, the single currency should eventually cut the cost of international transactions. Within Europe, fluctuating currencies will no longer be a nuisance.

Yet difficulties will arise during the adjustment period. Prof Tim Congdon of Lombard Research warns that a major problem will arise when growing amounts of Euros are created alongside marks, francs, guilders and other currencies.

During that time, prices would be made in both domestic currencies and the Euro. Bankers, manufacturers, shopkeepers and individuals would find the system confusing and costly. Conversion of business contracts, pensions and insurance policies would help lawyers and accountants.

The sceptics fear that union would create a European federal state in which strong countries such as Germany and France would overwhelm depressed countries in the south. They contend that European monetary union could eventually blow apart and bring about a European financial crisis. Whatever the scenario, union is double-edged for SA.

MONETARY UNION *Bonn and London play to their home galleries*

EU divided on stability pact

CT(BR) 13/11/96 (66A)

SARAH HELM

Brussels — A growing power battle between Germany and other European countries over who lays down the law for the euro-zone could prevent agreement next month on a crucial system of budget rules and sanctions.

It had been expected that a long-awaited stability pact that contains rules for governing the euro-zone would be signed at a Dublin summit next month. However, European finance ministers, meeting in Brussels yesterday, failed to decide what those laws should be.

The ministers were also far from deciding which European body should enforce the laws. Jean Arthuis, the French finance minister, has proposed radical plans, supported by Germany, for a new informal economic government to be called a stability council.

The council would operate as a G7-style club, modelled on the Group of Seven industrial countries, and consisting of only states inside the single currency.

The creation of such an exclusive new political club would have serious implications for Britain. Yesterday Kenneth Clarke, Britain's chancellor of the exchequer, said he was very sceptical about the idea of such a "discreet club", which could create new division between those inside European monetary union and those outside.

Germany wants the rules of budgetary discipline to be as strict as possible

The creation of a stability pact and stability council are the most important building blocks for economic and monetary union, and a delay will raise questions about the determination of member states to proceed.

Germany, which first proposed a stability pact a year ago, wants the rules for budgetary discipline to be as strict as possible to ensure the euro is as strong as the mark.

Without firm evidence that its partners will keep their spending under control, Helmut Kohl, the German chancellor, fears he may be unable to sell the single currency to his own public.

"It is vital that our government achieves the results it wants. Without an effective stability pact the German public will not be convinced," said a senior German official.

German frustration with the laxity of rules being proposed has pushed Bonn to threaten to opt out of the present negotiations altogether, by seeking tougher deals with only those countries that qualify to join at a later date. Such deals would be done outside the terms of the Maastricht treaty. Germany has underpinned its threat by saying it has legal advice that it has the power to go it alone if other member states do not toe its line.

However, most other European Union member states, including Britain, hope Bonn's hard line is a bargaining threat. Germany's stance will place them in an unacceptable economic strait-jacket, they say.

Under the complex system of stability pact rules now on the table, each country inside monetary union must accept a sliding scale of fines if it allows its budget deficit to rise above 3 percent of gross domestic product.

Exemptions can be made for countries in exceptional circumstances — for example, if they have suffered a natural disaster.

Exemptions can also be made in cases of a severe economic downturn. Germany's prime demand is that the term severe economic downturn be defined far more tightly than its partners can accept.

Germany is also demanding stricter rules for enforcement of fines against countries that let their budget deficits slip out of line.

As other member states focused on German demands yesterday, Clarke found himself obliged to justify to Euro-sceptics back home his repeated support for a stability pact.

Critics say the pact would force Britain, if it signs up, to an unprecedented transfer of sovereign powers. Public spending and tax would in future be scrutinised by Brussels and the British government would be fined if it stepped out of line.

However, Clarke countered yesterday that the stability pact could only be good for Britain as it aimed to ensure sound economic management, which is already part of government policy. The pact would help keep interest rates down, which could only be good for Britain whether in or out of the single currency, said the chancellor. — The Independent of London

tried to establish, through comparative static analysis, the impact of an accelerated liberalisation programme following a 20% currency depreciation.

Though the current programme is scheduled for completion in 2004, the simulation takes 1999 as the cutoff date. In the accelerated scenario, tariffs are reduced by a further 5% from 1997 over and above the reform programme.

The outcome is a 1,2% slowdown in the increase in import prices, from 13,6% to 12,4% over the period to 1999. So it shows how accelerated reform has a moderating impact on prices.

Under both scenarios, rand income to exporters increases by roughly 19%. This shows the benefits of a depreciating currency and the scope for price competitiveness are the same for exporters.

Employment creation hinges on the assumption of a 1,4% decline in real labour costs to 1999. IDC economist Gerrit van Wyk admits this might be too optimistic. A marginal increase in employment is achieved (1,3% growth).

"In real terms, there is a 12% depreciation — which provides an opportunity for tariff reduction to be accelerated and to make SA more competitive with no inflationary impact," says Van Wyk.

Whether government will have the political will to accelerate trade reform is an open question.

A dynamic version of the model will be ready by March next year. It will be based on similar models in Australia, with corporate responses included in results over the period of simulation. ■

FEATURE

EUROPEAN MONETARY UNION

PENSIONS TIME BOMB

When the European Commission (EC) forecast on how countries stood in the race to a European Monetary Union (EMU) was released earlier this month, it shared media space with the announcement of a ridiculous EC ruling.

A new directive on long-distance contracts will effectively — though unintentionally — prevent the surprise delivery of flowers through companies such as Interflora.

The commission's latest forecast is upbeat about the EMU, though a strict interpretation of its figures shows that only Luxembourg and France can meet Maastricht criteria.

This lack of interest in serious issues, combined with a drive to kill entrepreneurship through fickle over-regulation, is a worrying indication of what's ahead for the European Union (EU).

According to the latest figures (see table), the commission would have to rely on exception clauses in the Maastricht Treaty if it were to allow any more than these two countries into the EMU.

However, France intends to add US$7,2bn worth of Telecom pension funds (worth 0,45% of GDP) to the revenue side of the budget. So its inclusion is controversial.

Ireland may also be included because, though its public debt is 10% more than the 60% limit, it has declined steeply in the past two years.

By extending the Irish example, up to 12 countries may qualify for the EMU, based on the commission's forecast that they will come in under 3% of GDP.

Maastricht waivers apply to the public debt and budget deficit (3%) ratios. To qualify, a country must have come significantly close to either. On this basis, Germany, Finland, Spain and Denmark could qualify despite excessive debt ratios. Belgium is also expected to join the group which the commission anticipates will launch EMU.

The forecasts for 1997 levels of national debt did not take into account privatisations under way. Funds from these could be used to redeem national debt.

The commission presents an upbeat forecast on economic growth and unemployment. It has raised its forecast for eight countries, including Britain and Germany, despite scepticism among experts in Germany about whether growth will be at the level predicted and the fact that small growth this year has had no effect in stabilising the economy.

However, *The European* newspaper reports that Brussels fails to concede that Europe's pensions time bomb may jeopardise the EMU.

The pay-as-you-go pension liabilities of some EU governments run into trillions of dollars and if these were included in public debt statistics, hardly a single EU country would qualify for the EMU, say experts.

Last year, commission officials stated — in a report on pension liabilities — that "there's no provision for public pension scheme liabilities in the convergence criteria for the EMU. This means, in theory, a country could adhere to the union while accumulating pension liabilities that might endanger its public finance balance in future." The report continues: "The inclusion of pension liabilities in debt and deficit statistics would influence international comparisons of public finance data." The result would be a radically different list of who would qualify for Maastricht.

Most European pension systems are government-run and use contributions from workers to pay for the retired. High unemployment, plunging birth rates, longer life expectancy and an ageing population are playing havoc with that. ■

HOW THEY RATE

EC 1997 forecast	Inflation	Budget deficit as ratio of GDP	National debt as ratio of GDP
Belgium	2,1	2,9	127,0
Denmark	2,4	0,3	67,9
Germany	1,7	2,9	61,9
Greece	6,9	5,5	109,3
Spain	2,9	3,0	67,1
France	1,4	3,0	58,1
Ireland	2,2	0,9	70,0
Italy	2,9	3,3	122,3
Luxembourg	2,1	+0,5	8,8
Netherlands	2,0	2,5	76,6
Austria	1,9	3,0	72,7
Portugal	3,0	2,9	69,0
Finland	1,6	2,2	61,5
Sweden	2,3	2,9	77,6
UK	2,4	3,5	57,0

EU says it will not ditch the Lomé Convention

BD 3/1/97 (56A) (7th)

John Dludlu

THE European Union (EU), which recently published a policy paper suggesting far-reaching changes to its relationship with African, Caribbean and Pacific (ACP) nations, is not about to ditch the Lomé Convention, the union has said.

The recently released green paper on the future of relations between the two groups has suggested that Lomé, the trade and aid co-operation accord between them, be broken up into regions, a proposal which has been interpreted by some critics as the union's attempt to dump the convention.

The paper, drafted by an EU interdepartmental working group, also proposes that one embracing accord, supplemented by bilateral agreements, be concluded or that a specific agreement for the least-developed nations be signed.

Angelos Pangratis, the acting head of the union mission in SA, said yesterday it was a mistake to interpret regionalisation — as mooted in the policy document — as a desire to abandon Lomé.

Instead, the proposals on regionalisation were based on the need to accommodate the wide diversity within the ACP and to have policies that suited signatories.

"You can't deal with Mozambique and SA (not yet a signatory) in the same way," Pangratis said, stressing the need for policies that would address the different stages of development reached by various ACP nations.

Some observers have said the union wants to abandon Lomé for its failures, and pick a few promising countries, coaching them into "African tigers".

While admitting that Lomé's aid had, in some cases, been counterproductive, Pangratis said it had also been successful and there was room for more to be done.

Overall, the union felt Lomé had been "useful and successful", but had to adapt to changed circumstances such as the liberalisation trend which was eroding ACP benefits from tariff concessions under Lomé, he said.

The green paper, which kick-starts debate on the future of the grouping's relations, also signals that the ACP nations could be asked to open their markets to the EU after 2000.

The paper admits that ACP share of exports to the EU has shrunk to 2,8% in 1994 from 6,7% in 1976.

Formal talks on renewing Lomé are due to start in a year's time. The union said it would issue its negotiating directives before the formal launch.

Pangratis was optimistic that the outcome of the forthcoming negotiations would reconfirm the partnership.

Some observers say the agreement has given a significant voice to the ACP group. SA, which requested full membership of Lomé, has been offered partial accession by the EU.

Threat of a monetary union delay haunts EU

(5bA) ABD 26/2/97

Lionel Barber

BRUSSELS — The European Union (EU) is entering a critical period which will determine the fate of plans to simultaneously "deepen" integration through monetary union and "widen" the union through extension to central and eastern Europe, say EU officials and diplomats.

Despite official insistence that the European monetary union (EMU) timetable remains on track, the threat of delay is in the air as a result of slower than expected growth and political uncertainty over which countries are economically strong enough to cope with a single currency.

EU leaders are heading towards a choice of whether to "stop the clock" for a short period to allow a substantial majority of countries to meet the public deficit targets, or press ahead regardless because EMU has become a political cause too important to fail.

In an effort to head off a postponement, the pro-EMU camp has started to link the scheduled launch of the single currency on January 1 1999 to plans to open accession talks with central and eastern European countries next year. EU monetary affairs commissioner Yves-Thibault de Silguy has warned postponement would cause "turmoil" in the enlargement talks.

The single currency timetable and the selection process has also been the subject of intensive diplomacy centred on Germany, where Chancellor Helmut Kohl has received visits from the Spanish and Italian prime ministers.

A consensus is emerging that the list of countries qualifying for EMU and the terms of entry for latecomers should be clear at the latest by September this year.

An early understanding on EMU would avoid a clash with French elections in March 1998; it could also be based on assessment of performances this year and budget projections for next year. But an early decision could upset the German finance ministry which is pressing to wait until the figures for this year's inflation, deficits and debt are available next year.

The EU's packed calendar is also being pressured by the slow pace of talks in the EU's intergovernmental conference — still struggling to meet the deadline for a revised treaty at the EU summit in Amsterdam in mid-June. Negotiators say the conference remains hostage to the British election, which must be held by May 1. "Other countries are hiding behind the British government," said one ambassador. "They are refusing to reveal their hand so we can make progress."

The commission is also anxious to publish in mid-July its opinions on the merits of 10 applicant countries from central and eastern Europe: the Czech Republic, Poland, Hungary, Slovenia, the Baltic states, Slovakia, Bulgaria and Romania. — Financial Times.

EU hails 40 years' peace and economic integration

Signing of the Treaty of Rome celebrated

(56A)

ARG 25/3/97

Brussels – The European Union will take a break from economic and foreign policy worries to celebrate the 40th anniversary of one of its most important agreements, the Treaty of Rome.

Foreign ministers from the 15-nation bloc will meet in Italy's capital to mark the signing on March 25, 1957, of the pact between West Germany, France, Italy, the Netherlands, Belgium and Luxembourg to create a common market.

The resultant European Economic Community is now the European Union, stretching from Ireland to Greece, from Finland to Spain. Forty years ago the goal was to bind the continent's economies so tightly together as to make armed conflict impossible.

It was aimed particularly at France and Germany, which had gone to war twice in the preceding half century.

The ministers who will meet today in Rome's Capitol, where the treaty was signed, now represent a bloc of 350 million people, a huge single market, one voice on international trade and tentative joint foreign and justice policies.

The bloc is also poised to take its most ambitious step, economic and monetary union (Emu), by January 1, 1999.

This progress, said European Commission President Jacques Santer, is the most significant result of the Treaty of Rome.

"Within the same century, the same countries that twice confronted each other are to share a single currency," he said.

Although the celebrations will focus on what the EU has achieved – and few would deny that the Treaty of Rome has met its goals of creating peace and a common market among members – the event comes at a difficult time for the bloc: It has proved incapable of reducing stubborn unemployment, running at about 11 percent across the EU.

The bloc has stood by helplessly as Renault workers and others have taken to the streets protesting against the closure of a plant in Belgium, a move that tested commitment to Europe's "Social Model" of having a consultative labour policy.

Meeting the criteria for joining the single currency has made fighting unemployment even harder, limiting the spending countries can undertake as they try to reduce their bloated budget deficits.

In particular, Germany, the driving force behind Emu, finds itself in a dilemma. It is struggling to qualify for Emu, but if it fudges the rules, it may also have to let in Italy with its relatively weaker economy. That would be anathema to Germany's monetary officials and to the German public, both sceptical about giving up the mark in the first place. Financial markets, while accepting there is a political will behind Emu, have begun talking about a delay in launching the single currency until more countries are ready.

In foreign policy, the bloc was bloodied by a failure to stop the war in Bosnia without the United States' intervention. Now it finds itself divided over how to proceed with Albania, an issue of particular concern to today's host, Italy.

But although there are problems aplenty and huge differences over how much political integration Europe should undergo, the EU's success has made membership a passionate goal of many countries outside its boundaries. – Reuter

EU plans jobs drive as queues grow

ARGT 19/5/97 (56A)

Brussels – It is the European Union's Statistics Office in Luxembourg that has to break the usually bad news each month – the latest unemployment figures in the 15 member states.

At the start of this year, the rates ranged between 3,4 percent in Luxembourg to 21,6 percent in Spain. The average in January for the 15 EU countries was 10,8 percent – for the fourth month in a row.

That is 18,1 million people out of work.

Although the overall job market in the EU is stagnant, there is some movement within member countries. Hopeful trends were apparent in Britain, where within a year the jobless rate dropped from 8,4 per cent to 7,3 percent in January.

There were also slight declines in job queues in Denmark, Finland, Belgium and Spain, albeit with overall unemployment remaining at a continuing high level.

In all the other EU countries the queues were growing longer and longer. Germany had a 9,6 percent jobless rate in January, compared with 8,7 percent a year earlier, while Sweden's rate rose from 9,3 to 10,3 percent and that of France from 12 percent to 12,4 percent during the period.

"Employment remains the uppermost priority of the European Union and the greatest challenge to the member states," EU leaders stated at their summit in Dublin last December.

Their "Dublin Declaration" on employment contained a list of general proposals to combat unemployment, ranging from improved job training and re-training to more employment-friendly tax and social welfare regulations.

But there were no plans for money to be provided from EU coffers for direct job-creation measures. This aim, advocated by EU Commission president Jacques Santer, who wanted to reshuffle the EU budget for the purpose, was shot down by a number of member states that regard fighting unemployment as primarily a domestic task.

But indirectly the EU does help to create new jobs or at least to preserve existing ones, via its structural funds, which make up about one-third of the total EU budget.

According to the commission, about 2,4 million jobs will have either been saved or created in the 1994-99 period, thanks to programmes to support rural areas, regions with a lower level of development or those in industrial decline.

In addition, programmes for job training are being co-financed by the EU, and 11 million Europeans will benefit.

As a result of Mr Santer's call for an "employment pact", the commission wants to provide backing to regional employment initiatives. Member countries are to submit proposals in time for the next summit in Amsterdam in mid-June.

Of these projects, 60 will be chosen to receive funding of about 25-million Ecus (R134-million) over the 1994-99 period.

Every EU country with the exception of Britain has submitted project proposals. At the moment Brussels is studying 67 plans for the employment pact.

Amsterdam is also to provide new impetus in another aspect of the battle. The new EU treaty which the state and government leaders are to finalise is to contain a so-called chapter on employment.

After initial reluctance about making employment policy an EU task, Germany is among those to have abandoned its resistance to the concept – while still insisting that fighting unemployment should primarily be a national task.

"But the refusal to anchor the goal of employment in the treaty would have been interpreted by the people as a rejection ... of responsibility for employment policy," warned German Commissioner Monika Wulf-Mathies. – Sapa-DPA.

LOMÉ CONVENTION

Battle lines drawn as major overhaul of pact looms

Sweetheart deals set for short shrift as European trade departments attempt to untangle the intangibles

The European Union's top development officials have joined battle with 71 African, Caribbean and Pacific (ACP) countries, including SA, in a bid to revamp the Lomé Convention, Europe's trade and aid accord with some of the world's less-developed economies.

SA joined the Lomé agreement in April as a "partial" member: it won't have access to EU trade and aid preferences but will be able to participate in Lomé discussions and in EU-funded tenders for development projects in ACP countries.

Joao de Deus Pinheiro . . . probing for the best trade routes

The hope is that the planned overhaul will halt the 15 EU governments' growing disenchantment with the 20-year-old treaty. But the ACP countries, chief among them SA, are vociferously defending the privileges afforded them under Lomé. Their principal argument is that the accord goes some way to redressing the economic imbalance between developed and developing countries. But defending Lomé will be tough.

"The Lomé Convention is far too complex, it has too many instruments and too much operational detail," Britain's new Overseas Aid Minister Claire Short told a meeting of the EU's Development Ministers last week. "The challenge is to put together a new European development policy, including a reshaped Lomé Convention."

Other EU governments have expressed similar criticism. "We want a simplification of Lomé's procedures. The agreement is too inefficient and bureaucratic," says Dutch Development Minister Jan Pronk.

Germany, the Netherlands, Austria and the Nordic countries have called for a change in the agreement's focus on the ACP states, saying there's no reason the least developed countries in Asia and Central America should be excluded.

"There's great divergence between EU countries on whether participation in Lomé should be enlarged," admits Pronk. "But if there are more countries involved, the financial spread will be thinner."

ACP countries, who have been promised 14,7bn Ecus in EU aid until end 1999 have said they don't want new countries joining Lomé — or a break-up of the current group into separate African, Caribbean and Pacific zones which could negotiate their own region-to-region arrangements with Europe.

Pressure to change Lomé is coming from other fronts too. The treaty is under attack in the World Trade Organisation. The US has criticised Lomé's special trade arrangements for exports of ACP bananas, saying the preferential tariff provisions hurt the interests of Central American banana producers. A WTO disputes settlement panel has just ruled in favour of the US and said the EU must change its ACP import rules.

Lomé, with its special privileges reserved for a closed club of nations, runs counter to the WTO's ambitions for generalised global liberalisation. The EU has secured a WTO "waiver" for the Lomé pact until the end of the century. When it runs out, EU officials say they'll either ask for another WTO-authorised exemption for the pact or change the agreement's trade provisions to make them more compatible with globally agreed WTO rules.

The latest Lomé pact — signed in Mauritius in December 1995 — is set to run out in December 1999. European Development Commissioner Joao de Deus Pinheiro is consulting European and African governments, business leaders, independent aid agencies and academics to see how the pact can be best modernised.

Pinheiro and his team started the exercise with high ambitions, saying they were prepared to tackle all issues related to development policy. "There are no taboos," the commissioner said. But, the review is proving to be much tamer than many expected. The ACP states have made it clear that they do not want any major upheavals in Lomé. Nongovernmental aid agencies are also pressing for improvements in the agreement, but say the basic structures shouldn't be changed.

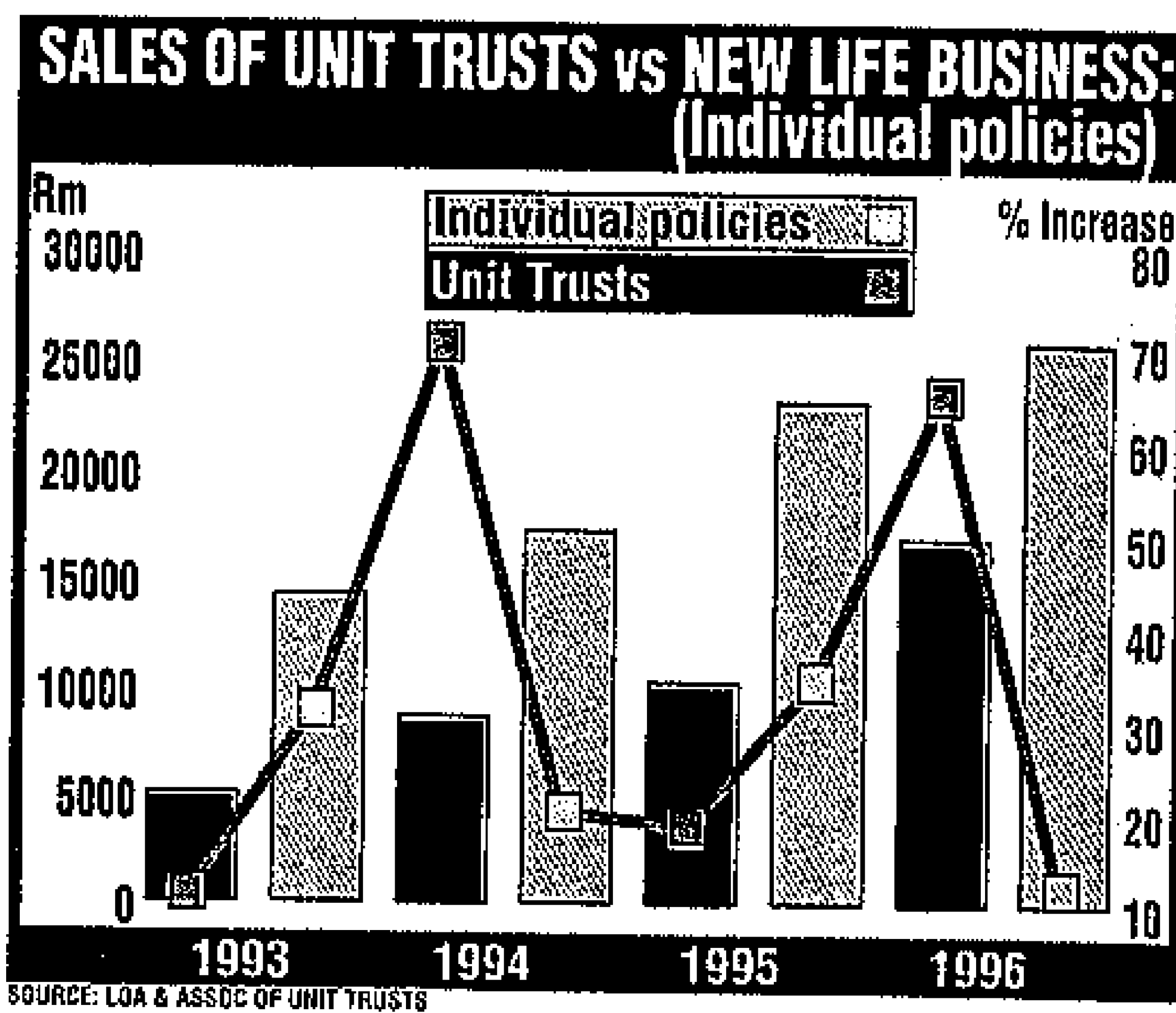
"The fear is that once we start talking about specific details, the whole Lomé agreement could unravel," admits an independent aid expert. "That's why we are insisting the relationship must continue."

Still, whether ACP countries like it or not, changes will definitely come. Commissioner Pinheiro's so-called "Green Paper" on the future of Lomé, issued last autumn points to several new directions. For instance, while the agreement itself will remain in place, it looks likely that Lomé members will be given different trade and aid benefits, depending on their level of development.

Shada Islam, Brussels

The right stuff!

A corrected version of the bar chart that accompanied the *FM*'s life assurance industry story on June 6. Apologies to the LOA and the Assoc of Unit Trusts.



EU single currency saved by new jobs

AMSTERDAM — Europe's planned single currency was back on track yesterday after European Union (EU) finance ministers finalised a resolution on jobs and growth which France had demanded as a condition of approving a key accord on the ground rules for monetary union.

The accord cleared the way for EU leaders to formally approve a stability pact that will impose strict budgetary discipline on single currency participants.

France's new left-wing government had threatened to block adoption of the pact which it regards as a deflationary, restrictive fiscal straitjacket.

The resolution to be adopted by the summit together with the stability pact will call for the EU to give greater priority to combating unemployment.

However it was clear that France had lost its battle to persuade its partners to back concrete EU-wide measures to create new jobs.

Germany made it clear that it would not accept any moves involving new spending commitments while other left-wing governments, notably Britain, distanced themselves from the French stance by stressing the need for labour market reform, education and reskilling as the key to getting the EU's 18 million jobless back to work.

"The EU's role in employment is (to) encourage exchange of ideas and best practice not to launch major new spending programmes," British Prime Minister Tony Blair told his colleagues.

German Chancellor Helmut Kohl warned he would resist any attempt to introduce an EU employment strategy "through the back door". EU-funded incentive measures, allowed for under an employment chapter in the new EU treaty under discussion here, would have to be agreed unanimously and subject to strict budget ceilings, he said.

Officials said the resolution on jobs and growth would focus on increasing co-ordination of national employment strategies at the EU level while making some concessions to France's demand for concrete action.

These would include commitments to expanding the role of the European Investment Bank (EIB), the EU's long-term lending arm, in helping small companies generate jobs and a re-examination of long-standing proposals from the European Commission to use surpluses in the EU's agricultural budget to help plug financing gaps in major cross-border transport projects.

Proposals to use the EIB's $1,2bn annual profit to help provide low-interest loans to small, high-tech companies and the use of $720m of reserves held by the European Coal and Steel Community for job creation are to be "studied rather than decided", British officials said.

Diplomats said there would also be an effort to speed the legislative adoption of an employment chapter to the Maastricht treaty. — Sapa-AFP, Reuter.

resolution

BD 17/6/97 (56A)

Warning on EU expansion

BD 25/6/97 (SbA)

John Dludlu
and Patrick Wadula

THE impending eastward expansion of the European Union (EU), bringing in new members with no historic links to the EU's 71 African, Caribbean and Pacific (ACP) partners, could affect future ACP-EU relations, a senior executive of a leading German nongovernmental organisation warned this week.

Friedrich Ebert Foundation director Peter Oesterdiehoff told a seminar sponsored by the foundation renegotiation of the Lomé Convention would take place as the EU was undergoing significant changes to promote integration and widen its membership.

"New members without historical links to ACP countries might take a view of a particular relationship as enshrined in the Lomé Convention which is different from the aspirations of the original signatory states".

The seminar was organised by the Southern African Development Community to discuss the future of ACP-EU relations in the next century.

Oesterdiehoff has echoed fears expressed by some ACPs that the eastward expansion of the EU and the planned launch of a single currency might put budgetary pressure on the EU, forcing it to scale back aid to the ACPs in terms of the Lomé framework.

Apart from tariff and quota trade concessions, the ACPs receive billions of dollars in aid from EU states.

The convention, which provides a long-standing aid and trade co-operation framework between the EU and its former ACP colonies, is coming up for renegotiation next year.

EU's first counsellor Angelos Pangratis said SA's entry to the Lomé Convention was in its final stages and was expected to be completed in October.

SA 's entry to Lomé would enable SA companies to tender for contracts worth R45bn through the European Development Fund, he said.

Africa Project Access Paul Runge said most SA companies were not aware that such contracts were available to them.

He said it was important for all parties involved to work together and form partnerships. Local companies should establish contact with EU representatives in SA, said Runge.

EUROPEAN MONETARY UNION

FM 27/6/97 (56A)

Who can breast the tape before Maastricht cut-off?

The countdown starts. First glimpse of single currency coins forces compromise in last-minute Franco-German tiff

The Amsterdam summit of the European Union last week was not supposed to have monetary matters at the centre of its agenda. But in public, European Monetary Union (EMU) overshadowed most of the proceedings.

It was the new French Socialist government that raised the EMU hare. Prime Minister Lionel Jospin, fresh from an election campaign in which he promised to create 700 000 new jobs over three years, queried the "stability and growth" pact which was tacked on to EMU at the insistence of the Germans.

The pact aims at enforcing the fiscal criteria needed to qualify for EMU membership — budget deficits to be 3% of gross domestic product and gross public debt to be held to 60%.

Jospin said he wanted to rethink the pact and get a specific commitment to employment. Theo Waigel, the hardline German Finance Minister who had just lost his battle with the Bundesbank over revaluing gold and forex reserves to help meet Maastricht's criteria this year, said he would have no tampering with the pact.

Inevitably a compromise resulted. The stability and growth package agreed in Dublin last December remained intact — "not a comma, not a period was altered," said Waigel.

Austrian Chancellor Viktor Klima, noting that the summit had chosen the designs for the single currency's coins, said: "The Euro is coming." What was not resolved was how many countries could be sure of meeting the Maastricht criteria this year. The decision on who is eligible is scheduled to be taken in May 1998.

Nobody expects Germany to get its budget deficit to under 3% of GDP this year — 3,4% is the likely outcome. France, Italy and Spain are also heading for 3,5% shortfalls.

Of the EU 15 only Austria, Belgium, Denmark, Finland, Ireland, Holland and Sweden will make the mark. Sweden, of course, has declined to join the first EMU entrants — like Britain, which wants to see how it works first.

German Chancellor Helmut Kohl, EMU's chief protagonist, has said delay will be disastrous. Bundesbank president Hans Tietmeyer maintains that EMU without a sound foundation would be worse and postponement preferable.

The case for taking a more relaxed view of the criteria has been advanced by the OECD.

Fiscal policy should "not focus excessively on 1997," said the OECD. Its projections for the structural deficits in 1997 for all EU members except Greece fell within the 3% of GDP limit.

This indicates that "fiscal consolidation is on track and that any failures to meet the Maastricht criteria will then reflect adverse cyclical circumstances."

The OECD view is echoed in the financial markets which are now looking for a broad "soft" EMU. Deutsche Morgan Grenfell analyst in Frankfurt, Jens Dallmeyer believes it has a 67% chance of starting on time — probably with 10 core members, Germany, France, the Benelux trio, Austria, Ireland, Finland plus Spain, Portugal and Italy.

Dallymeyer's 33% possibility of delay or even failure hinges largely on the Germans: opinion polls have consistently shown that around 60% of ordinary citizens do not want to give up the D-mark.

With Federal elections in September 1998 "acceptance in Germany is now the greatest risk to the (punctual) start of EMU."

David Marsh, director of European strategy at Robert Fleming in London and a long-standing sceptic, believes it might come unstuck for another reason: "The supreme arbiter of the EMU process is still likely to be the Bundesbank whose reserves of courage have not been exhausted by the gold stand-off with government.

"Since a 'narrow, hard' Euro now looks unlikely, investors should still be prepared for the Bundesbank's next best option: controlled EMU delay." John Cavill

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IS 97162

EU calls for 5 new members

(56A) CT 15/7/97

BRUSSELS: The 20 EU commissioners will call tonight for the biggest enlargement of the European Union ever — the admission of five new members from Eastern Europe.

This follows the recent Nato decision to expand eastwards. Barring any last-minute changes, the five will be Poland, Hungary, the Czech Republic, Estonia and Slovenia.

As well as proposing a guest list of new members, EU commissioners will also propose that the EU reform its two highest-spending programmes, agriculture and regional policy. If the present generous subsidy and aid programmes were to be extended, without reform, to the new applicant members, the bill would be massive, causing a revolt among the EU's existing taxpayers.

However, deep hostility to the reforms is expected from those who now prosper the most — the farmers of France and Germany and the governments of Spain, Portugal and Greece.

South African diplomats and observers are keeping the new EU expansion and reform plans under close watch. SA is negotiating a new trade relationship with the EU, which would come into full effect around the year 2010 — by which time the EU would almost certainly have expanded beyond its current 15 members, possibly up to 20.

So the benefits to SA exporters of such a deal would be magnified, as the market to which SA would be given improved access would be a larger one. On the other hand, any disadvantages in ultra-competitive imports from Europe would also be increased. — Independent Foreign Service

SA watches closely as EU plans to admit 5 new members

Star 15/7/97 (56A)

By John Fraser
Brussels

Tonight the 20 EU commissioners will call for the enlargement of the European Union – with the admission of five new members from Eastern Europe.

This comes after the recent Nato decision to also expand eastwards. The new members will be Poland, Hungary, the Czech Republic, Estonia and Slovenia.

EU commissioners will also be proposing that the EU reform its agriculture and regional policy. If the present generous subsidy and aid programmes were to be extended, without reform, to the new applicant members, the bill would cause a revolt among existing EU taxpayers.

South Africa is negotiating a new trade relationship with the EU, which would come into effect around 2010 – by which time the EU may have expanded from its current 15 members to 20.

Therefore, the benefits to South African exporters of such a deal would be magnified, as the market to which South Africa would be given improved access would be larger. Disadvantages in terms of competitive imports from Europe would also be increased, with more countries bombarding the South African market with goods.

Firms which have competitiveness problems will suffer. In the short term, agriculture is the part of the EU enlargement plan which may cause headaches for South Africa. Brussels wants to exclude 40% of SA agricultural exports from the benefits of any trade deal. – Star Foreign Service.

Human rights looming larger in EU trade deals

(5bA) BD 22/7/97

Some European Union countries are becoming more asssertive on the subject of human rights, and this could hold implications for Africa, writes **Tim Cohen** in London

CHIRAC

AFRICAN countries are facing the prospect of human rights clauses featuring more prominently in future trade agreements with European countries, according to foreign policy experts in Europe.

The moves are likely to follow a more strident attitude which is being adopted by some European countries on the subject of human rights, notably the UK, and potentially significant changes being made to the administrative rules of the European Union (EU).

But foreign policy experts are unsure whether the election of governments that are inclined to the left in all but two EU countries would result in fundamental changes to the way trade agreements are agreed upon, or whether the new mood is likely to be more vocal than actual.

A poignant example of this dichotomy in foreign policy was provided last week by "new Labour" British Foreign Secretary Robin Cook, who announced that human rights would henceforth be "at the heart" of British Foreign policy. On the same day, however, the British government then announced that it would proceed with the contentious sale of 16 British Hawk jet fighter aircraft to Indonesia.

The Europe expert at the Royal Institute for International Affairs, Ed Smith, said it would be easy to read too much into Cook's statement, which was more a reaction to several domestic scandals than a portent of changes likely to come about throughout the continent.

The new British government was reacting to public disquiet over disclosures that British companies had sold tons of arms to Iran, and to the series of scandals involving former defence procurement minister Jonathan Aitken, Smith said.

European countries in general had not placed human rights considerations higher than such other factors as winning trade and investment opportunities. This was exemplified by the highly controversial recent trade mission of French President Jacques Chirac to the People's Republic of China, he said.

But potentially more significant were changes in the decision-making mechanism of the EU, Smith said.

Until now, unanimity had been required for major decisions, he said. But recent changes which were adopted at the Amsterdam conference now allowed for the possibility of "constructive abstention".

This effectively meant that proposals would be implemented even if a minority of countries did not agree. These countries would "constructively abstain", thus allowing the proposals to be implemented even though they did not actively support them.

In the past, because unanimity was enforced, the EU tended to operate on the basis of the "lowest common denominator" with all countries moving at a pace dictated by the least interested in human rights.

In practice, former colonial powers tended to look after their favoured, former colonies by vetoing decisions which might affect these countries negatively, but this protection might no longer be the norm.

This change might become especially significant in negotiations for the restructuring of the Lomé Convention, the centrepiece trade agreement between the EU and African countries, which is up for renegotiation soon.

One change strongly on the cards was the inclusion of clauses in trade agreements prohibiting child labour.

Britain had in the past routinely vetoed the inclusion of these clauses on the basis that they could be used to surreptitiously impose trade barriers, but it was highly unlikely that Cook would veto these clauses, Smith said.

A bullish outlook for European monetary union

European countries worried about union can take heart from the US experience, writes Merrill Lynch president and CEO Herbert M Allison

BD 29/7/97 (56A)

THE European Monetary Union has been the subject of intense speculation in recent weeks, with serious questions raised about the European Community's ability and will to achieve full monetary union.

Despite the questions, my firm is confident that it will take place. As a strong sign of that confidence, we are continuing to invest heavily in Europe.

We know there are problems. They must be viewed, however, in the broader framework of the democratising forces that are driving change around the world — technology, globalisation, and the spread of market-based economies.

First, in almost every industry, technology, especially information technology, has overthrown the old order, the old structure of work and power. It is a process still underway.

Secondly, the globalisation resulting from the integration of local and national economies means that the best companies in one part of the world are now competing against the best companies everywhere.

Finally, the spread of market-based economies means the best keep getting better, fostering the entrepreneurial spirit and encouraging the creation of small companies.

Those, in turn, give people greater opportunity to innovate and to pursue their dreams.

Many Europeans are deeply concerned that the adoption of a single currency will hurt them. That is understandable. They are struggling to resolve a series of issues: high unemployment; sluggish growth; a fraying social safety net; the pressures of competing against the US and the economies of Asia and South America as well.

All of this, moreover, is now being played out in the context of a political retreat from policies that seemed so promising only a couple of months ago. There is a sense among Europeans that they face an unpalatable choice between what some call the "heartless American-style modernising of their economies" and "preserving the old European social safety nets." The choice is neither that simple nor that bleak.

For one thing, the US did not create the three forces that are driving change. Americans had to respond to them, too. Look at the US of the 1970s and early '80s for perspective. Europe is now experiencing many of the woes that the US experienced 20 years ago. The country faced growing trade and budget deficits and high unemployment. Inflation was at record levels. The US was suffering from a "rolling recession", with industries experiencing contractions nearly as bad as the Great Depression itself, in agriculture, energy, steel, automobiles, savings and loans, banks, real estate and defence.

There's another uncanny parallel. In Europe today, debate is focused on the trade-off between hard currency and job creation, with the assumption that you cannot have one without sacrificing the other.

The Europeans can take heart from what happened to the US. It deregulated and allowed market forces to do their work — first in financial services, then in the airline industry, in telecommunications, and a host of other sectors. Industry after industry restructured.

Labour unions, which were losing membership, began to realise that management had to be a partner, not an enemy. America began to see that to spur investment in the country, it needed a strong currency and low inflation, and that the nation needed more open trade policies to stimulate exports.

Twenty years ago the US financial services industry was balkanised, much as the European market is today. Tight regulation divided US financial services into very distinct sectors. There were traditional commercial banks, investment banks, brokerages, insurance companies, and so forth.

Two decades later, we have seen a fundamental transformation — first in the US, and now around the world. Almost every company has had to shift from a product focus to a client focus — and a client segment focus. This new emphasis on marketing forced all financial firms to make difficult decisions about which markets to serve and how to go about it. We have had to redefine our business and our business mission.

Twenty years ago, most companies ran on the command-and-control model. Goals, strategies and policies were decided at the top, then communicated and enforced down through the ranks. That does not work any more. A handful of senior executives sitting in New York, London, Paris, or Tokyo cannot possibly make optimal decisions affecting clients 15 000km away.

We have had to flatten our organisations and decentralise management. We have pushed authority and accountability out to those closest to the clients and the markets. At the same time, companies everywhere are under pressure to deliver greater shareholder value.

The concepts of shareholder value, now coming to the fore in Europe, was not widely popular in the US as recently as 10 years ago. Ultimately all US companies have had to recognise that serving the needs of investors was as important as serving the clients, and that in the long run their interests coincide.

Today, the US economy is doing better than at any time in history, including the legendary 1950s when everyone thought the US was on top of the world.

After a record six-year expansion, unemployment has hit a 24-year low, inflation is at a 31-year low, and growth remains healthy.

All this happened not because Americans are the smartest people in the world but because the situation had grown so desperate. The choice was clear — change or die. Corporate leaders and policymakers began to do many of the right things because they had run out of alternatives.

There is no doubt in my mind that the same powerful forces will take hold in Europe. There they will take hold more quickly because the world today is moving much faster.

Europe already has unique advantages that ensure its success in the global marketplace: a highly educated workforce, tremendous infrastructure, and a longstanding tradition of quality and innovation.

Monetary union is the next big step. When and how it will happen are not certain. Nevertheless, it will happen, and the benefits will far surpass our fondest hopes and dreams.

A common currency and a common vision will unite Europe as never before and help it engage in the global marketplace that is enriching people's lives and spirits the world over.

EU merger controls face test

CT (BR) 14/8/97 (5A)

Amelia Torres

Brussels — The European Commission faces a crucial legal test later this year that could force it to scrap some of its highest-profile merger decisions, including last year's ban of the platinum merger between South Africa's Gencor and Britain's Lonrho.

The European Union's (EU) competition watchdog has throughout this decade banned or set strict conditions on mergers and takeovers that would leave the affected markets at the mercy of two or three players — duopolies or oligopolies.

The legal basis for doing this was shaky and the controversial decisions could backfire if the European Court of Justice concluded that the commission had overstepped the powers granted by the EU's merger control law.

The ruling was expected before the end of the year, possibly in the autumn, court officials said.

Among the companies eagerly awaiting the decision is Gencor, which was barred from merging its platinum interests with those of Lonrho. Anglo American is equally interested in the ruling since the Commission ordered it earlier this year to cut its stake in Lonrho to less than 10 percent.

Though separate, the decisions were based on an identical assumption: that two of the three companies that control the supply of platinum worldwide would no longer compete against each other, resulting in a duopoly.

The problem is that the EU's merger regulation, which in 1990 turned the commission into a one-stop regulatory shop for large mergers and acquisitions affecting the EU, allows actions only to prevent the creation or strengthening of dominant positions.

The commission believes the law also applies to situations where a small number of companies dominate the market, even though it does not explicitly say that.

But Giuseppe Tesauro disagrees, the court advocate general said: "The commission's argument, that the absence of a provision that expressly excludes applying the regulation to positions of collective dominance implies that the question was left open, does not appear convincing to us."

In the absence of a clear court ruling, the commission might have to ask the governments of the 15 EU states to revise the merger regulation — an uphill struggle considering their recent reluctance to extend the commission's powers over mergers and acquisitions. — Reuter

EC hints at flexibility on monetary union

CT (PR) 20/8/97 (56A)

From AFP

Tokyo — Germany and France might be able to enter Europe's monetary union if budget deficits did not exceed 3,5 percent of gross domestic product (GDP) and were seen to be on an improving track, a senior European Commission official said yesterday.

The unnamed official told the Nihon K[illegible] Shimbun that 10 or 11 countries were scheduled to join the economic monetary union (EMU) in January 1999. The 11 countries would exclude Britain, Denmark, Sweden and Greece among the 15 members of the European Union, or if 10 countries they would also exclude Italy.

The commission would be flexible on participation by France and Germany, as the Maastricht Treaty on European Union stipulated it would take into account "all related factors" towards the single currency, not just the ratio of budget deficit to GDP, the official said.

Germany would be seen as meeting a condition for joining the monetary union, even if its deficit ratio came to 3,4 percent of GDP.

The official said the French deficit was expected to shrink from next year below 3 percent, the general threshold to be achieved by an applicant by the end of this calendar year.

The official said the 3,5 percent ceiling for EMU membership could be broken if an economic slowdown in Germany triggers higher unemployment spending, while revision of social welfare policies in France could also lead to a larger fiscal deficit.

There was a strong probability that Britain would join by January 2002 at the latest, as the ruling Labour Party was considering participation, the official said.

EU gives the euro a firm push forward

(56A)

FROM BLOOMBERG

CT (BR) 15/9/97

Mondorf-les-Bains, Luxembourg — European Union (EU) finance ministers, in a bid to prevent speculation from wrecking the move to a single currency, have agreed to announce conversion rates for national currencies at the same time as countries are selected for Europe's monetary union next May.

The unexpected decision puts unstoppable momentum behind the single currency project, analysts said, and came as rebounding economic growth had put as many as a dozen of the EU's 15 countries in contention to join monetary union in the first wave on January 1 1999.

By opting to pick the countries and exchange rates at the same time, the EU financial leaders had given "certainty to the markets" that the euro would happen, Hans Tietmeyer, the president of Germany's Bundesbank, said after a weekend meeting of EU finance officials. Jean-Claude Trichet, the French central bank governor, said the rates would be "irrevocable".

Declarations by European politicians that a large group of countries would pass the economic eligibility test for the single currency have been ratified by a period of unusually low inflation, low interest rates and stable exchange rates on financial markets.

EU economic growth would reach 2,4 percent this year and 2,8 percent in 1998, according to forecasts by the European Commission. Stronger growth is raising tax revenues and making it easier for governments to get their budget deficits down to 3 percent of gross domestic product, a requirement for adopting the euro.

Economic performance this year and the outlook for public finance in the future will determine which countries are eligible for adopting the euro. Drawing on recommendations by the commission and EU central bankers, EU leaders will pick the roster of countries in early May.

They could wait until the launch of the euro on January 1 1999 to set the rates for participating currencies, but they would risk eight months of volatility on financial markets.

The consensus behind an early announcement of the permanent parities for currencies like the mark and French franc meant that "the move toward a single currency is irreversible", said Patrick Mange, an economist at Societe Generale in Paris.

Ministers make unexpected announcement

Surprise jump on European union dates

(IbA)

CT(PM) 16/9/97

Nick Antonovics

Brussels — European Union (EU) finance ministers pulled an unexpected rabbit out of a hat at the weekend by announcing in Luxembourg that they would in effect start economic and monetary union (EMU) up to eight months ahead of schedule.

They agreed EU leaders should announce exchange rates at which national currencies would be fixed against each other at the same time as they decided which countries would qualify to join EMU. That decision is due in April or May next year.

They said the announced bilateral exhange rates would also be defended.

Hans Tietmeyer, the president of the Bundesbank, said the German mark and other currencies' conversion rates to the euro would depend on where the European currency unit, a basket of 12 European currencies, was trading at the end of next year.

The European currency unit's value can vary until then because monies not scheduled to take part in economic and monetary union, such as the British pound, will continue to fluctuate.

Analysts said further magic and luck would be needed before EMU could fly.

"If you announce the central parities prior to the 1999 start date, there is an opportunity for market players to test the willingness (of those joining economic and monetary union to defend those central rates).

"Much will depend on where fundamentals are at that point," said Sonja Gibbs, an economist at Nomura International.

Analysts said official short-term interest rates of likely EMU members still varied greatly, begging the question of whether the Bundesbank was prepared to raise its interest rates to deliberately narrow this spread.

Tietmeyer said once the rates announcement had been made, the room to manoeuvre on national policy would naturally be restricted.

He said those who speculated against the announced exchange rates would find themselves hindered.

Kirit Shah, the chief strategist at Sanwa International in London, said he believed markets would not see "a radical easing in Spain or Italy but a tightening in Germany" to respond.

But speculation could start before EMU participants are known as recommendations from the European Commission and the European Monetary Institute on the EMU starting line-up are sifted by elected assemblies.

It is still unclear what procedures these assemblies, such as the European Parliament, will use to issue their opinions — whether countries will be treated on a case-by-case basis or whether a package approach will be used.

This especially affects Germany, where the country's upper and lower houses of parliament have reserved the right to vet the final EMU union phase. — Reuter

Fund managers gear up for massive changes after EMU

(56A) BD 26/9/97

'Conservative Europeans' may invest more in equities after monetary union, reports **Jane Martinson**

WHEN UK fund managers talk about European equities they exclude UK stocks. Yet most believe that their industry faces profound changes in the run-up to European monetary union (EMU).

A single currency is expected to lead to a different ownership structure for European companies, to create a more diversified bond market and to accelerate consolidation in the industry.

The most significant changes could take place in asset allocation. In his research paper, "Don't worry. it is only a revolution!", published in May, Jan Mantel, a senior fund manager, argues that EMU will accelerate the move towards cross-border ownership.

His research for Merrill Lynch, the US investment bank, found that European pension funds invest between 70% and 90% of their assets in home markets. Currency risk and pension rules demand funds cover their liabilities with investments in the same currency. EMU will mean German pensions can be matched by French income and vice versa.

Mantel argues that this shift will not only lead to changes in ownership but in the way a fund measures its performance. He believes domestic benchmarks such as the UK's FTSE all share will make way for a pan-European index with managers asked to beat the average for the continent.

Such shifts will lead to fundamental portfolio changes as domestic investors include a broader range of industries. Tim Stevenson, European equity team head at Henderson Investors, an independent UK fund manager, realised how significant this shift could be when he was asked to give a presentation to a Dutch pension fund a few months ago. The fund, which wanted to know how it could prepare for EMU, was told the changes that were going to happen were enormous.

A typical Dutch investor has about 32% of his domestic equity invested in oil stocks, mainly because of the dominance of Royal Dutch/Shell in the Dutch index. In Henderson's definition of a broad EMU band of 10 member states the oil sector accounts for just 11% (of equity holdings).

A shift away from a domestic to a pan-European benchmark would also push the Dutch into the pharmaceuticals market, which accounts for 11% of European shares, but nothing in the Netherlands.

Georg Inderst, Italian head of fixed-interest investment at Foreign & Colonial, believes there will also be a gradual convergence in investment practices across European countries.

"The situation where UK fund managers typically hold 70% to 80% of their portfolios in equities while their German counterparts own 10% will not outlive monetary union. Over the next 10 years you will see European institutions, particularly from the more conservative countries, move up to 25% to 30% in equities," he says.

This shift of ownership is a potential gold mine for investment banks who aim to control this cross-border ebb and flow. Such growth prospects will also accelerate the takeover wave in the industry, says Mantel. Some changes have already taken place. Fund managers and investment bank research analysts have started to measure individual company performance on a pan-European or global scale. ICI, the UK chemicals group, is typically compared with Germany's Hoechst, for example, rather than its UK peer group.

Gartmore, the fund manager owned by National Westminster Bank, has reorganised its research team and appointed a global head of research. Andrew Fleming, the recently appointed head of equities, argues that the new structure with a single equity department will make it easier to address the issue of a single currency when it arises.

Equities are not expected to be the only asset type to be profoundly changed by EMU. Convergence will bring to an end the ability to bet on the differences between bond prices. This will prompt fund managers to look for other kinds of bonds to diversify their portfolios, Inderst says. He forecasts the development of a quasi junk bond market with more companies issuing bonds to raise finance. This shift will bring Europe into line with the US, where a highly developed high-yield corporate, or junk, bond market already exists.

Inderst also predicts a surge in emerging market bonds, particularly in eastern Europe. A single currency will end the currency risk of the participating countries.

One fund manager who specialises in stock rather than currency selection says this means he has a lot less to worry about.

Markets already appear to be working on the basis that monetary union in some form will go ahead on January 1 1999. However, many UK fund mangers believe the UK will not enter until much later. "We are working on the basis that the UK will not go in on first wave," says Fleming.

Some in the industry argue that this attitude partly explains why UK fund managers appear less geared up to change than their continental counterparts.

However, Fleming denies any suggestion that UK houses, the largest and most developed in Europe, are in danger of being left behind by the advent of EMU. With the potential for change, the UK industry cannot afford to do so. — Financial Times.

Monetary union 'to affect SA economy'

Belinda Beresford

BD 23/10/97 (5bA) (2AF)

EUROPEAN monetary union would have a "tremendous effect" on the working of SA's economy and had implications for the country as a significant gold producer, Reserve Bank deputy governor James Cross said yesterday.

Speaking at an ABN-Amro bank presentation on monetary union, Cross said that it was unclear to what extent the new European Central Bank would hold gold. However, gold sales would be a union issue rather than the individual country's central bank.

Monetary union would affect SA technically in a number of ways,which could include changes to banking legislation. It was "the economic event of the century", and would create possibly the world's biggest trading bloc. SA's trade would be affected, especially since three of SA's top five trading partners were potential European Union (EU) members.

EU experiences with union had demonstrated the importance of macroeconomic discipline. The main lesson to SA, as a country and a Southern African Development Community (SADC) member was there "was no easy way out" of the need for basic monetary discipline. Although SA was not entering into formal union with its neighbouring states, there were moves towards looking at unification over a period of time. Yesterday's meeting between SADC reserve bank governors was intended to develop common policies.

The Reserve Bank had also used European policies as a guide for a paper, due out within two weeks, examining how monetary policy was transmitted to the economy.

ABN Amro director Dolf van den Brink said that countries, particularly those with European links, could start denominating contracts in euros instead of dollars. Ultimately the euro could become a major contracting currency with the possibility that some countries could peg their currency to a weighted combination of the euro and dollar.

Business adapts to euro's new horizons

The introduction of the euro in January 1999 will change everything about business in Europe, says **Peter Martin**

(56A) · BD 3/11/97

UNTIL now, most of the discussion about the single European currency has been conducted in national terms. Which countries will qualify? Which economies will gain or lose from a one-size-fits-all monetary policy? Which nations' politicians will have most influence on the board of the new European Central Bank?

But to think of the single-currency project in those terms is to miss the point. The essence of the project is to erase the national boundaries that still govern most people's thinking.

In many countries the euro debate has focused on its suitability as a replacement national currency. A slightly more sophisticated level of discussion has seen the single currency as merely another variant of fixed exchange rates.

To the business people who must cope with its consequences, however, monetary union is something far more significant. It removes a crucial — arguably the most crucial — barrier to the creation of a fully integrated European economy, operating on a continental scale like the US.

What are the reasons for the sweeping nature of this change? And what are the consequences for business?

The answers to the first question are not, at first, obvious.

There are three reasons for seeing the euro as a watershed.

First, the creation of the single currency will mark the climax of a sustained effort to create a genuine single market in Europe, dating back at least to the Treaty of Rome in 1957. Progress has been made, but the single market still awaits the final, symbolic step: the setting of all prices in a single currency. Overnight — in 2002 when euro notes and coins replace national denominations, rather than in 1999 — prices in one country will be instantly comparable with those in its neighbour.

Goods and services which have increasingly become homogeneous in packaging and content will now be subject to a common set of pricing disciplines.

Second, monetary policy will be set with reference to economic conditions in the whole area. Though "core Europe" — today's Deutschmark bloc plus France — will strongly influence the decisions of the new central bank, monetary policy will still be less attuned to any country's domestic economic conditions than is now the case. The nation will be even less relevant as a unit of economic activity. This is what opponents of the single currency — economists and politicians — object to.

Third, the introduction of the new currency is taking place at a time when technology and globalisation of markets are freeing companies from their historic national roots. Individual European governments have much less ability to force companies into line. Again, a national frame of reference becomes less relevant.

So what will the consequences be for business? Some will be practical, others more sweeping and distant. In the short term, companies will need to cope with the consequences of greater cross-border price transparency. They will need to move towards a common European price list, with some regional variation. This will be a big shift from separate national prices, influenced heavily by custom and more lightly by the desire for Euro-consistency.

Similar nagging practical matters will arise over handling the new notes and coins, switching to euros for accounting, issuing new share certificates in euros, etc. Though these issues will consume millions of hours of work, they are peripheral. As the recent European merger wave indicates, companies are already trying to scale themselves up to cope with a number of bigger, longer-term trends.

The most obvious is that physically transportable products, especially ones where there is little difference in national tastes, will become commodities traded in Europewide markets by a small number of companies.

Money is the most easily transportable product of all, transmissible at the touch of a switch. So it is not surprising that many cross-border mergers are taking place in financial services. When all banks and insurance companies are providing services in a single currency, the biggest national barriers in this industry will have fallen.

There will still be barriers of information, of course. Consumers will be ignorant about nonlocal suppliers of financial services. Banks will be ignorant about unfamiliar credit risks; insurers about local patterns of health and behaviour. And, despite the European Union's single passport for financial firms, there will be local regulatory barriers to foreign firms. But in time these obstacles will fall away.

In financial services, as in other highly transportable businesses, the winners will be those competitors that most rapidly — and most cost-effectively — develop trusted Europewide brands. These may not, of course, be European owned.

A second theme affecting companies is the impact of changes in the capital markets. In most European countries, interest rates will fall to historically low levels.

They may also — though this is a more controversial point — be more stable, as they shift from following the vagaries of national economic cycles to tracking the larger and more diffuse European one. A huge, liquid pan-European bond market will emerge, providing a cheaper, more plentiful source of long-term borrowing.

This will change the competitive picture in capital-intensive businesses, and in those industries where mid-sized competitors have previously had limited access to long-term money.

Similar changes may also make equity finance more widely available, as investors react to the absence of currency risk by diversifying their portfolios across national borders.

Across Europe, entrepreneurs will rush to use these new financial opportunities to assemble hasty, ambitious empires. As is usually the case in eras of financial innovation, many of these "first flush" empires will not survive in their initial form. But from their ashes a smaller number of well-run pan-European businesses will arise.

A third theme of the euro era has already been foreshadowed. Governments will lose influence, and the national frame of reference will become less useful. Companies will think of non-national target markets: regions, linguistic groups, demographic cohorts, cross-border pools of people with similar aspirations and tastes.

As they do so, and as they become larger, pan-European entities, they will come to realise that individual national governments influence them in only a handful of ways — and each of these can be avoided. National governments set tax rates; they establish labour regulations; and they influence corporate governance.

Increasingly, however, companies have discretion in the extent to which they are subject to these influences. They can shift production abroad; they can move their tax burden round the world; and they can transfer their corporate entities to other stock exchanges and other legal jurisdictions. It will make it ever easier for companies to circumvent national jurisdictions, undermining the power of governments further.

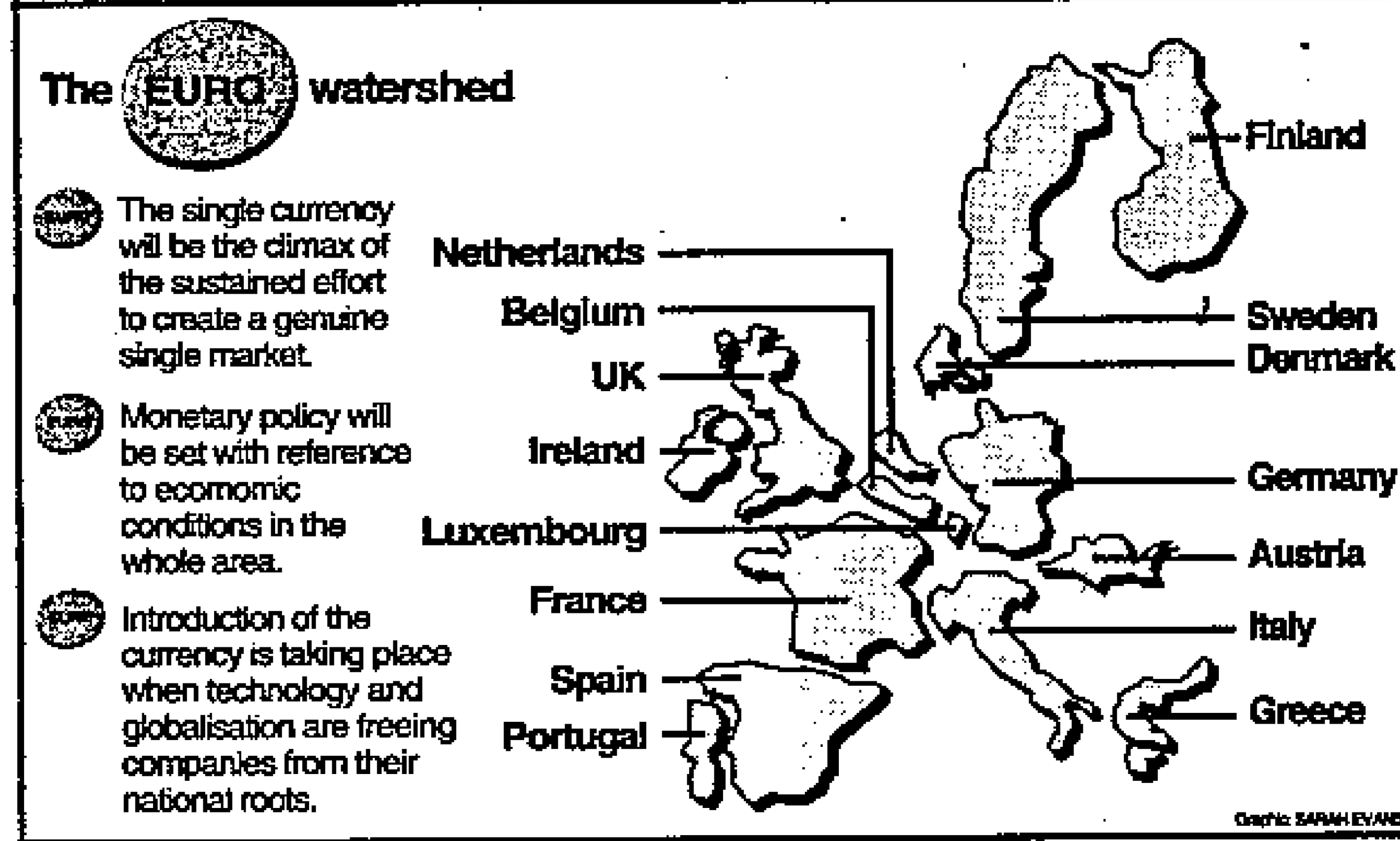
Paradoxically, companies' ability to escape will make governments keener to exact tribute from those that do not, or cannot, threaten to make use of their greater mobility. As the levers of monetary control slip out of governments' hands, and as the fiscal autonomy of euro member states becomes limited both by the "stability pact" governing members' fiscal policy and by the limits of public tolerance for taxation, the battleground shifts.

The 35-hour week promises in France and Italy are a reflection of this. In the long run, companies can escape by moving operations abroad; in the short run, they reflect a lingering desire on the part of governments and voters to re-establish national frameworks that are crumbling everywhere.

Such developments indicate the severe political tests that the single currency will have to undergo in the early years of the next century. It may not survive. But if it does, European business people will have to adjust to a completely different environment.

The question of whether monetary union is a good thing for Germany or a bad thing for Britain will come to seem obsolete. Some companies in every country will prosper from its consequences; others will suffer. The members of each group will have more in common with fellow beneficiaries — or sufferers — across Europe's vanishing borders than they will with compatriots in the other camp.

National identity will remain relevant in some areas — culture, law, education, infrastructure. In other areas, especially those that influence purchasing decisions, other identities will prevail: local, linguistic, group, or Europewide. For 21st century European business, this second category will be a crucial one. — Financial Times.



Dear Sir

EU's jobless compared to 'a 16th state'

(SGA)

BD 20/11/97

BRUSSELS — The European Union's (EU's) 18-million jobless were the equivalent of a 16th member state of the community, European Commission head Jacques Santer said recently.

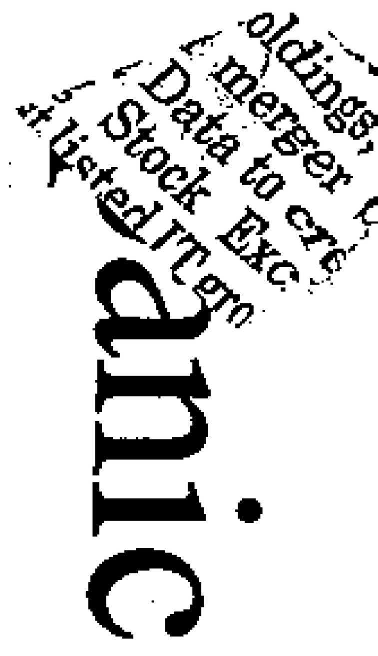
Nearly half of them are the long-term unemployed, or those out of a job for more than a year (a class which grows by 2-million a year), with young work-seekers making up a substantial proportion of the rest.

But the figures kept by the EU statistics department, Eurostat, show proportions vary widely among the 15 countries, some of which have extensive — and expensive — policies to combat one or the other type of unemployment.

Italy tops the table of long-term unemployed, with 65,1% of its jobless in this category. Eleven states are above 30%. Sweden is the best performer with 19%.

Young people on average represent 15,5% of Europe's jobless with Spain the worst off at 41%. — Sapa-AFP.

18-million unemployed do not provoke panic



BD 21/11/97 (56A)

IN THE European Union, more than 18-million people are out of work. The unemployment rate is more than double that of the US and three times that of Japan. This, everyone agrees, is the EU's biggest challenge.

A reasonable person might believe that the European leaders meeting at the jobs summit in Luxembourg today will take radical action to meet it.

The reasonable person would be dead wrong. The EU leaders hope mild reform will secure improved jobs performance. They will still try to avoid the alternative if it does not.

Continental Europe does not embody a single economic model. To the Anglo-Saxon deregulated system, can be added at least four more:

□ The Rhineland (Austria, Belgium, Germany, Luxembourg, the Netherlands, and Switzerland);
□ The Mediterranean (Italy, Spain and Portugal);
□ France, perching uncomfortably between the Mediterranean and the Rhineland; and
□ Scandinavia (principally Denmark and Sweden, with Finland in an exceptionally difficult position).

Yet, although these differ in many important respects, they share a priority: to secure remunerative employment for the male breadwinner. They have succeeded.

Last year, according to the Organisation for Economic Co-operation and Development's Employment Outlook, the proportion of men aged 25 to 54 in employment was 88% in the US and 85% in the European Union.

An important part of the explanation for the somewhat worse EU performance was Spain, with its dismal rate of 79%.

The employment rate for prime-aged men was 85% in the UK. Elsewhere it varied between 83% in Italy and 89% in the Netherlands. Thus, the EU generated jobs for very nearly as high a proportion of prime-age men as the US.

Wage dispersion was smaller and more stable on the continent than in the Anglo-Saxon economies.

A standard measure of earnings inequality is the ratio between the bottom of the top 10% of wage earners and the top of the bottom 10%. The US ratio jumped from 3,5 in 1982 to 4,3 in the mid-1990s; in the UK, it went from 2,7 to 3,7.

On the continent, by contrast, it remained between 2 and 2,5. One fifth of the US workforce is employed at wages below the German minimum wage.

With high employment and equal earnings, continental prime-aged men already possess the "good jobs" President Bill Clinton wants for their US counterparts. The big differences between the continental and Anglo-Saxon models and among the continental models lie elsewhere.

Last year the proportion of US men aged 55 to 64 in employment was 65%, against 46% in the EU; the proportion of US young men and women aged 15 to 24 was 58%, against 38% in the EU; and the proportion of US women aged 25 to 54 was 73%, against 62% in the EU. It is these groups that fare better in the US. Yet there are also differences among continental European countries.

Consider, first, older workers. In the UK, 57% of men aged 55 to 64 were in jobs last year, just a little below the US proportion. The Scandinavians are close to the UK: Denmark's employment ratio for men aged 55 to 64 was 58% and Sweden's still higher, at 66%.

In Rhinelandish Germany and the Netherlands, the ratios were much lower, at 47% (in 1995) and 41%, respectively. Mediterranean Italy and Spain were close to the Rhineland, (42% and 50%). In France, the proportion of men aged 55 to 64 with jobs was just 39%.

Turn next to the young. In the UK, the proportion of young people in employment was 60%. Rhinelandish Germany and the Netherlands were somewhat lower, at 51% (in 1995) and 54%, respectively. Scandinavian countries were fairly close, with Sweden's ratio at 40% and Denmark's exceptionally high, at 66%. But in Mediterranean Italy only 25% of young people and in Spain 26% were at work. France was again Mediterranean, with a dreadful youth employment ratio of 22%.

Look, last, at women. In the UK, the proportion of women aged 25 to 54 in employment was 70% last year, close to the US proportion. Scandinavian employment ratios for women were exceptionally high, at 80% in Sweden, 76% in Denmark and 73% in Finland. Rhinelandish Germany and the Netherlands were not far behind, at 65% (in 1995) and 63%, respectively. The French ratio here was Rhinelandish, at 68%. In Mediterranean Italy, however, it was down to 48%; and in Spain it was 42%.

The most important conclusion is that the continental European jobs market has generated remunerative employment for the bread-winning male. These men are the labour-market insiders. Highly motivated, committed to their work, at the peak of their productivity and determined to remain employed, they are the core workers of any private company. It is their interests that corporate bosses, trades unions and politicians tend to put first.

The policies protecting core workers are many: high taxes and social charges; a generous welfare floor; tight restrictions on firing; high minimum wages; egalitarian collective bargaining; the spread of collectively reached pay agreements throughout the economy; and restrictions on part-time work. The net effect is to reserve private employment to the most productive and committed workers.

Women tend to become outsiders almost everywhere, although a huge number of jobs can be supplied by the public sectors of high tax economies, notably in Scandinavia. Similarly, those aged 55 to 64 are turned into outsiders, as generous subsidies and pensions cushion early retirement. Meanwhile, the young have to wait, though this is less true in the Rhineland, where they train and work at the same time.

If variants of the basic insider-outsider model deliver what continental countries want, why should they change them?

These countries will not undermine the bargaining position of insiders merely to satisfy less important outsiders.

Consequently, UK Chancellor Gordon Brown will find it extraordinarily difficult to convince his peers that new Labour possesses what amounts to the philosophers' stone: the claimed ability to combine US jobs growth with European social cohesion.

Even persuasion by the likes of Clinton and Tony Blair, the UK prime minister, must fail to induce continental European leaders to introduce big changes. There is only one thing likely to do so — serious failure.

If the recovery now under way fails to lower unemployment, growth stutters again or — worst of all — prime-aged men lose jobs in droves, they might become radical. Until then, they will stick to the system they have for fear of something worse. — Financial Times.

EU squabbles over gold policy

(56A) ST(BT) 23/11/97

SENIOR central bankers disagree over whether to include gold as part of the reserves of the future European Central Bank (ECB).

Some German central bankers have said privately that the ECB should not hold gold as part of its reserve basket because the precious metal is an inconvenient store of value. But French central bankers insist it should be part of the reserves because it would strengthen public confidence in the euro.

The disagreement could erupt by the middle of next year when the bank is due to vote on its reserve policy. The different views mark the latest in a series of clashes about the bank's operational and institutional set-up.

Uncertainty about the bank's future reserve policy has contributed to the recent decline in the price of gold. Rumours that the bank may hold no gold and suggestions that national governments could then revert to large-scale gold sales fed market pessimism.

EU monetary officials believe a likely compromise could involve the inclusion of gold into the reserve system, but on a small scale. But central bankers on both sides agree the issue is unlikely to precipitate further gold sales by governments. — *Financial Times.*

EU trade practices still concern WTO

CT (BR) 27/11/97 (56A)

FROM AFP

Geneva — The World Trade Organisation (WTO) said yesterday the 15 countries of the European Union (EU) had made "steady progress" in the past two years towards liberalising their commerce with the rest of the world.

But in a report released yesterday the body noted that much still needed to be done in this respect and that EU trade practices remained a cause for concern among other states.

Since 1995, when the WTO last looked at EU members' trade policies, there had been "steady progress towards a more liberal external trade regime", the report said.

It noted that average customs duties imposed at EU borders on industrial goods had fallen from 6 percent in 1995 to 4,9 percent in 1997, and were expected to be further reduced to under 3 percent by the end of the decade.

In farming, the WTO said average customs levies, while higher than for industrial goods, had also shrunk from 25 percent in 1995 to 20,8 percent this year.

The EU's tendency to sign preferential trade deals, such as the Lomé Convention with the African, Caribbean and Pacific countries, remained a matter of concern for other states, it noted.

Japan and the US are the EU's main trading partners. The US accounts for 20 percent of trade with the EU and Japan 9 percent.

Report praises European Union for opening markets

(SGA) BD 27/11/97

GENEVA — World Trade Organisation (WTO) economists hailed the European Union (EU) yesterday for easing trade barriers and steadily opening its internal market for goods and services to international competition.

In a wide-ranging report on EU trade policies, they said there was still a high level of protection of key industries like textiles, automobiles and consumer electronics through tariffs and antidumping actions, as well as in agriculture.

"By and large, the last two years have confirmed the EU's steady progress towards a more liberal external trade regime."

The interaction between the single market process and open trade commitments which Brussels has taken on through the WTO "appear to be working together to the benefit of the union and its trading partners".

Average tariffs on industrial products from outside the EU had fallen from 6% in 1995 to 4,9% this year and should be under 3% by the turn of the century.

For farm goods, average tariffs were reduced from 25% two years ago to 20,8% this year, although cereals, meat, dairy produce and poultry, sugar and tobacco remained highly protected.

However, the report said, "as traditional protection at the border is gradually reduced, internal obstacles to trade, resource allocation and competitiveness become more apparent".

Government assistance to the EU economy remained sizeable, totalling about $114bn a year in addition to other investment incentives, local authority grants and overall subsidy programmes.

The opening of public procurement, which accounted for 12% of the union's gross domestic product, had so far had only a limited effect on external suppliers.

On liberalising services the EU's approach had been "steady and determined". The removal of restrictions to trade both within the union and with the rest of the world had become a key Brussels policy objective.

This had been reflected in progress made in financial services, telecommunications and air transport. In some service markets, insufficient competition meant high costs for consumers and user industries in the union.

The projected enlargement of the EU to take in the Czech Republic, Hungary, Poland and Slovenia was likely to speed up agricultural reform and put more limits on subsidies and price support, the report said. — Reuter.

ST(BT) 30/11/97

(56A)

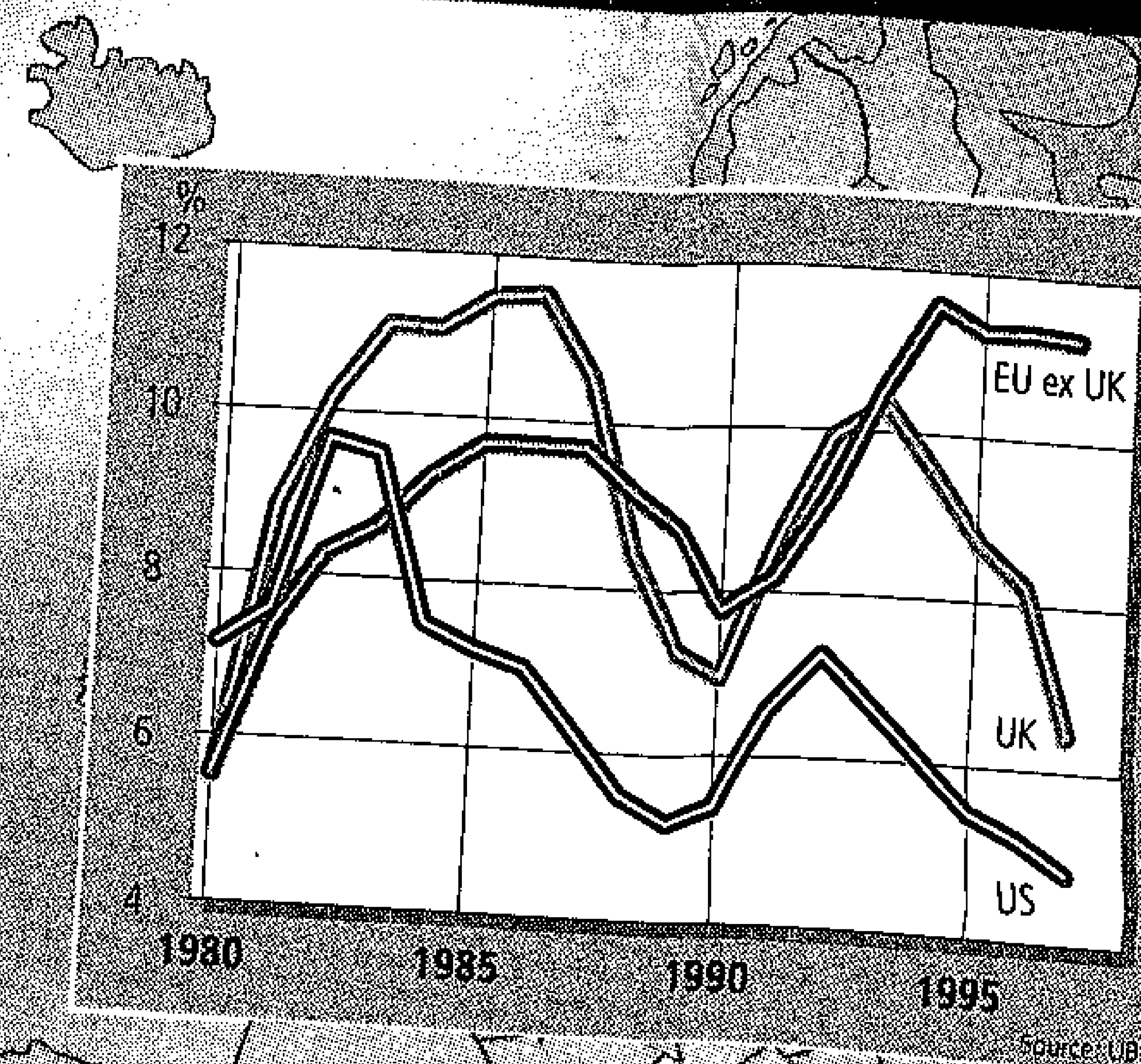
EU leaders smooth over the wrinkles as jobless line up

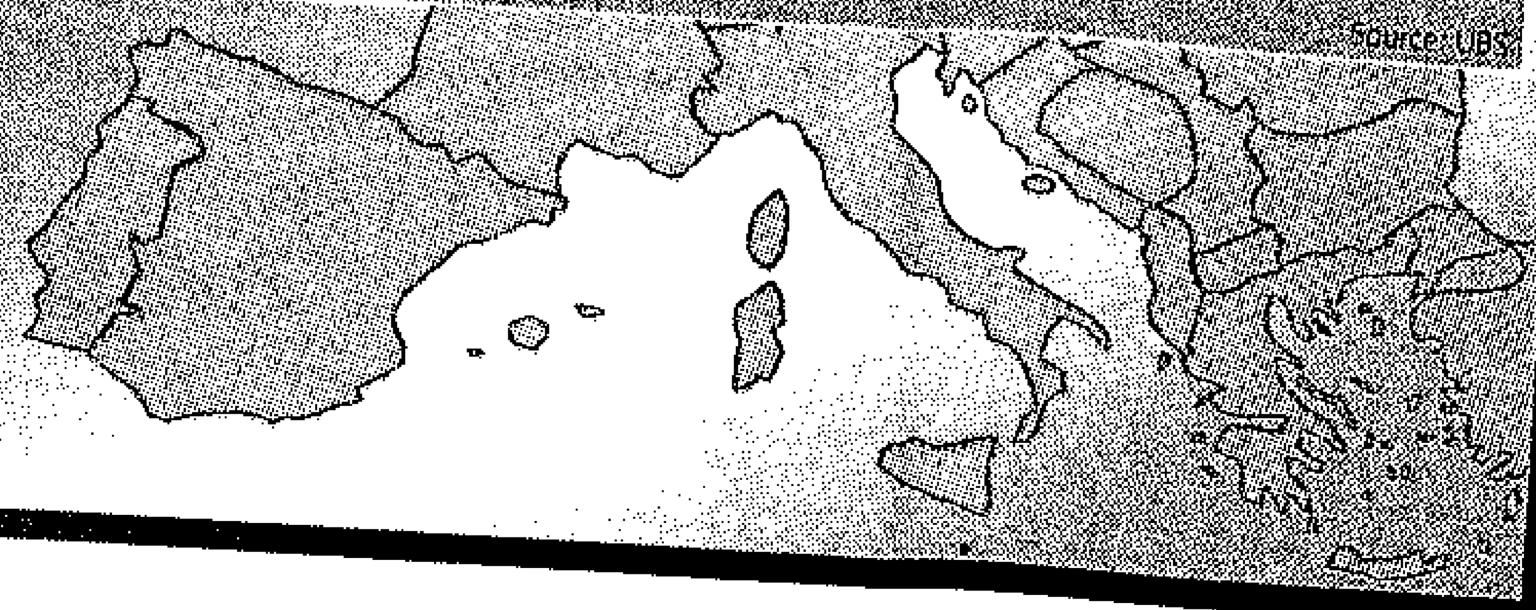
Like SA, the European Union is involved in a fierce debate about the flexibility of its labour market in the face of rising unemployment. JOHN CAVILL reports on the EU's recent jobs summit

EU UNEMPLOYMENT RATES

Percent of labour force out of work

	1997
United States	5.1
Germany	11.3
France	12.6
Italy	12.2
United Kingdom	5.8
Spain	20.8
Netherlands	6.8
Belgium	12.8
Sweden	8.5
Austria	7.1
Denmark	7.8
Finland	14.8
Greece	9.6
Portugal	6.8
Ireland	10.3
European Union	11.1





Graphic: FIONA KRISCH

THE great European Union jobs summit in Luxembourg last week ended with the customary platitudes as 15 leaders sought to put the best possible gloss on two days spent reaching domestically palatable compromises in the final communiqué.

But even the most ardent EU fan had to admit that the EU remains as divided as ever between proponents and opponents of flexible labour markets. The success of the flexible market approach in combating unemployment appears evident. The UK and Netherlands have the lowest unemployment rate — both have relatively flexible markets. The rest of the EU clings to its social model whereby labour remains protected through taxes and legislation.

Before he left Bonn for Luxembourg, Germany's Chancellor Helmut Kohl expressed doubt that there was such as thing as a pan-European solution to the problem of 18-million people on the dole, nearly 11% of the workforce. Germany, with a record 4.5-million out of work, has its work cut out. "It is obvious there is no patented recipe for the entire EU," said Kohl, who emphasised there would be no new state money to create jobs.

In the end, the 15 leaders managed to agree on a grandly styled "bold initiative", but it lacked hard answers about when the economic recovery in continental Europe will start making inroads into the army of unemployed — Britain's 5.2% jobless rate makes it the envy of the EU.

One of the first items to be dumped was the ambitious five-year target of Padraig Flynn, the European Commissioner for Employment and Social Affairs. The plan was to create 12-million new jobs and bring the unemployment rate down to 7%. That would have meant matching the performance of the US during a period when Europe lost 2-million workplaces.

The 12-million target was regarded as unrealistic and possibly politically dangerous. Instead, UK premier Tony Blair said the talks marked the end of "the old ways of state intervention, corporatism and overburdensome regulation" with a new focus on training, skills and flexibility.

The major decision on job creation was taken outside the confines of the summit. The European Investment Bank announced plans to raise ECU10-billion to invest in small and medium-sized businesses and infrastructure in the shape of trans-European networks.

There was nothing as solid in the rest of the headings for the "co-ordinated strategy for national employment policies". These consist of guidelines which are to form the basis for individual national action plans. For example, to deal with the major problem of young (under 25) unemployed — in Spain 42% of this age group is out of work and the EU average is 21.5% — it is proposed that they should be offered "a new start" within six months of losing a job or coming onto the labour market.

Older ex-workers are to get their "fresh start" before 12 months is up. In addition, training is to be offered to 20% of the jobless — up from the current 10% but less than the 25% originally proposed. If a "fresh start" looks vague, it is matched by a string of other pious exhortations to member states . They range from "reconciling work and family life" to "promoting the integration of people with disabilities".

A more tangible nut is tackling the issue of the tax on jobs — what is paid to the state in addition to wages for hours worked for each employee. These levies, which fund social security and pensions, have soared from 29% of the gross wage to 42% since 1970.

The statutory non-wage costs of employment paid by firms ranges from 45% of the total in Italy down to 10.4% in the UK. According to the Confederation of British Industry, this lower social charge has made taking on "new employees more attractive in the UK than it might be in other EU states". It has been estimated that the social charge has added four percentage points to the EU's rate of unemployment over the past few years.

The "guidelines" carry no force. It will be left to individual countries to do what they can — and Spain is already exempted from the training guideline. The member states will present their action plans at the EU meeting under Britain's presidency in June. At the end of the year, during Austria's presidency, they will report in Vienna on progress towards meeting the guidelines — and face "peer pressure" at the EU and from their electorates. These examinations will become annual affairs.

The outcome in Luxembourg seemed to have pleased most of the participants and the word "social" featured large. Luxembourg Prime Minister Jean-Claude Juncker said: "We have relaunched the building of Social Europe." President Jacques Chirac of France and his Socialist premier, Lionel Jospin, spoke of "social Europe" complementing the free market. But for the average person standing in a dole queue in Barcelona or Marseilles that concept was probably meaningless.

EU set for 6 new kids on bloc

ARG 15/11/98 (56A)

Luxembourg – The European Union welcomed 11 prospective new members at the weekend in the biggest expansion project in its history and urged Turkey not to turn away even though it might wait a long time to join.

Leaders at a two-day EU summit agreed to open the doors to six new members early next century, while telling five other ex-Soviet satellites they, too, could begin the long road to the EU, but at a slower pace.

Full accession talks will begin in spring with Hungary, Poland, the Czech Republic, Estonia, Slovenia and Cyprus, the six deemed to have made sufficient progress with reforms to meet EU standards of democracy and financial stability.

The EU will speed up preparations for accession talks for five other East European countries – Bulgaria, Romania, Slovakia, Lithuania and Latvia. – Reuters

Observer status for non-euro members

ET(BR) 11/12/97 (5bA)

From Sapa-AFP

Bonn — European Union (EU) members not in the single currency, the euro, would take part in the Euro Council as "observers", or receive "briefings" from members taking part, Theo Waigel, the German finance minister, said yesterday.

There has been considerable controversy over whether EU members not in the single currency should have some role in a council designed to monitor economic and monetary union (EMU).

When asked about Britain's possible participation as an active member of the council, an informal group responsible for coordinating the euro members' economic policies, Waigel said: "There is no reason for that. There will be a place on the council for all countries that have adopted the single currency. The others will have status as observers or they will be briefed."

Waigel also said the choice of the president of the future European central bank "could be" informally discussed at the EU summit meeting in Luxembourg on Friday and Saturday this week, but the issue was not on the official agenda.

In another development, Britain reaffirmed on Tuesday its belief that European finance ministers must be the initiators of economic policy after the launch of the single currency in 1999.

"Ecofin (another name for the Euro Council) must remain the main decision-making body," a Treasury spokesman said. His comments followed the Waigel suggestion.

France and Germany want to create a council, composed solely of finance ministers of member countries of EMU, to broker discussions over the single currency. This has been rejected by Tony Blair, the British prime minister, who has ruled out joining the single currency until after the next British election.

He insisted during a meeting with Prime Minister Jean-Claude Juncker of Luxembourg that while specific circumstances might arise under which discussions would best be conducted by a council of EMU members, this would be "the exception rather than the rule".

Earlier, Lionel Jospin, the French prime minister, said in an interview that France wanted a broad-based membership of EMU but insisted an EMU council should be made up of members only and not include prospective members.

Jospin said he did not want EMU to evolve around a Franco-German axis, and maintained that "most European countries will participate at the outset".

Despite reservations by some financial commentators, Jospin was confident Italy and Spain would meet the conditions to enter EMU at the outset, in January 1999.

EU set to revamp Lomé treaty with ex-colonies

BD 23|12|97 (56A)

John Dludlu

THE European Union (EU) is to propose a complete overhaul of its long-standing relationship with its former African, Caribbean and Pacific (ACP) colonies when the Lomé Convention comes up for renewal next spring.

According to recently released guidelines on its negotiating position, Brussels will suggest that an overall EU-ACP accord and several regional trade agreements be concluded with the three ACP regions. At present, the ACPs, which consist of countries in different stages of development, are treated the same under Lomé, the trade, political and aid arrangement.

Crucially, some ACPs will be asked to open their markets to EU products for the first time. Under the French-inspired convention, which is now into its fourth term, the ACPs receive generous trade concessions without being expected to reciprocate to the EU.

However, the guidelines, which have been adopted by the European commission — the executive arm of the EU — say the ACP's poorest members would retain nonreciprocal preferences and that the EU would "extend them wherever possible".

"In other areas related to trade, it (the EU) should avoid seeking commitments that are beyond (poor nations') economic and institutional capacities," the paper says.

Assistance measures — including macroeconomic aid and sectoral assistance — should be considered to alleviate the adjustment costs for poor nations when opening their markets.

When relatively stronger ACPs refuse to agree to an element of reciprocity or when negotiations break down, they would be left with the less preferential option of the generalised system of preferences (GSP) after three years.

The GSP, which is unilaterally offered by a benefactor bloc, normally grants symbolic market access to designated beneficiary nations.

Areas to consider for regional agreements include west Africa, east Africa, southern Africa, central Africa, the Caribbean and the Pacific. "It would, of course, be for the ACP countries themselves to choose the regional structures with which the EU negotiates."

The proposals for a reshape in the accord come as certain of its components — such as the banana arrangements — are being challenged.

The EU will also offer a partnership with a strong political dimension and indepth dialogue.

The new thrust will also propose a shift in the EU's policy to make poverty alleviation the "cornerstone of the new partnership".

"Special attention will be given to developing private enterprise, notably by backing the reforms needed to remove the institutional, regulatory or economic policy barriers that so often handicap the development of the formal and informal private sector in the ACP countries."

EUROPEAN UNION
1998 - 1999

SA business must set sights on euro

Richard Stovin-Bradford
Banking Editor

Johannesburg — As the rand bounces around at the mercy of the mighty dollar, while remaining surprisingly stable against the crosses, few South African businessmen appear to have looked beyond current volatility to another major currency event on the horizon.

It is the advent of European Monetary Union (EMU) on January 1 1999.

In only a few months' time, on May 2 this year, the European Union (EU) leaders will take a decision on which member states will join the EMU and adopt the euro as their new currency. At the end of this year, they will irrevocably fix the exchange rates of the EMU member states, giving birth to the euro.

At present, according to economists at Paribas, the French investment bank, 11 out of 15 EU countries are expected to do so after making what have been radical adjustments to their economies in order to comply with the strict requirements of EMU, usually referred to as the "convergence criteria".

The UK, Denmark, Sweden and Greece are keeping their options open and delaying their entry until a later stage.

The implications for South Africa are of such significance that Business Report has teamed up with Paribas to hold a conference on the euro on February 18 to bring the insights of leading economists from Paribas in London to bear on the consequences for South Africa's banks, importers, exporters and government institutions.

By way of background, the EU single market began on January 1 1993 as part of the greater scheme to form a more closely integrated Europe. The whole purpose of EMU is to facilitate the establishment of a single market for goods, services, capital and labour across all EU member states. It specifically envisages the use of a single European currency, the euro, in all of these countries.

The transition to EMU has been mapped out in a three-stage process which was adopted in the Maastricht Treaty in 1992.

As long ago as July 1990, the necessary economic and regulatory convergence process began with the full liberalisation of capital movements and, critically, closer co-operation between member states on economic, fiscal and monetary matters.

Then, in January 1994, the European Monetary Institute, the forerunner of the European Central Bank, was established and provisions were introduced across the EU prohibiting central banks from advancing credit to governments.

The convergence criteria laid down in the Maastricht Treaty provided a framework for aspiring EMU members which included economic goals on interest rates, exchange rates and governments' fiscal performance.

However, meeting the convergence criteria was never intended to be a question of strict qualification, and flexibility was wisely built into the treaty to allow for countries that were "making significant progress". It will undoubtedly have to be applied.

The criteria demand that a government's deficit must be 3 percent or less of gross domestic product (GDP) while government debt must not exceed 60 percent of GDP. Inflation rates should be no more than 1,5 percent higher than those of the three best-performing member states, while long-term interest rates must be within 2 percentage points of the corresponding average rates in the three countries having the lowest inflation rates.

In addition, the currency must remain within the existing exchange rate mechanism for two years. A further significant criterion is that the member state's central bank must be independent from political authority.

In the weeks ahead and until the euro goes live, Business Report will run regular commentary on the euro and its consequences for South Africa.

EMU heralds new economic superpower

(5bA) ET (PR) 19/1/98

Paul Mortimer-Lee

London — European Monetary Union (EMU) will begin on January 1 next year. It will be one of the most profound changes in economic arrangements in history, with far-reaching implications for the global economy, currencies and financial markets.

Its impact will open up major opportunities for South Africa in terms of trade (especially in view of the impending European Union-South Africa trade agreement), investment and the ability to tap European financial markets.

January 1 next year will also see the creation of a completely new currency, the euro, with the currencies of the participating member states locking into the euro at irrevocably fixed exchange rates.

The euro is more than a fixed exchange rate arrangement, since the notes and coins of all the participating member states will be replaced by euro notes and coins by 2002 at the latest.

In the period between 1999 and 2002, the existing notes and coins will circulate at the retail level but most financial transactions, and many in the corporate sector will also switch into euros from 1999.

The European Central Bank will set the level of official interest rates in "euro land", and this level will be exactly the same in all the countries that participate. The removal of exchange rate uncertainty and conversion costs will help to complete the Single European Market, unleashing greater competition and leading to higher output.

Almost all of the European Union's (EU) 15 member states will participate in EMU in the first wave, including Germany, France, Italy, the Netherlands, Spain, Portugal, Luxembourg, Austria, Belgium, Finland and Ireland. The remaining four (the United Kingdom, Denmark, Sweden and Greece) are likely to join early in the next century.

As the EU expands to include countries in eastern Europe, EMU will get progressively bigger. In fact, the euro will be the currency of the largest economy in the world, exceeding that of the US.

At the outset, the financial markets of "euro land" will be the second largest in the world, ranking behind only the US and outstripping that of Japan. Paribas expects the euro financial market to expand rapidly, opening up opportunities for investors and borrowers, including those from South Africa.

Once the European Central Bank has established its credibility, the euro is likely to present an ever greater challenge to the US dollar both as a reserve currency and as a vehicle currency for international trade. This opens up the possibility of volatility in the exchange rate between the euro and the dollar, which will have important implications for the global economy, including that of South Africa.

☐ *Paul Mortimer-Lee is the chief economist of capital markets at Paribas in London and will be one of the principal speakers at the Business Report/Paribas conference on the euro to be held on February 18. This is the first in a series of articles on the euro by Paribas*

The euro is on its way — ready or not

(56A)

BD 2/2/98

Major opposition to European Monetary Union has been insufficient to stop its transition from theory to reality, writes London correspondent Tim Cohen

YOU have to pinch yourself to believe it. For all practical purposes, 11 of Europe's currencies are going to disappear in four months.

The amalgamation of 11 European currencies and the creation of the European monetary union is surely an act worthy of the imminent millennium switch. Such is the ground-breaking nature of the project that many of its consequences are unclear.

Even the probability of its success is not absolutely certain. The consequences for business inside the European Union (EU) and outside are huge, but whether these consequences will be good or bad is still a matter of conjecture.

What is no longer a matter of conjecture is that the leading political decision makers of Europe have decided to go for it. Notwithstanding the arguments of economists, notwithstanding that some countries do not meet the economic criteria they themselves set for entry, notwithstanding that the advent of the new currency is unpopular across Europe, Economic and Monetary Union (EMU) is going to happen on time. The Euro is no longer an abstract economic theory but an impending reality.

Perversely, the Euro's unpopularity is pressing the timetable forward as political leaders seek to jump this fence as quickly as possible to get it out of the way, hoping and praying that once implemented, it will become popular — or at least accepted.

So, although the technical date for the introduction of EMU is January 1 1999, all 11 participating countries will probably be locked into a common monetary policy and a fixed exchange system from May this year.

This is so because the EU formally decides in May which countries will be part of EMU and selects the governor and executive committee of the European Central Bank. Politicians are guessing that this organisation will quickly fix exchange rate parities between each of the currencies and try to hold them until the end of the year when formal and irrevocable linkage takes place.

Countries which have indicated a desire to take part from the start are France, Germany, Italy, Spain, Ireland, Belgium, Finland, Portugal, Austria, Luxembourg and the Netherlands. Countries expected to join up later are the UK, Sweden and Denmark. Greece will not satisfy the economic criteria.

The markets, too, have already decided that EMU will happen and all currencies with the exception of the Irish punt have been trading within an extremely small band relative to each other. Bonds of comparable credit risks designated in different European currencies maturing after January 1 next year now assume identical yields after this time.

While economists question the future stability of the currency, a huge positive has at times been overlooked. The struggle to reach a platform which will allow the euro to be established has sparked tremendous reform in the economies of Europe.

The "Maastricht criteria", which read much like SA's growth, employment and redistribution (Gear) programme, have galvanised European governments into a reformist mode. These criteria have performed a function not incomparable to an International Monetary Fund (IMF) induced structural adjustment programme. For many countries, this programme would be substantially more comfortable than the reforms Europeans have imposed on themselves.

The consequence has been firm action to cut inflation, a real effort to reduce fiscal deficits and state debt. As Northern Foods chairman Christopher Haskins said, the crisis in Asia was a result of inadequate private and public discipline. The struggle to reach the demanding Maastrict criteria has saved Europe from following Asia down the tubes.

So far so good. But have they reformed enough? Are they really prepared? These questions are as important for Europe's trading partners as they are for Europe itself. Europe is SA's biggest trading partner and from the point of view of those that trade with Europe, the possible instability of the currency is by far the largest potential danger.

The question is really: are the economies of the region in sync and will they stay that way? The chief argument of the nay-sayers is that "one-size fits all" monetary policy will intensify conflicts in Europe because EMU will bring higher unemployment.

According to Harvard University Professor Martin Feldstein: "Joblessness will rise because interest and exchange rates will no longer automatically counter cyclical unemployment." One country or region suffering from higher unemployment will not be assisted by a currency adjustment or by a fall in interest rates. Linguistic differences and remaining government barriers limit the ability of workers to right the balance by moving from areas of low employment to areas of higher employment. Limitations on the EU's budget will prevent Brussels from coming to the aid of people out of work.

But while macro-level doubts remain, on a micro level the outlook is more positive. For consumers, the main advantage will be price transparency, and pro-euro economists suggest this will boost competition. Cross border price differences will quickly become obvious. A uniform currency zone will also encourage trade to span a wider area in Europe, psychologically and practically.

For business exporting from the outside, the Confederation of British Industry warns that companies need to adapt their invoicing and IT systems to ensure that their contract terms reflect the euro's introduction. The consequence of transparent euro denominated prices across the EMU zone needs to be thought through.

Assuming countries such as Italy with weak currencies join EMU, the resulting weak euro would be good news for SA exporters. This is because, generally speaking, SA companies export in dollars and import in Deutschmarks, pounds or francs. A weak euro would improve the terms of trade in SA's favour.

There are also some tangential issues for SA, mainly concerning the extent of gold holdings maintained by the European Central Bank. Many west African countries are holding their breath on the question of whether the CFA currencies, pegged to the French franc, will in future be pegged to the euro. Neither of these questions has yet been definitively answered by the bank, whose employees are already filling a modernistic new building in Frankfurt.

But these questions pale into insignificance compared with the unanswered questions in Europe, the most poignant of which is simply, who will join? A court case is under way in Germany which challenges Germany's participation, and without Germany there will be no euro in 1999. Italy and Belgium's level of state debt is twice the permitted rate. Can European politicians summon the effrontery necessary to overlook this issue and hold together in the wake of this decision?

Until recently the prospects were good. But more recently, reports, in the Dutch media suggested the country's government was against Italy's membership of the union.

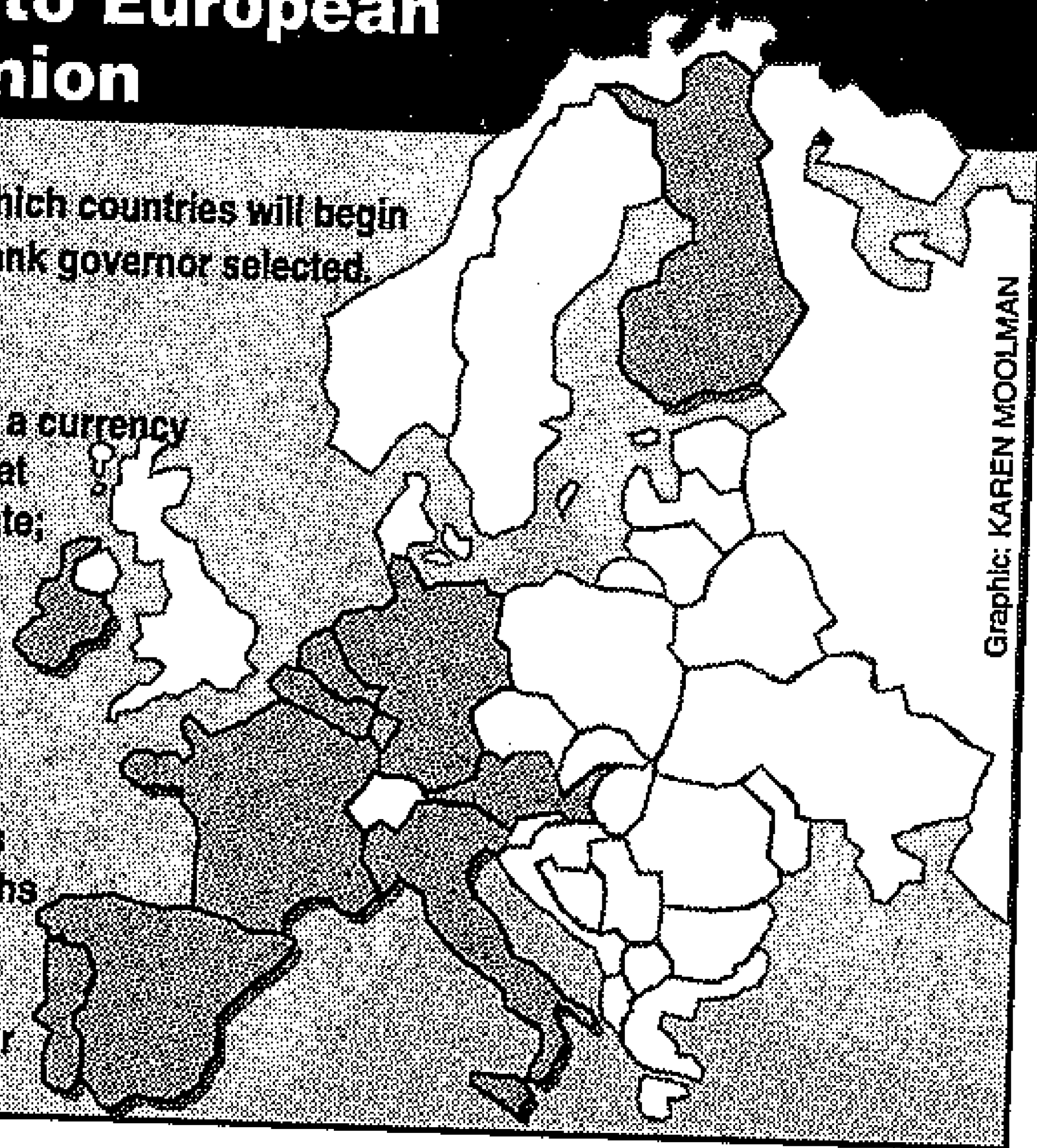
The Dutch government denied the reports saying it was too early to say. What the Dutch government has made no secret of is its anger at France's sudden introduction of Bank of France governor Jean-Claude Trichet as a candidate to the head the ECB.

The sudden intervention took place despite the widespread belief that Dutch candidate Wim Duisenberg, chief of the European Monetary Institute, was the front runner.

But by now, the European Commission has become a master of crisis management and finding compromises.

This history suggests that solutions, or at least apparent solutions, will be found. There is now so much at stake that the risks of failure are less than the temptations to delay.

The euro is coming, ready or not.



Graphic: KAREN MOOLMAN

EMU draws new euro investors

(56A) CT(BR) 3/2/98

Mary Pieterse-Bloem

London — With less than a year to go before the launch of European Monetary Union (EMU), the euro has started to raise real interest in financial markets. Investors and borrowers are preparing themselves for the new environment.

This is not surprising, because the euro implies a large change to European capital markets.

Domestic markets separated along currency and country divides will integrate into one large homogeneous and liquid market, which represents the same currency risk.

Indeed, based on the outstanding tradeable bonds in the underlying markets, the euro will create a debt market which potentially constitutes the second largest market in the world after the US dollar market. The same is true for swaps.

Borrowers realised that such a dramatic change needs a shift in strategy. Positioning themselves in the future euro market is a major aim.

This has led to the creation of euro-style bonds, designed to include the EMU scenario.

Many issuers have engaged in this market. This includes sovereign countries like Italy, Spain and Belgium; supra-nationals like the European Investment Bank; corporates like Siemens and GECC; and many more.

There is also interest from borrowers outside Europe. Brazil and Mexico, for example, also made their debut in that market last year.

Since the first such issue in January 1997, many have followed. Last year, nearly 140 bonds were launched in a variety of European currencies.

This year 37 issues have already been launched, and the market segment represents more than $60 billion. The first South African issuer is yet to come to this market.

With the strong demand for euro-denominated paper and the appetite for higher-yielding assets, the euro market is alluring.

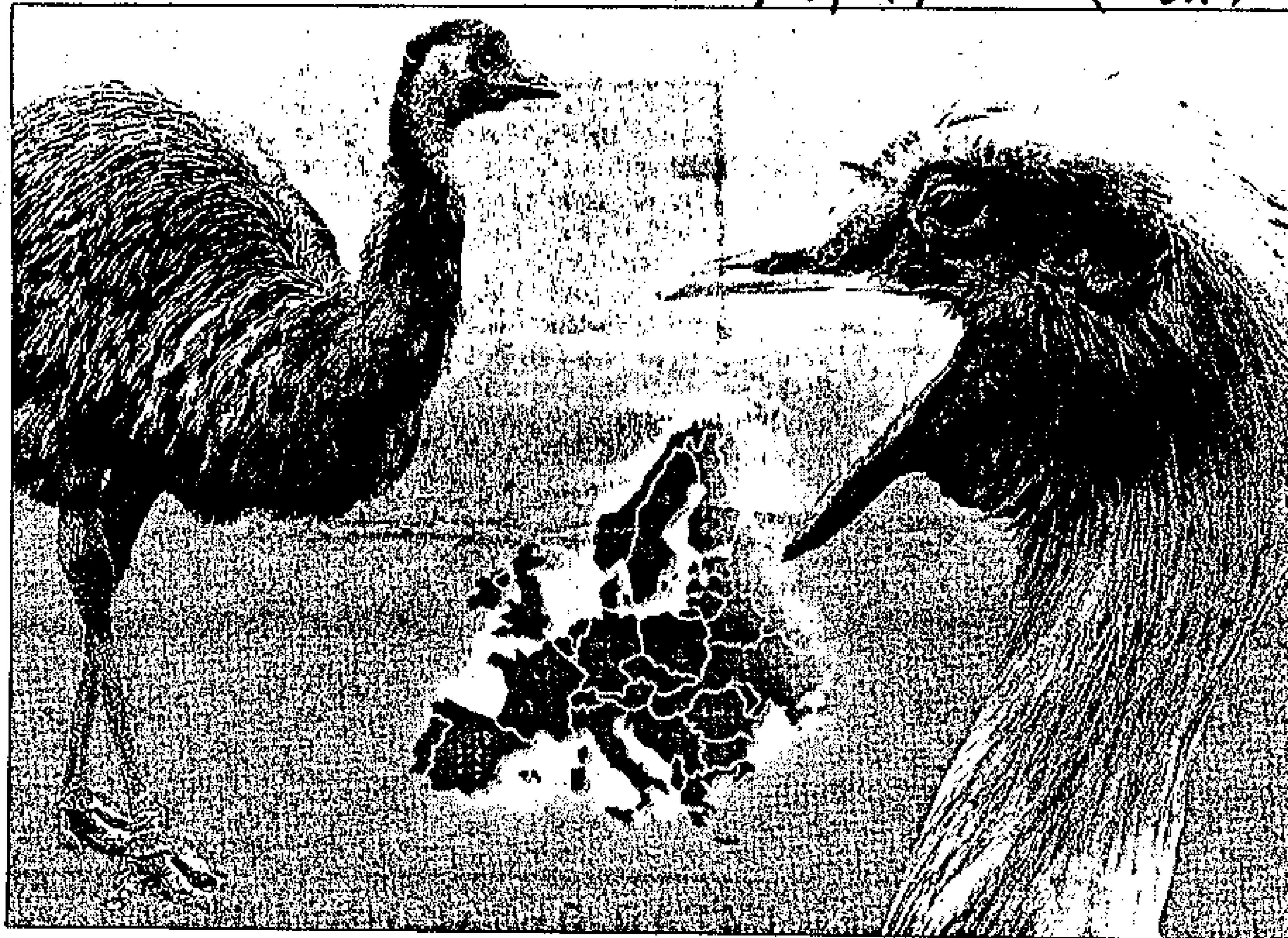
South African borrowers should waste no time promoting themselves and their credit stories to European investors.

□ *Mary Pieterse-Bloem is the Eurobond strategist for Paribas*

EU finance chiefs talk up the euro

CT(BR) 17/2/98 (56A)

ANDI SPICER



What is the similarity between the EMU (European Monetary Union) and the emu bird? They both cannot fly but can only go forward.

This joke was doing the rounds at the annual World Economic Forum meeting this month in the tiny Swiss alpine village of Davos, where political and business leaders from around the globe gathered to discuss the world's most pressing issues.

Although scepticism about the benefits of the common currency and worries about possible instability dominated discussions, the hard reality was that monetary union for a large part of the European Union is just around the corner. The meeting was used as a platform to smooth anxieties and promote the euro and the new European Central Bank (ECB).

"The creation of the unified currency is the most important financial development since flexible exchange rates," Philippe Maystadt, the deputy prime minister of Belgium, said at Davos.

Backing this was Martin Kohlhausen, the chairman of the board of management at Germany's Commerzbank, who said: "The EMU is an important step forward for Europe, but it is not a solution to its ills. It does not provide for an alibi for shortcomings at home. The euro is only a common tool, and every country needs to do its homework."

The rationale for the euro is both political and economic for the EU, but perhaps its most important facet is that it will provide a single market and monetary area that will rival the US in size and growth prospects.

"In 1998, Europe will be the major pole for growth in the world," stressed Dominique Strauss-Kahn, the French finance minister.

Jacques Santer, the European Commission president, said: "We are not driven by a desire to be a global counterweight to the US. It would be a mistake to think that we are up for confrontation. But the euro can evolve into a viable alternative reserve currency (to the dollar)."

This power will enhance monetary and financial stability within the EU. Anticipation of the euro has already been a steadying factor during the far east's financial crisis.

Strauss-Kahn commented: "A good sign was the stability in Europe during the period of currency instability in Asia. This contrasted with the strong pressure during Mexico's 1995 financial collapse. Now nobody can contemplate instability," he said, adding that France has the lowest interest rates in the world after Japan.

Rodrigo de Rato y Figaredo, the Spanish deputy prime minister, echoed this: "The stability of European currencies in the face of Asia's meltdown shows confidence in the euro process. European economies are converging towards a standard of low inflation and robust growth."

The key challenges facing the EU and the euro will be to control volatility during the transition and, secondly, to manage the three-year dual-currency period and the enormous structural changes this will cause.

Introduction of the euro will cost the French banking system alone more than Ff20 billion (about R17,27 billion). Local currency trading and swaps will cease and there will be fewer players on the global euro currency market.

But while the currency operations will become more streamlined and pan-European, the capital markets will not be unified. "The capital markets are not going to be amalgamated into a New York-style stock exchange," stressed Daniel Boulton, the chairman of French banking group Societe Generale.

Competition will increase within the zone, and the large retail banks will restructure to widen services. Survival will depend on critical mass. Mergers are already taking place to provide diversification from traditional banking.

The cornerstone of stability for the euro is the ECB. Many believe the president of the European Monetary Institute, William Duisenberg, will be named head of the bank when it becomes operational on July 1 this year.

Speaking at a briefing at Davos, Duisenberg said: "The ECB as the focal point of the best European central bank traditions can inherit the track record of the best performers entering the system.

"Judging from long-term interest rates, market participants seem to be convinced inflation will remain low in the euro area. Moreover, convergence of long-term interest rates towards the lowest level rather than the average indicates a credible single monetary policy is expected."

The system will include the central banks of the community in the European System of Central Banks (ESCB). It will have at its heart the ECB and its governing council as the supreme decision-making body for the euro area.

"The ESCB will help act as a credible guardian of a stable euro and a reliable anchor for participating countries, and thereby contribute to the stabilisation of the international monetary scene.

"The ECB can serve as a role model for a strong but efficient European administration," explained Duisenberg. It will have only 500 staff, one-thirtieth of that of some of the central banks in the EU.

"Ultimately, the ESCB will be accountable to individual European citizens on its ability to defend the purchasing power of their money holdings. If the ESCB does not perform a good job with respect to its primary objective, it will be penalised by the citizens as savers, who will reduce their holdings of money balances in euro and ask for higher returns to compensate."

Get ready for European currency, SA business told

BD 18/2/98 (56A)

John Dludlu

SA BUSINESS was urged yesterday to make preparations for international transactions with European counterparts ahead of next year's launch of a single European currency, which now seems unstoppable.

The call was made by Heinz Christian Hafke, a director at Frankfurt-based BfG Bank.

He said after addressing a seminar organised by the Johannesburg Chamber of Commerce and Industry on the euro — the name for the single currency — that while larger businesses might be aware of the implications of European economic and monetary union (EMU), he doubted whether the same level of awareness existed among medium-sized firms.

Hafke, who sits in the working committee of private German banks preparing for the single currency, also felt that Pretoria authorities could assist in increasing awareness of the euro's implications for SA business.

The European Union (EU) had not done enough either in preparing third countries, like SA, for life under EMU, he said.

This reluctance was, in part, the result of the EU's belief that the euro would be a stronger product with which every economic operator would like to be associated.

EMU carried enormous business opportunities for businesses based in countries like SA. Among others, tourists and businessmen operating in the euro area, which was expected to kick off with 11 of the EU's 15 states as participants, would experience the advantage of reduced business costs following elimination of commissions charged by banks in currency exchange. The euro area would present an expanded market for firms wishing to raise debt. With the EU's most ambitious project becoming a reality, third countries like the US and Switzerland introduced legal changes that would facilitate continuation of pre-euro business contracts.

Hafke said monetary union without political union created doubts. Of the EU's 15 states, it was believed that most would qualify when the selection was made. The UK, Denmark, Greece and Sweden might join later.

Participants in the project have to show macroeconomic convergence on interest rates, budget deficits and public debts.

The SA Reserve Bank said earlier it did not foresee problems with the introduction of the EU's new payment system — the trans-European automated real-time gross-settlement express transfer.

Other analysts have said the advent of EMU would bolster capital flows into emerging markets like SA, while Deutsche Morgan Grenfell, which was lead manager of the SA government's recent Deutschmark bond, has been bullish that euro-denominated bonds would outperform bonds from EU countries that chose to stay out of the EMU project.

Business leaders briefed on 'one of the most profound economic moments in history'

Euro poised to become second strongest curency

ET(BR) 19/2/98 (56A)

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — The euro, the new European currency to be introduced in January next year, would be a strong currency paving the way for it to become the second most powerful currency in the world after the dollar, Paul Mortimer-Lee, the chief capital markets economist at Paribas, said yesterday at a Business Report/Paribas briefing on European Monetary Union (EMU).

The probable line-up of 11 member states joining EMU would have a single currency, one interest rate and one common monetary policy regulated by the European Central Bank through the European system of central banks (ESCB), he said.

The ESCB would be charged with maintaining price stability. Mortimer-Lee said it would have monetary supply and inflation targets to address fears of loose monetary policy and to ensure that it achieved the same degree of credibility as the Bundesbank.

As aspiring EMU member states sought to meet the convergence criteria in the run-up to the launch of EMU, he said the criterion to which the greatest attention would be paid was the budget deficit/GDP ratio, which had to be below 3 percent.

The criterion would only be met by means of "some imaginative measures" by governments, which would be designed to bring forward receipts and delay expenditure, Mortimer-Lee said.

The decision on the first wave of EMU member states would be taken at a European Union (EU) meeting in Birmingham during the first weekend in May this year. A recent Paribas poll had shown that the financial markets were now 100 percent confident that monetary union would start on time in 1999, with the UK, Sweden, Denmark and Greece being the most likely countries to remain outside EMU at its launch.

The UK's position was understandable in that it was at the top of the economic cycle while the rest of Europe was at the bottom. Mortimer-Lee said all EU member states would probably be in the monetary union by 2003.

A strong improvement in perceptions surrounding Italy's chances of joining EMU had fuelled the increased confidence in a "big" or "broad" EMU from the outset. In April last year only 17 percent of those polled by Paribas believed Italy would make the grade on time, but by last December this had surged to 97 percent.

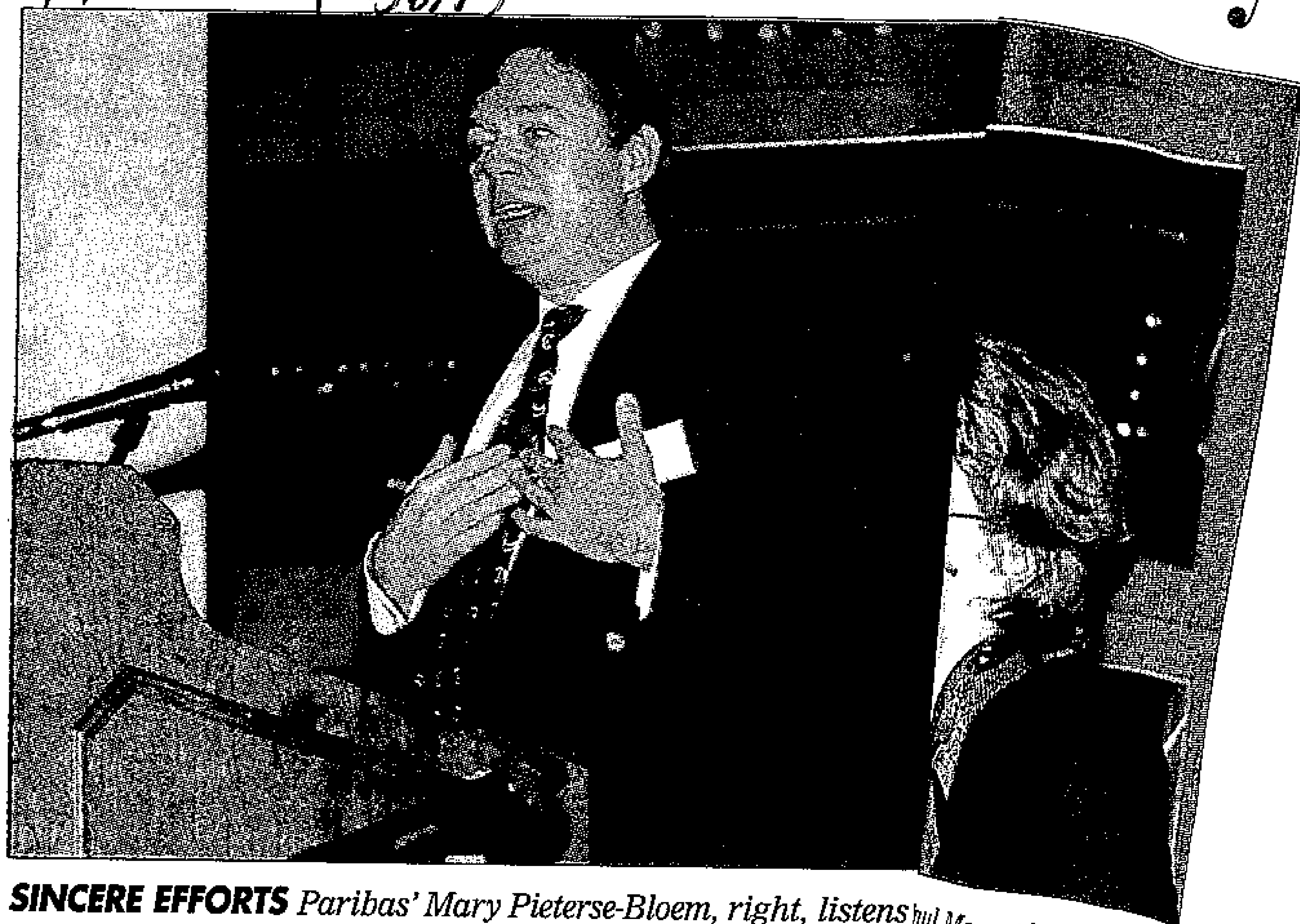
Mortimer-Lee said: "The Anglo-Saxons have always underestimated the will of Europeans to make EMU happen. They need only look at France, which has taken the pain of widespread strikes in order to meet the convergence criteria, to gain an idea of the strength of will to make EMU happen."

In some cases, EMU had come to mean "ever more unemployment", he said, referring to one negative effect of EMU convergence criteria.

EMU was a further step along the road of European integration. Even if it caused problems after its launch, member states would work to make it better still, Mortimer-Lee said.

The wholesale financial markets would switch to the euro in 1999, but there would be no euro notes and coins until 2002.

In the meantime the mark and the franc, for example, would be simply arithmetic expressions of the euro.



SINCERE EFFORTS *Paribas' Mary Pieterse-Bloem, right, listens but Mortimer-Lee explains the commitment of most Europeans to making monetar*[illegible] PHOTO: JOHN WOODROOF

NE

New EU currency will affect trade with former CFA franc-zone countries

Euro advent 'important for SA'

CT (BR) 26/2/98 (5bA)

Richard Stovin-Bradford
Banking Editor

Johannesburg — French-speaking African countries using the CFA (Communaute Financiere d'Afrique) franc as their currency would automatically switch over to the euro, Europe's new currency, on January 1 next year, John Atkin, an economic adviser at Citibank, said this week.

Atkin said South Africa needed to recognise that the advent of the euro would not only affect its terms of trade with European Monetary Union (EMU) member states but also with former CFA franc-zone countries, a significant bloc closer to home.

He commiserated with South African companies with operations in European Union (EU) countries because they would have to adapt their accounting and IT systems to prepare for invoicing and accounting in euros. Atkin said global costs of the systems changeover needed for EMU were already estimated at $150 billion.

In line with other European economists, Atkin said he was 90 percent sure that an initial 11 EU member states would join EMU on January 1 next year. The final decision on membership would be taken in May, when the 15 EU member states would meet.

SA firms will need to adapt their systems to prepare for accounting in the new euro

Atkin said Denmark, Sweden and the UK would not join in the first wave and that Greece, which did not meet any of the EMU convergence criteria, was a problem country.

"Normally reliable window cleaners in Whitehall tell me that Britain will be in by 2002," said Atkin. The four countries remaining outside EMU would not, however, prevent it from going ahead.

"Some say that the ecu (European Currency Unit) is a basket currency — in both senses of the word — because it has not done well," he said. "People think that, when the ecu converts into the euro, it will make it a weak currency from the outset.

"But the euro won't be weak, because it'll be a single currency, not a basket," said Atkin.

He took comfort from the fact that the euro would be issued by the independent European Central Bank (ECB), which had a statutory commitment to price stability.

The ECB was expected to define price stability as an inflation rate of 2 percent or less, an objective comparable with that of the US Federal Reserve Bank. This expectation in turn implied that in the long term the euro would hold its own against the dollar.

"The fact that the ECB's mission statement is very similar to that of the Bundesbank suggests that the euro is more likely to resemble the deutschmark than the ecu," he said.

He said the euro would be become a very good and credible alternative to the dollar, both as a trade and a reserve currency, leading to a bipolar dollar/euro axis as the yen took on a more

Single EU currency 'will benefit SA'

John Dludlu (56A) BD 10/3/98

THE introduction of a single currency in the European Union will bring vast business opportunities for the EU's trading partners, but third countries, like SA, will have to make preparations to take advantage of European economic and monetary union (EMU), says a senior German politician.

Interviewed yesterday during his brief visit to SA, German Deputy Foreign Minister Werner Hoyer said the EU would emerge from the launch of the euro — the name of the single currency — stronger than before.

Benefits for SA companies would include easier and cheaper ways of doing business with the EU, as the need to deal with different national currencies would be eliminated.

"The common currency will oil the wheels of the common market, intensify division of labour in Europe and create new growth and job opportunities", he told an audience at the SA Institute of International Affairs.

Hoyer — who is accompanying German President Roman Herzog on his four-day state visit to SA — was optimistic EMU would start with no major disruptions.

It would however, he said, trigger a shift among the main currency blocs with a stable euro playing a bigger role in the global financial system.

EU heads of state are due to select participants in EMU in eight weeks' time. Hoyer urged the EU's trading partners, like SA, to prepare for EMU.

EUROPEAN UNION *Aspiring members will add to pressures*

Farms and regional aid will heighten tussle on EU budget

ET (BR) 19/3/98 (66A)

ANGUS MACKINNON

Brussels — A bitter battle over the sharing out of the European Union's (EU) $100 billion annual budget was expected to begin in earnest yesterday when the European Commission was to announce plans to overhaul the bloc's farm and regional aid policies.

A major reform of aid schemes, which together account for over 80 percent of EU spending, is seen as crucial if the union is to enlarge from 15 to up to 26 member states over the next two decades.

Publication by the EU's executive arm of its definitive Agenda 2000 reform package comes only two weeks before the union begins membership negotiations with Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.

Extending existing agricultural and regional policies to these poorer, farming-intensive economies would require massive increases in the contributions to Brussels of the existing member states.

Even a small rise in spending would be controversial at a time when countries like Germany and the Netherlands are looking for a reduction in their share of the burden.

Reflecting these pressures, the commission has maintained its proposal, put forward in the north's last summer, to extend an existing cap on EU spending until 2006. The present ceiling of 1,27 percent of total EU gross national product expires in 1999.

The tight spending cap makes it inevitable present EU states will see aid levels fall in real terms: the battle will be about who is least affected.

The fight will be sharpest in the area of regional spending.

Under the commission's proposals, 275 billion ecus (R1 488,99 billion) have been earmarked for 2000 to 2006 to fund infrastructure and other development spending in the poorest regions.

Out of this, 45 billion ecus has been reserved for new members, and 20 billion ecus will be used to continue cohesion fund payments to Greece, Ireland, Portugal and Spain, the four poorest EU countries.

The balance, of 210 billion ecus, represents a cut of 12 percent in real terms in the amount to be spread across the 15 existing member states, British officials calculate.

To manage this, the commission wants to concentrate aid on the most impoverished areas, reducing the proportion of EU citizens covered from 51 percent to about 35 percent.

But this goal risks being compromised by the determination of countries like Spain to hang on to their share of spending, and by demands from bigger economies like Britain and Germany for increased payouts to their depressed regions.

Germany, which is campaigning for cuts in its contribution to the EU budget, believes cohesion fund spending should be cut off now that Ireland, Portugal and Spain claim their economies are strong enough to join a single currency.

Around half the regional aid spending will continue to go to so-called objective one areas — regions either sparsely populated or where the GDP a head is below 75 percent of the EU average.

Some areas are expected to be declared no longer eligible for this special support. But aid will be phased out rather than withdrawn at a stroke at the end of next year.

The proposals for the Common Agricultural Policy (CAP) involve cuts of between 15 percent and 30 percent in the guaranteed minimum prices for dairy products, cereals, beef and olive oil.

The proposed reform should allow the EU to end intervention buying and the export of subsidised products. Such changes are seen as inevitable in light of the EU's international trade commitments and the prospect of new negotiations on further liberalisation of agricultural trade.

But the planned reform does not come cheap: the price of compensating farmers for moving towards world market prices would mean the CAP budget increasing by as much as 10 percent by 2006. — AFP

INTERNATIONAL

1999 Euro launch gets the green light

BD 26/3/98 (5bA)

BRUSSELS — The European Commission yesterday issued a green light for Europe's single currency to be launched next year with 11 founder members.

Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain have all met the criteria on economic convergence laid down in the Maastricht treaty. Of the 15 European Union (EU) countries only Greece and Sweden, which has opted out of the euro, failed to qualify.

The commission did not express an opinion on Britain and Denmark as they negotiated legal opt-outs from the Maastricht commitment to creating a single currency.

The announcement has been widely anticipated since the end of last year when it became clear that Italy, against expectations, succeeded in cutting its budget deficit to below 3% of gross domestic product.

The 11 countries are virtually certain of the rates at which their currencies will be converted into the euro on January 1. When EU leaders meet on May 2 to take the formal decision to approve the recommendations they are due to establish the bilateral exchange rates of the currencies qualifying.

The qualifying currencies will become units of the euro at the end of the year, and the conversion rates to the euro, as opposed to bilateral rates, will be established then.

In May, for the first time, the value of the German mark against the franc, lira or any other participating currency will be permanently fixed. The respective levels will have a profound impact on how Europe's economies develop for years to come.

The bilateral rates are widely expected to be the current central rates within the exchange rate mechanism, the currency grid used to prepare the way for monetary union.

At talks last weekend several EU finance ministers and central bank governors said they expected the central rates to be used and ruled out any further adjustments of parities within the grid.

Despite the consensus around the current central rates, their economic logic is far from apparent.

Meanwhile, the European Monetary Institute expressed concern about the state of public finances in France, Italy and Belgium in a report yesterday on the readiness of member states for the launch of the euro.

It said France had to make a big effort to consolidate its public finances and expressed concern about the stability of Italian public finances in the long term and about debt owed by Belgium. — Sapa-AFP.

New European currency will affect South Africa

Sowetan 26/3/98 (5LA)

By Isaac Moledi

SOUTH African trade and financial transactions with Europe are set to be affected when that continent's single currency is introduced early next year.

The Euro, is expected to be introduced in January when 11 European currencies amalgamate, says BOE Investment Bank, which is brokering a campaign to generate awareness among local businesses of the likely implications of the move.

BOE Investment Bank managing director Tom Boardman says the launch of the Euro will be a major world event and urges South African businesses to prepare themselves ahead of the event.

"The introduction of the Euro has been largely ignored in South Africa as some nebulous future event," says Boardman. "People are now realising that it is less than a year away and they had better find out how it will affect them.

"We brought out some of the top experts from Europe to assist BOE to become a leader in Euro policy formulation, and to advise our clients."

He says Britain was not initially taking part in the Economic and Monetary Union (Emu). This, he argues, left Ireland as the only leading English language participant in Emu.

Dublin has emerged as a major European financial centre in recent years and is the only approved offshore financial centre in the EU.

Head of Emu Planning at Ulster Bank Group Pat McArdle expects "things to begin moving rapidly" from May this year. He is also a member of the Emu Steering Committees of the Irish and European Bankers Federations.

Countries that have indicated a desire to take part and are likely to qualify are Germany, France, Italy, Ireland, Spain, Belgium, Finland, Portugal, Austria, Luxembourg and Netherlands.

"Britain, Sweden, Denmark and Greece are not taking part, but are expected to join early in the next century," says McArdle.

Practical implications

According to McArdle, there are obvious practical implications for South African financial institutions and businesses in the sphere of international trade.

Since European cross-border price differences will become obvious, a single currency will make it easier for South African trade to span a wider area of Europe.

"The major opportunity for South African companies will be to make it easier to resource imports because greater price transparency will boost competition," says McArdle.

He says since Britain and Germany have traditionally been South Africa's two largest trading partners, local companies will now find that they can source their imports at more favourable prices in one of the other 10 Euro-denomination countries.

"Prices of some major items vary by up to 30 percent throughout the union, and this will become unsustainable. It is likely that pricing among Emu countries will align favourably towards the lower level," he says.

"European companies will in future find that their competition comes from right across the 11 Euro-denomination countries."

Companies exporting to Euro-denomination countries will have to adapt their invoicing and information technology systems to ensure that their contract terms accommodate the introduction of the Euro during the lifetime of a contract.

A possible consequence of the Euro's introduction may be a period of currency fluctuation, says McArdle.

"Nervousness about the Euro may prompt a flight out of the Euro to the British pound or the Swiss franc, temporarily strengthening those currencies."

McArdle, however, suggests that the Euro is likely to become increasingly pervasive and may challenge the United States dollar for world hegemony in the long term.

"In May the countries taking part will decide on who is eligible to join. All exchange rates will be fixed from January 1 1999 when the Euro will be officially introduced and phased in over a three-year transition period."

Other adjustments

Money markets and bond issues will be first to transact in the Euro.

Towards the latter part of the transition, national currency notes and coins will be removed from circulation and replaced with Euros.

McArdle warns it will not be a painless transition. "Commerce will lead the way, but there will be transition costs and other adjustments as the competitive effects of the Euro gradually emerge."

Historic process of taking in 11 new EU members kicks off

BD 30/3/98 (56A)

BRUSSELS — The European Union (EU) today launches the historic process of taking in 11 new members, opening the way to a bloc embracing parts of the former Soviet Union and Cyprus early next century.

At a meeting with their 11 counterparts today EU foreign ministers will launch the membership process, moving tomorrow to open formal negotiations with the six front-runners — the Czech Republic, Poland, Hungary, Slovenia, Estonia and Cyprus.

The five stragglers — Slovakia, Latvia, Lithuania, Romania and Bulgaria — will be able to join the talks and could even overtake the favoured six later, but will first have to run fast enough to bring their economies — and in the case of Slovakia, its political system — up to scratch.

The ceremonies over, the hard work of coming into line with tens of thousands of pages of EU rules will start for the 11 and the EU will be looking for results.

"No candidate country today fulfils the accession criteria," Francois Lamoureux, the French European Commission official who led the assessment of the candidates, said. "But six of them will probably fulfil them in 2002-2003."

To help the candidates make the grade the 15-nation bloc has established "accession partnerships" with each candidate, laying down short and long-term goals.

Under the partnerships, the EU will double the money available to the candidates under the EU's Phare programme to $3,3bn by 2000 to help with taking on EU legislation and the training of public servants. The candidates will be closely monitored and the funds could be withdrawn if they start to lag.

The following is a sample of immediate, short-term objectives set by the EU in accession partnerships for the five central European applicants. They are expected to be completed by the end of the year.

The Czech Republic must:

- Set economic priorities for the medium term, set policies to maintain internal and external balance, improve corporate governance and accelerate restructuring;
- Improve supervision in banking, securities, insurance, internal financial control, environment and agriculture;
- Amend antitrust law; and
- Develop border management.

Estonia must:

- Facilitate the naturalisation process and take measures to better integrate noncitizens, especially stateless children;
- Enhance Estonian language training for nonspeakers;
- Set medium-term economic priorities, sustain growth, reduce inflation and increase national savings, accelerate land reform and increase private ownership;
- Strengthen financial control, train public servants and improve border, environment and veterinary administration;
- Adopt new competition law and reinforce supervision; and
- Adopt more measures to combat corruption and organised crime.

Hungary must:

- Advance structural reforms, particularly the health care system;
- Reinforce veterinary controls;
- Introduce more transparent monitoring of state aid and the enforcement of intellectual property rights; and
- Implement refugee legislation consistent with the 1951 Geneva convention.

Poland must:

- Accelerate the privatisation and restructuring of state enterprises, accelerate banking privatisation and improve bankruptcy procedures;
- Adopt and start implementing a viable steel sector restructuring programme and pursue restructuring of the coal sector;
- Reinforce administrative capacity in state-aid controls, customs, justice and home affairs, environment, taxation and regional policy;
- Improve controls on Belarus and Ukraine borders; and
- Set a coherent rural development policy and upgrade and enforce food hygiene.

Slovenia must:

- Improve judiciary, land registration and sanitary controls especially at borders;
- Adopt value-added tax law for implementation next year, create a legal framework for state aid control, progress towards antitrust law and
- Clarify the property purchase rights of EU citizens. — Reuter.

Braced for the finish: Page 14

Aspirant EMU club braced for finishing line

BD 30/3/98 (SGA)

Although May 2 is the selection day for European monetary union members, many questions remain unanswered, writes Lionel Barber

BD 30/3/98

ON MAY 2, the 15 heads of government of the European Union (EU) will select the founder members of economic and monetary union, the most momentous step towards European integration in 40 years.

It is a racing certainty that 11 countries, including Italy, will qualify. Britain, Denmark, and Sweden will initially stay on the sidelines for political reasons. Greece, the sole economic laggard, will be encouraged to join sooner rather than later.

Just 18 months ago, few would have predicted such an outcome.

Spain and Portugal's chances of meeting the criteria for European monetary union (EMU) looked questionable. Italy's prospects looked even more remote. Even France and Germany were struggling.

Yet, in the past 12 months, all EU governments have stiffened the sinews and summoned up the blood to make a spurt to the EMU finishing line. On the way, they have scraped around for every spare franc, pfennig, and peseta in extra revenues to hit the Maastricht treaty's public-deficit target of 3% of gross domestic product (GDP) for last year.

This has been an impressive exercise in political will, especially on the part of Chancellor Helmut Kohl who views EMU as Europe's (and his own) monument for the 21st century. But there are tentative signs of a deeper economic transformation, especially in Italy, where a centre-left government, prodded by the Bank of Italy, has performed minor miracles.

But May 2 is not the end of the story. Questions remain about the sustainability of the EMU experiment; the degree of real convergence between the de facto single currency bloc built around the Deutschmark and the new converts to the German stability culture from the south; and the credibility of a selection process in which almost everyone is a winner and no one a loser.

These are the doubts the EU intends to address in the run-up to the May summit in Brussels. For though it has been clear since October that EMU would be politically "broad", the politicians know they must offer a convincing economic justification both to the financial markets and a sometimes sceptical public.

The first significant event took place last week when the European Commission and the European Monetary Institute (EMI), the forerunner of the future European Central Bank, published reports on the progress EU member states made towards meeting the Maastricht criteria for EMU. These are:

☐ Price stability: member states need to show an average rate of inflation which does not exceed by more than 1,5% the three best performers;

☐ Exchange rate stability: countries are expected to observe "normal" fluctuation margins within the exchange-rate mechanism for at least two years, without devaluing against the currency of any other member;

☐ Interest rate stability: long-term rates are not expected to exceed by more than 2% the three best performing member states.

☐ Sustainability of public finances: the public deficit should be at or close to 3% of GDP, barring temporary and exceptional circumstances; and

☐ The ratio of public debt to GDP should not exceed 60%, unless the ratio is diminishing and approaching the value "at a satisfactory pace".

Before the reports were released, the commission, which will make the sole recommendation on which countries have met the criteria, sought to coax the central bankers at the EMI to minimise differences in interpreting the performance of countries.

The EMI — with Bundesbank president Hans Tietmeyer in the forefront — was refusing to gloss over weaknesses.

The prime area of concern is the high level of government debt. Belgium and Italy have debt ratios which, though diminishing, are twice the limit set in the Maastricht treaty. A second question is the long-term funding of state pensions, highlighted by low birth rates and an ageing population in Europe.

Italian Prime Minister Romano Prodi insists he has nothing to prove to the Germans or anyone else who harbours doubts about the sustainability of his country's squeeze on public deficits. However, his government is to bring forward its draft budget for 1999 and has laid out an ambitious medium-term plan for reducing debt to the Maastricht limit.

In Germany, where public opinion is most fragile, Kohl has invited the Bundesbank to make its own assessment, cleverly co-opting the central bank. Speculation about a critical minority report looks wide of the mark, if only because Tietmeyer will have already signed a broadly favourable EMI report.

The EMI and commission reports will be debated in national parliaments and the European Parliament ahead of the jumbo summit over the weekend of May 1-3.

The summit starts with a EU finance ministers meeting on May 1. They will debate the commission report and make recommendations to EU leaders who will choose the founder EMU countries the next day.

EU leaders are also expected to unveil their choice of the president of the European Central Bank, the vice-president and the four other members of the board. Wim Duisenberg, former president of the Dutch central bank and EMI president, appears to have confirmed his front-runner status, though Jean-Claude Trichet, governor of the Banque de France, is still in the running.

Finally, EU finance ministers and national central bank governors are expect to announce the bilateral exchange rates among currencies in the future euro zone.

The aim is to minimise exchange rate volatility ahead of the irrevocable fixing of parities when EMU is formally launched on January 1 1999 and a single monetary policy operates across the euro zone. For the next three years, national currencies will coexist as nondecimal denominations of the euro. Euro notes and coins will enter circulation in 2002.

Without the euro jangling in the public's pocket, one might describe the transition period as "virtual monetary union". But countries inside the single currency zone will use the time to put in place the building blocks of the post-EMU world.

This means the successful launch of the European Central Bank; the maintenance of budgetary discipline through the German-inspired Stability and Growth Pact; and the launch of the Euro-X club — informal meetings EMU members will use to coordinate their economic policies.

In policy terms, the European Bank will have to decide whether to adopt inflation or monetary targets or both. But in practical terms, the challenge will be to establish the credibility of the new currency and the new institution with resources which will initially fall short of national central banks.

The gestation of the single currency has been painful: it has become associated with low growth, budget austerity and high unemployment. After May 2, Europe's search for monetary stability will have moved to a new stage. Now comes the hard part: making the system work. — Financial Times.

EURORAND BONDS

EMU reawakens a southern dodo (56A)

Europeans drawn south by high bond yields FM 3/4/98

Faced with low, and declining, returns as interest rates converge ahead of the European Monetary Union (EMU) next year, Italian, Swiss and Belgian retail investors have developed a growing appetite for the high yields on SA Eurorand bonds.

As a result, the Eurorand bond market has grown in leaps and bounds during the first quarter of this year, with the main demand for zero coupon bonds. These offer the investor the full capital at the end of a bond's maturity and the investor is not paid out the usual annual coupons.

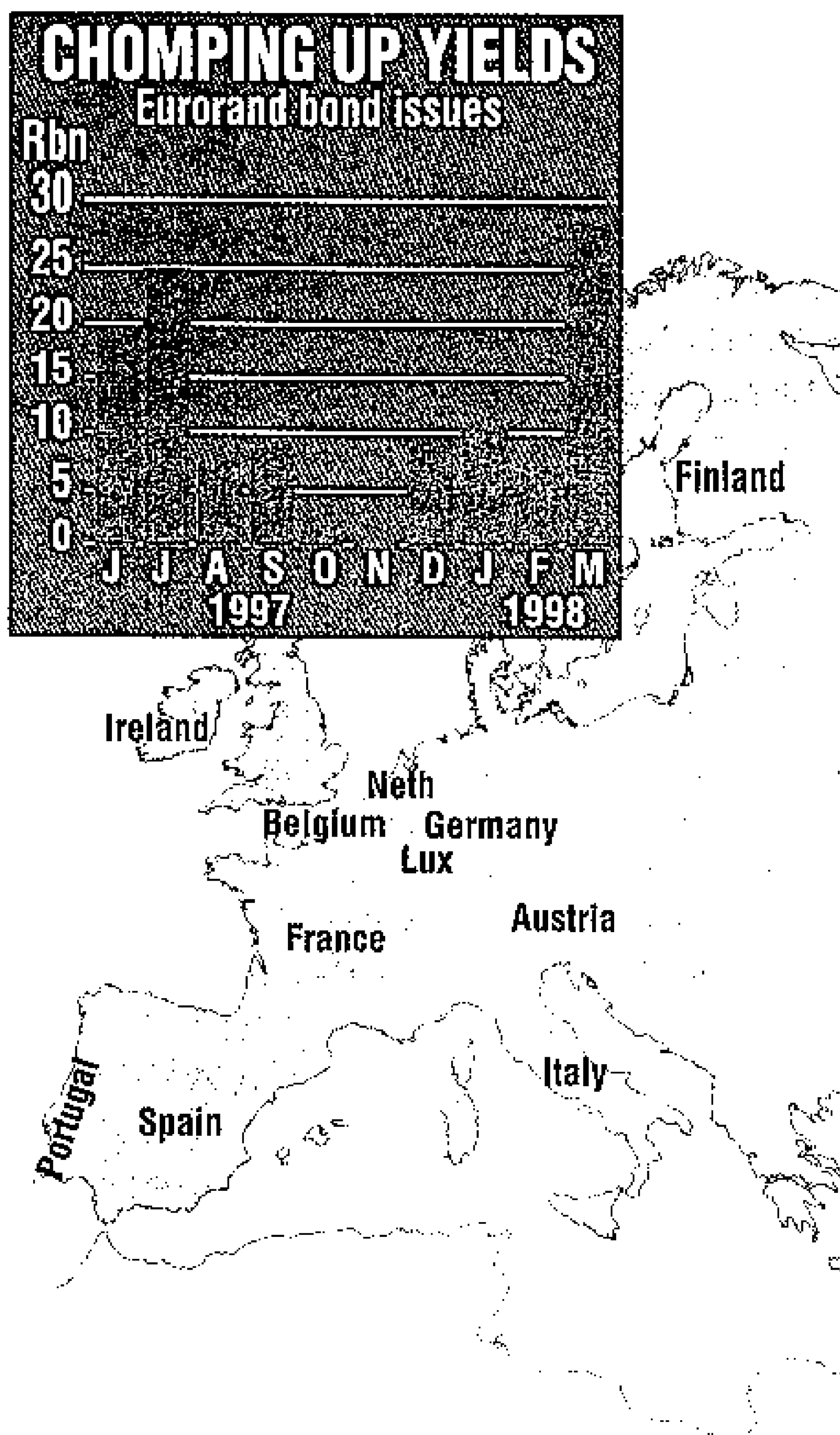
Investors are so eager to earn the 13%-14% yields that they are prepared to expose themselves to the risk of rand depreciation over the long term — one of the bonds carries a maturity of 31 years and most mature in over 20 years' time. They are also forgoing the steady annual coupon payments that usually flow from "vanilla" (traditional) bonds during the period.

The main benefits of the investments, however, are that they are not taxed at maturity in certain European countries and, if the rand depreciates in an orderly fashion, the investors make relatively high yields.

The consensus on interest rate trends as the EMU is put together is that they will converge at just below 4%, with some countries such as Italy falling from 5,5% and others such as France and Germany rising from about 3%.

During the first quarter this year, about R10bn was raised from Italian, Swiss and other European investors compared with R2bn during the post-Asian crisis in the last quarter of 1997. The World Bank, European Bank of Reconstruction & Development (EBRD) and a range of German banks were the most regular borrowers and the Development Bank of Southern Africa raised a cash amount of R1bn, Transnet R2bn and Eskom R137m.

The tempo has picked up markedly through the year. Issuers raised close to R5bn during March compared with R2,7bn during February. Of the 22 bonds issued during March, 12 were zero coupon bonds.



The other feature of zero coupon bonds is that issuers pass the exposure on to swap houses, which do not need to bear any rand currency risk because they swap the liabilities into dollars when the bonds are issued.

The swap houses get rid of the currency risk by hedging their exposures, which have ranged between 12 and 31 years, in the local bond market. Until now hedging has been mismatched on the longer-term bonds because the government bond with the longest maturity has been the 17-year R157.

But this will change with the issue of the 28-year R186, which is expected to be part of the bundle of stock on offer at the first tender to the 12 primary market dealers on Tuesday April 7. The new bond is predicted to become the darling of the capital market as soon as it is issued by government and to trade at a narrower differential to the R150 than the other long-term stock, the R157.

The most surprising thing about the R186 is that government is confident it will be able to sell a bond with an extended term to maturity. Investors are usually wary about taking on such long-term risk in a developing economy, particularly one that has the hurdle of elections to overcome.

But it is a calculated risk. Demand for the new stock is expected to be fed by the brisk demand stemming from the Eurorand bond market this year. Conversely, however, when interest rates in SA fall and demand for zero coupon bonds dries up, the usual considerations about investing for 30 years will come into play.

To some, the strong demand for such long-dated SA Eurorand paper is a mystery. DMG fixed interest research director James Greener says "there is no way investors can prejudge the risk of the Eurorand product when they will only be repaid their rands at the end of 30 years. The investors have a high demand for yield and perhaps a poor understanding of risk."

But Ben Hall at Hambros/RBC, an active Eurorand bond lead manager over the years, argues: "Investors accept that the rand has the potential to decline but feel that the yields more than compensate for potential currency losses." He notes that with yields in Europe in low, single-digit territory and Eurorand yields between 13% and 14%, the currency would have to lose a lot of value to cancel out the returns.

Greener predicts that the R186 will be "very successful" and that it will enter the market at a yield that is 10 basis points below the R157 (trading at 13,24% at the time of going to press). Hall says "the vacuum (in the long-term area) will be filled quickly" by the R186 and expects bond market investors to sell off the R157.

The R157 has already begun to feel the impact of the new kid on the block. The gap between the benchmark R150 bond and the R157 widened substantially to 41 basis points during March, compared with the 10-point differential in January this year. It narrowed somewhat to 34 points by the end of this month but should widen when the new stock hits the market.

The zero coupon bond market is sentiment-driven, comments Hall, adding the bonds will be traded readily when the market turns.

"We have seen phenomenal growth in the market but expect that to be a phase. As soon as interest rates bottom, the typically long-term holders of stock will take profits and switch to more stable coupon bonds."

But there is little secondary trading in this market because investors, many of whom are individuals, not speculators, tend to hold on to the bonds. **Sharon Wood**

MONETARY UNION *Experts claim that too little thought has been given to strategic cost, pricing and marketing implications*

Single currency 'will change the way EU business is done'

CT (BR) 7/4/98 (56A)

Henry Engler

London — The euro will change the way business is done in Europe and almost every European company will be affected by a common currency, which brings a single market in goods and services one step closer.

Pricing and production will have to be reconsidered. Relations with suppliers and trade unions will come under scrutiny.

Relations with consumers will be tested. Companies will find themselves struggling to dispel suspicions of profiteering and price gouging once national currencies are converted. At stake are millions in profits.

But if there is criticism of corporate readiness, experts say too little thought has been given to the strategic implications of European monetary union (EMU). Like the millennium, it has been seen as an information and technology issue, something for the back office.

A survey in December of 300 corporations by KPMG Management Consulting found 62 percent did not believe the euro would have a marked influence on their international management structure, and 63 percent did not plan to review the location of their European operations.

While the technological aspects of EMU are large and costly, the longer-term business implications are more important. Most agree European firms will have to withstand competitive pressures they have perhaps never before witnessed.

"There is no doubt the environment is changing and in the short- to medium-term the situation will be worse for most companies," says Vicky Pryce, KPMG Consulting's chief economist.

The process is under way. Forced by developments in the world economy, many businesses are slashing costs and consolidating operations as the demands of the market place narrow profit margins.

The euro will simply accelerate the pace of change, consultants say. What may have taken a decade to accomplish will be condensed to within a few years.

> ***The euro may prompt firms to relocate their operations to lower-cost countries***

Perhaps the euro's most visible effect will be in exposing differences in pricing of pan-European products — what many economists call price transparency. "EMU will create a grand, domestic market with increased competition and price transparency," says Francois Charriere, the managing partner for European affairs at Andersen Consulting.

Because of differences in value added taxes, income distribution and productivity rates, the price of standardised products can vary widely — as much as 50 percent. Under the euro such disparities will become obvious.

Yet the task for companies will not be easy. When converting prices from national currencies to the euro, the result may often be unattractive in marketing terms.

A product priced just under a round number — say, 9,99 — may convert to something like 7,34 euros. Many consultants believe the tendency will be to round down to the nearest euro, to avoid a consumer backlash.

"If you're on the wrong side of a psychological threshold, there will be strong market forces to mark the price below that barrier," says Peter Everett, the vice-chairman of the euro steering group at Imperial Chemical Industries.

Corporate managers stress that companies will have to guard against the impression that they are short-changing consumers. But in rounding prices down, they face lower margins.

Economists say it is quite possible the euro will prompt European corporations to relocate some of their operations and new investment from higher- to lower-cost countries.

The economic logic is compelling. Within the 15-nation bloc of the European Union are vast differences in labour costs. While gaps in productivity may be behind this, uncertainties over conducting business in lower cost economies, including exchange and interest rate volatility, could also play a role.

Under the euro, many of these uncertainties will be removed, leading to a model similar to the US market.

Thus the important question to ask is whether EMU will spur increased cross-border investment and facilitate an equalisation of labour costs in Europe.

Both the pricing and supply-side pressures of EMU will likely prompt corporate consolidation. This will be seen most clearly in the financial services sector. As one top London investment banker put it: "I expect to see an explosion in cross-border banking mergers." — Reuters

EU firms risk being late entries in race for euro

(56A) PN 8/4/98

BRUSSELS — For thousands of European Union (EU) companies, the starting pistol in the race to prepare for the euro will only sound early next month, when the first group of countries to adopt the single currency will be chosen.

Most businesses seem to be taking a wait-and-see attitude, still sceptical about the makeup of that group or the need to prepare for the change.

However, European business federations say that attitude may force hundreds of firms to scramble to catch up with competitors which have already taken steps to handle the single currency.

"Some companies, mainly small and medium-sized enterprises, haven't adopted long-term strategic planning," said Harald Hartung, the director of the Brussels office of the Federation of Austrian Industry.

"I fear that for them, they'll only wake up after May, because then they'll really believe this will come about and they have to do something about it."

The selection at next month's summit of the euro-zone countries will create what Bruno Vever of the National Council of French Employers (CNPF) has referred to as a "psychological understanding" among European companies that the currency union really is going to happen.

"We think that will create for the enterprises which haven't begun to prepare the ultimate awareness they have to go now. Too many enterprises are still not ready. There are so many and time is running," Vever said.

Indeed, a survey of 2 100 private and public EU companies by the Federation of European Accounting Experts indicates that fewer than one-third have taken even the first steps to prepare for the euro.

The best-prepared businesses are located in the 11 EU states that are expected to adopt the single currency from January 1, according to the survey. For instance, 63% of German and 57% of Austrian firms have begun to ready themselves, compared with only 3% of Greek concerns.

At the same time, the companies that were most prepared said they had received sufficient technical information about the switch to the euro, while those which lagged received little or no data, the accounting federation said.

However, federations such as the CNPF maintain that they have provided mountains of information to large and small companies alike.

CNPF had arranged dozens of information meetings around France and issued thousands of practical guides on preparing for the euro, Vever said.

A similar process was under way in Germany, said Michael Wunnerlich of the Federation of German Industries, which represents more than 75 000 small and medium-sized businesses.

Awareness

Business federations have relied on workshops, forums and documents to get the word out, but Stefano Martinelli of Italy's Confindustrai said some companies simply remained beyond reach.

"In Italy, there is strong awareness of the single currency. The issue that is most discussed is the single currency. If there is one issue that is quite present in the minds of all Italian citizens, it is the single currency," Martinelli said. "But it is always impossible to inform everyone."

Yet Peter Brennan of the Irish Business and Employers Confederation argued many smaller firms simply did not see any need to prepare for the euro. This was the case in Ireland, where many importers and exporters dealt almost exclusively with the UK, which opted not to participate in the currency from the outset.

"For a lot of them, the reality won't come through yet," he said. "When they get their first (euro-denominated) invoice that will sort them out," Brennan said.

"We're fairly confident from the statistics that came out of our last survey that everybody who needs to know, knows," he said. According to the accounting federation's survey, however, only 43% of Irish firms began to prepare for the euro as of late last year.

Part of the sluggishness in Ireland and elsewhere was linked to the fact that major political decisions about the euro were still pending, said Vever.

"The final ticket is only next month. We've only known since a few days how many countries could be inside," he said, referring to membership recommendations made late last month by the EU Commission and European Monetary Institute.

"In France, the timetable has just been presented a few months ago and it should be adapted this week only. It's very new," he said.

Nonetheless, Vever believes firms which have not taken the first step to prepare for the euro will be able to do so between next month and the end of the year.

"We can say it's very late and we can say also that the interest of the enterprises is fantastic and it's all moving very fast now," he said.

"It is late, but it's not too late. We'll only have a few months left, but it will be like a snowball, growing and growing," Vever said.

Hartung agreed: "I'm quite confident for the very simple reason that all the information is available. Everything they need is there; you just get it and you do it," he said. — Dow Jones.

Tower of Babel looms on EU horizon

LONDON: Europe's nations may be ready to pool their monetary sovereignty and even to tame the farm price monster, but they are fighting shy of another explosive topic: Language.

When six new members join the European Union in the next few years, with five others to follow, it will become almost impossible for Brussels to continue to conduct its business in the tongues of all its members.

With the EU's current 11 languages, it takes more than 30 highly-skilled and high-cost interpreters to handle a single meeting. The addition of Estonian, Polish, Czech, Hungarian and Slovene would raise the figure to more than 100.

Officials are quietly working to avoid creating a Tower of Babel that would devour multiples of the existing £2 billion (about R17bn) a year that the European Commission, Council and Parliament already spend on an army of interpreters and translators.

However, their ideas mainly amount to tinkering.

Meanwhile, the approach of new entrants and the ascendancy of English are spurring resistance among the member states. Britain felt the linguistic backlash last month when it was forced by Spanish and Italian objections to abandon a plan to limit proceedings at the 26-nation Europe conference mainly to English, French and German, the traditional "working languages" at the commission.

Expanding the system of working languages, long applied at the United Nations and Nato, would seem an obvious solution to the impending gridlock, but linguistic sovereignty is so sensitive that no state will consider downgrading its tongue, especially in the lawmaking Council of Ministers or the parliament.

The French are preaching linguistic diversity as the best weapon against the English monopoly, but their aim is to win some special protection.

One idea, promoted by Mr Jean Francois Deniau, a former minister and academician, is to make France's ratification of the Amsterdam treaty dependent on enshrining French and English as official languages.

This would be the "last chance to stop the extremely rapid degradation of our language", he said.

French diplomats are still recovering from the Brussels launch of EU enlargement last month, at which the ministers of eight of the 11 applicant states made their speeches in English. The biggest affront came from Mr Andrei Plesu, the Foreign Minister of Rumania, which is home to a Romance language and a member of the Francophone community, cultivated at great expense by Paris.

"Trahison! (Betrayal)," proclaimed *Le Soir*, Belgium's main French-language daily.

Paris is bombarding the commission and other EU institutions with demands to shore up the status of its language, which has been waning ever since the old Common Market was joined by Britain, Ireland and Denmark in 1973.

English is fast becoming the dominant language in the offices of Brussels and is paramount at Europol, the police agency based at The Hague, and the European Monetary Institute, the future European Central Bank in Frankfurt.

Behind the French protests lies the knowledge that the language shift brings a move to Anglo-Saxon thinking and a loss of the Gallic culture that long defined the EU machine.

Helping French is the fact that many old Euro-terms cannot easily be translated. Among them is *l'acquis*, the body of law and regulations that define the EU. Another term is *La Construction Europeenne*, a distinctly Gallic concept that was uttered by British Prime Minister Tony Blair in his French speech to the parliament in Paris last month. — The Times

(56A) CT 16/4/98

EMU a triumph of political will over the market in London

(56A) Star 29/4/98

Launch this weekend, initially involving 11 nations, has confounded critics, writes Paul Taylor

When European Union leaders meet this weekend to choose the 11 founder members of a single currency, they will seal a remarkable triumph of political will over the financial markets.

Expectations are that they will select Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain to join the euro currency. Britain has indicated it will join a second wave of nations, probably in 2000.

For most of the decade, the EU's Maastricht Treaty, agreed upon in December 1991, was viewed with a mixture of scepticism and hostility by many currency traders, especially in the powerful City of London, Europe's biggest financial centre.

European governments and central banks spent billions of dollars to defeat repeated efforts by speculators to break what many regarded as an economically illogical and politically unsustainable project.

Only in the past couple of years have the markets come to accept that the European economic and monetary union (EMU), agreed upon at the Maastricht summit, is likely to start on time in January 1999, although some market players still question whether it will last.

A senior German official said, "EMU was first and foremost a political project about the unification of Europe."

The fact that it is going ahead despite all the attempts to derail it is a testimony to the steadfastness of the German and French governments, he added.

The outcome is all the more striking because the EMU has been forged over a decade when the globalisation of the financial markets has sharply reduced all governments' control over capital flows and economic policy.

As Britain discovered to its cost when the pound was humiliatingly ejected from the exchange rate mechanism linking European currencies in 1992, raising interest rates and pouring billions into intervention are not always enough to stabilise a currency.

The Italian lira was catapulted out of the EU's currency grid soon afterwards, while market pressure stampeded Spain and Portugal into barely orderly devaluations, known in EU jargon as "realignments". All three are set to join the euro upon its launch, although until last year most pundits were forecasting a much narrower first-wave membership.

As recently as February 1997, only 7% of European economists polled by Reuters believed that Italy would be in at the launch. In November 1996, only 17% thought Spain would make it and 10% saw Portugal in the first wave.

There were also repeated assaults on the French franc. EMU survived ultimately because of the utter determination of the French and German governments and central banks to defend the crucial franc-mark parity.

"If the franc had gone in 1992 or 1993 or 1995, EMU would have gone with it. And if the EMU had gone, the future of European integration would have lain in ruins," an aide to French President Jacques Chirac said.

The official said Chirac, who had early doubts about monetary union before endorsing it in a 1992 French referendum, had come to share his predecessor Francois Mitterrand's view that it was a vital interest for France.

The EMU represented the only way to regain a share of monetary sovereignty which it had effectively lost to Germany's mighty Bundesbank.

Spurred by the prize of being in Europe's "first division", governments in many countries proved capable of sustaining austerity measures which domestic politics had previously made impossible. The most astonishing, if belated, turnaround was in Italy, where the EMU has been a catalyst for political reform, fiscal discipline and rare government stability. – Reuters

Advent of EMU offers opportunities for Africa

(56A) CT(AR) 30/4/98

Richard Stovin-Bradford
Banking Editor

Johannesburg — The advent of European Monetary Union (EMU) would result in fundamental changes in international finance, trade and investment, Gilles Rollet, the head of the corporate division at ABN Amro South Africa, said last week.

"Africa might well become the next century's economic miracle and the economic integration occurring in Europe offers an interesting range of opportunities for this continent," he said.

Trade invoicing between European countries and South Africa is mainly carried out in US dollars at the moment but, as the euro grows in strength and acceptability, ABN Amro expects this trade to take place in Europe's new currency. "At ABN Amro we confidently expect the euro to rival the dollar very soon," said Rollet.

The pricing of the majority of commodities would nevertheless remain in dollars, owing to the fact that Europe's role in commodities markets trading was diminishing. "There are exceptions — one being steel," said Rollet "Some market players believe that the dollar's role could be challenged here because a number of European traders and producers strongly advocate pricing in euros."

Competitive pricing in Europe also had implications for companies trading with Europe, he said. Although access to a wider range of markets within the European Union (EU) could be expected, South African exporters would need to price goods keenly and carefully to hold their export markets against stiff competition, he said.

However, the monetary stability that would result from EMU was a major advantage for South African traders, said Rollet.

ABN Amro, as a bank, was convinced that there were good economic and political reasons for monetary union. "The currency crises of 1992 and 1993 caused considerable strain on Europe's internal market. A single currency will eliminate this sort of disruption," said Rollet.

Other positive aspects of monetary union were lower transaction costs for companies, the ability for companies to consider relocating as well as realising economies of scale and lower production costs.

It also forced various governments to intensify efforts to put their public finances in order and to pursue more disciplined monetary policies.

Political advantages included the desire to strengthen ties among nations and thereby further reduce the danger of any recurrence of past conflicts. "The recognition of common ties between people partly depends on the existence of shared symbols, such as the notes and coins used in every day life," said Rollet.

History turns a page as 11 nations adopt the euro

ST 3/5/98 (56A)

LEADERS of 11 European nations, proclaiming a new era of unity and prosperity, agreed yesterday to form an unprecedented economic union with the euro as their shared currency.

To underscore the landmark agreement, they appeared ready to compromise in a bruising dispute over who should lead Europe's powerful new central bank. A likely deal would put Dutchman Wim Duisenberg in the top job.

The launch of the euro on January 1 will create a vast economic bloc stretching from Finland's Russian border to the Atlantic shores of Ireland and the tip of the Italian "boot". Almost 300 million people will have euros in their pockets and purses after the new banknotes and coins arrive in 2002.

"Euroland", as people are already calling the bloc, will be the world's biggest trading power, accounting for 18,6 percent of global commerce.

It will represent almost a fifth of world economic output, about the same proportion as the US.

"It is a historic day because the euro is going to have a huge impact on ... the future of the people of Europe," said Britain's Prime Minister, Tony Blair, chairman of this weekend's euro summit.

"It's going to have an impact on countries in the euro, those outside it and the rest of the world," he told BBC radio.

Italy's Prime Minister, Romano Prodi, said: "A page has turned, and a new chapter opens in our history."

Germany, France and Italy, Europe's biggest economic powers, will be at the heart of the currency union. With them will be Spain, the Netherlands, Austria, Belgium, Portugal, Ireland, Finland and Luxembourg.

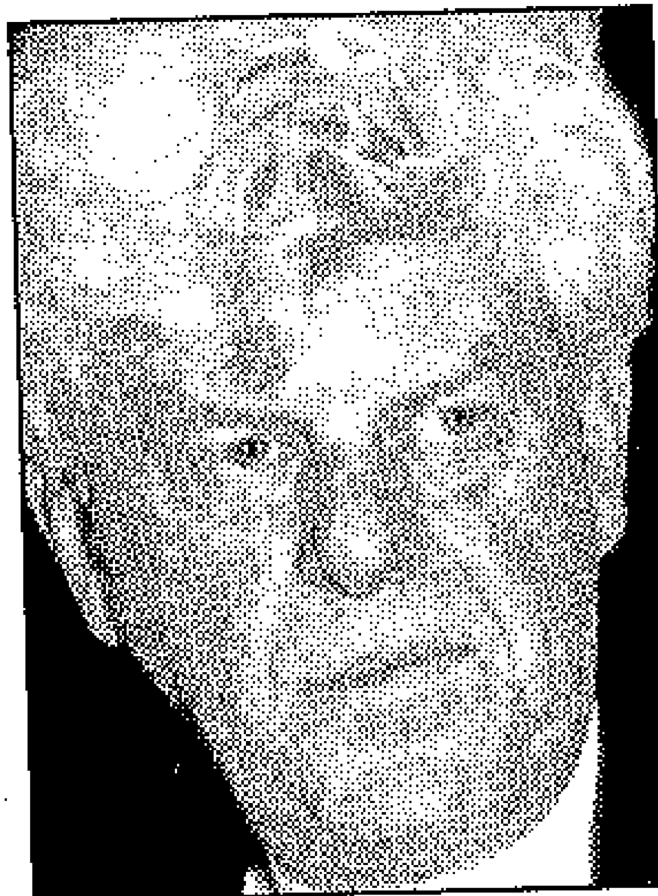
Britain, Sweden and Denmark have decided to stay out, for now, to retain national control of monetary policy.

Crucial to the functioning of the new currency is the European Central Bank, to be based in the heart of Germany's financial capital, Frankfurt.

The bank will control interest rates and monetary policy, and is foreseen as an independent body set to rival the US Federal Reserve for global influence.

A battle between France and Germany over who should head the bank threatened to spoil yesterday's festivities. The French President, Jacques Chirac, German Chancellor, Helmut Kohl, and Dutch Prime Minister, Wim Kok, haggled for a last-minute deal.

Their likely compromise would appoint Duisenberg — the choice of Germany and all the other euro nations — as the bank's first president. But, in deference to France, the Dutchman will step down halfway through his eight-year term to make way for a Frenchman, probably the Bank of France governor, Jean-Claude Trichet.



WIM DUISENBERG

The euro's supporters say it will boost business by cutting bank charges, lower the risk of exchange rate fluctuations and give European companies the stability of a huge domestic market.

"Monetary union can be the platform on which to build growth and employment," said Britain's Chancellor of the Exchequer, Gordon Brown.

Not everybody is convinced, however. Opinion polls published last weekend show that more than half of Germans would rather keep the Deutschmark, and that only 51 percent of "Euroland" citizens want the euro.

Critics fear the euro will end in expensive failure. Others object to the loss of national independence.

"We're meeting to celebrate the death of 11 currencies... It's the end of our nation states," French extreme-right politician Jean-Marie Le Pen told the European Parliament.

His words went largely unheeded. The assembly voted 467 to 65 yesterday to endorse the euro's launch — *Sapa-AP*

EUROPEAN UNION *Two contenders decide to split the European Central Bank throne*

11th-hour pact saves euro deal

(56A) CT (BR) 4/5/98

RICHARD STOVIN-BRADFORD
BANKING EDITOR

DECENT COMPROMISE *Dutchman Wim Duisenberg, the president of the European Monetary Institute, will serve an initial four-year term then hand over to Jean-Claude Trichet, the French central bank governor*

PHOTO: AFP

Johannesburg — The European Union (EU) summit in Brussels at the weekend to confirm the initial 11 member states of European monetary union (EMU) was bedevilled by a marathon game of musical chairs over the choice of a president for the European Central Bank (ECB), Mary Pieterse-Bloem, an EMU bond strategist at Paribas, said yesterday.

The summit on Saturday decided that Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Portugal and Spain would be the 11 states to spearhead EMU, paving the way for the introduction of the euro on January 1 next year.

Britain, Denmark and Sweden opted to stay out of the first phase, while Greece failed to meet the criteria.

"There were no problems choosing the 11 countries," said Pieterse-Bloem. "Another plus was the decision to use the exchange rate mechanism (ERM) central rate as the basis for the actual European exchange rates to the euro from January 1, quelling fears of currency realignments." The ERM is the basis for an existing basket currency called the ecu.

The main point of contention at the summit was over the choice of a ECB president. Strife in recent months between France, Germany and the Netherlands erupted into a row that ran well into Saturday night, leaving Jacques Chirac, France's president, as the EU's perceived bogey-man.

"The market now perceives French involvement as signifying greater political control over the European Central Bank," said Pieterse-Bloem.

A compromise was reached that Dutchman Wim Duisenberg would serve an initial four-year term then hand over in 2002 to Jean-Claude Trichet, the French central bank governor who is widely credited with securing his bank's political independence.

"Some say the whole debate was a disappointing start to the euro. Some think this weekend's decision is the real landmark in the launch of EMU and not January 1 next year. Yet the mood is not as upbeat as it should be.

"It would have been better for Duisenberg to serve the full eight years, but this is a decent compromise," she said.

☐ **47 Sauer St, Page 2 and Chosen 11, Page 12**

Gold holdings shadow EU politics

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — The new European Central Bank (ECB), formed this weekend to manage the introduction of the euro currency, was expected to announce how much gold it would hold in its reserves next month after its first board meeting, said analysts yesterday.

"It's likely a decision will be made by then and a statement made on the amount of gold the bank will hold," said Mary Pieterse-Bloem, an analyst with Paribas in London.

On average, the 11 euro zone member states hold about 27,5 percent of their foreign reserves in gold. Many analysts expect this ratio to be maintained.

"It is not up to member states to decide on the composition of the ECB's gold holdings. It will decide this itself, unless it becomes a political issue. This, however, is unlikely," she said.

The bank will start to make decisions from today onwards as it takes over the function of the European Monetary Institute, the forerunner to the ECB.

The gold spot market dipped late on Friday after a strong showing earlier in the week in which the precious metal tested the $315 an ounce level.

It fixed in London on Friday afternoon at $306,90, down $3,80 from Thursday, but tumbled to just above $301 before the market closed.

EUROPEAN UNION *First euro nations named, but compromise breeds financial uncertainty*

Chosen 11 start their engagement with a row

(5bA) CT (BR) 4/5/98

FROM BLOOMBERG

Brussels — European Union (EU) leaders chose 11 nations to start a common currency next year in what will be a $6 trillion economy and settled a protracted dispute by putting a Dutchman in charge of the European Central Bank.

Capping months of politicking, the EU named Wim Duisenberg of the Netherlands as head of the central bank. Bowing to French demands, Duisenberg agreed to step down midway through the eight-year term and make way for a Frenchman in a harbinger of possible squabbles to come as the 11 try to agree on how to run the world's second-largest economy.

The compromise "is messy and uncertainty has increased", said Julian Jessop, an analyst at Nikko Europe in London. "It's clearly a victory for the French but it's counterproductive because you need a longer term to give confidence to the markets."

Proponents estimate the euro will save European companies about $60 billion each year in foreign exchange conversion costs, making it easier for companies such as French car maker Renault or Germany's Volkswagen to sell products with reduced risk of exchange rate losses.

ABOUT TIME *German Chancellor Helmut Kohl (right) and Italian Prime Minister Romano Prodi (left) check their watches as French President Jacques Chirac (centre) looks on before a 'family' photo* PHOTO. AP

Daimler-Benz, Germany's flagship company and the maker of Mercedes-Benz luxury cars, plans to convert its accounts to euros on January 1. Some exporters in Sweden and the UK are doing the same to avoid losing customers.

The business of preparing businesses for the euro has been a boon for software companies such as Germany's SAP, the Netherlands' Baan, and Oracle and PeopleSoft of the US, which all reported soaring demand for euro software and services.

In 1997 the 11 euro-nations generated 20 percent of world exports, ahead of 16 percent for the US and 10 percent for Japan, according to the EU statistics office.

Over time, the euro may challenge the half-century dominance of the US dollar as the world's reserve currency, and it could bring the still-fragmented continent the "ever closer union" envisioned by the signers of the Treaty of Rome, which founded the European Economic Community of six countries in 1957.

For German Chancellor Helmut Kohl, who was 14 years old when pressed into duty in an anti-aircraft brigade in the dying days of World War 2, the single currency will make another European war unthinkable.

The Germans hope to burnish their credentials as good Europeans by giving up their economic independence and sharing their currency with neighbours that, a half-century earlier, they had invaded.

For Italy, Europe's third-largest economy, the euro provides an opportunity to break with decades of inflation and currency instability.

Few Europeans will have Europe's turbulent past on their minds when their currencies become eclipsed by the euro in eight months.

Instead, the euro will expose the price discrepancies and inefficiencies of Europe's economies and raise competition to a new level, forcing businesses — and their employees — to work harder, maybe for less money.

The pick-up in growth and record-setting run by European stock markets are signs, some analysts say, that the harsh economic medicine imposed by the Maastricht treaty on the euro is working. The treaty, drafted in 1991, demands lasting deficit and debt-reduction, identifying sound public finance as the key to low inflation and interest rates and stable exchange rates.

Budget cuts demanded by the treaty have put the squeeze on inflation and interest rates, pushing EU growth to 2,8 percent this year, the fastest pace since the Berlin Wall fell in 1989, according to forecasts by the European Commission, the EU's executive agency.

For a tectonic shift like the euro, "there is never going to be the perfect moment", said Allan Saunderson, the editor of Frankfurt Money Strategist. "What we do have is a good opportunity of low inflation. So it's not a bad time to start."

Ever so slowly, consumers are starting to benefit, and the bloc's unemployment rate has inched down to 10,3 percent. Still, that rate is twice as high as in the US, and the low-deficit strictures of the euro have forced governments to pare spending on public works and welfare.

Unpopular austerity measures led to the ousting of France's conservative government by a Socialist-led coalition last June, and Kohl lags far behind his Social Democratic challenger before September elections in Germany.

EWS

SA business prepares to welcome the euro

CT(ABR)5/5/98 (56A)

MATT GETZ

Johannesburg — The advent of the euro next year, collapsing 11 currencies into one, should make the lives of importing and exporting companies easier and shift the focus at trading banks, but it would present more work for software firms, company officials said yesterday.

"From the point of view of travelling and doing business, it will make things simpler and save money (involved in exchanging lots of currencies)," said Dave Rawlinson, the financial director of Reunert.

He said the euro would also help companies that dealt with foreign currencies: "It definitely lends more stability (and) will make business forecasts easier."

Dave Barber, the financial director of Anglovaal, said the biggest change would be dealing with the effects of the euro on the rest of the world. "Plainly this is a very large change to the world economic order," he said. "We will have to keep an eye on it."

Bankers said the euro development had been known about for some time and many of them were already adjusting.

In any event, the pound will remain out of the euro, so changes will be limited. The vast majority of local currency trade is with the dollar, pound, mark and yen, so the shift will make a very small difference in many ways.

Autry Wilke, the head of foreign exchange at Absa, said there would be some effect on manpower. "But the banks have been gearing up for this for 18 months," he said. "We have reskilled people into, for example, derivatives."

Mark Parker, the head of Nedcor's treasury division, said the reduction of trade could be taken up by the increased interest in exotic currencies.

Some dealers, however, believed European currency trading might not fall away at all because of the possible introduction of the euro as a reserve currency.

The most work will be done by financial software manufacturers, whose customers will need to convert currencies through a triangulation process where, for instance, the rand is compared first against the euro then against the old home currency.

"The way this will affect the EMU (European monetary union) and companies dealing with it is bigger than the year 2000 problem," said Ivan Ferrer, the managing director of Pastel Software.

He said Pastel was working on a euro-compliant package to be ready by August or September, and virtually every customer would have to upgrade.

However, the software would only be suitable for the two-year transition period when countries could use their old currencies, after which customers would have to upgrade again. "It's a bit of a nightmare, but also an opportunity," he said.

INTERNATIONAL

A 'rotten start' to monetary union

(56A) BD 5/5/98

BRUSSELS — Europe's single currency preparations were under scrutiny yesterday after intense criticism of the way officials at a weekend summit appointed the president of the European Central Bank to manage the euro.

Politicians, business leaders and the media blasted Sunday's decision by European Union (EU) leaders to split the eight-year presidency of the powerful new bank between Wim Duisenberg of the Netherlands and Frenchman Jean-Claude Trichet.

"It's a rotten start for economic and monetary union and the euro," said Jaap de Hoop Scheffer, leader of the opposition Christian Democratic Alliance party in the Netherlands.

EU officials said yesterday that the EU leaders' promises over the future of the central bank carried no legal weight.

"The legal situation is that (the president) is nominated for eight years so the person who is nominated has the possibility to stay for eight years: that's the mandate that he has," Patrick Child, the spokesman for monetary affairs commissioner Yves-Thibault de Silguy said.

It also appeared certain that the declaration of intent made early on Sunday by leaders to name a Frenchman as Duisenberg's successor could not be turned into a form of words which a court could either uphold or challenge.

If that proved to be the case, then legal actions, such as those announced already by German euro-sceptic Manfred Brunner and British Conservative members of the European Parliament, seemed likely to fail.

However, fears that European money markets would see the central bank deal as undermining the credibility of the euro project did not materialise in early trading, which saw the German mark and other European currencies stable against the dollar.

Traders seemed reassured by Trichet's reputation as the defender of a strong French franc, and by the appointment on Sunday of five other arch-supporters of monetary stability to join Duisenberg on the management board of the bank.

"It's not a big problem. It was quite obvious that you have to look for a compromise," said Harry Schroeder, senior economist at Commerzbank in Frankfurt, Germany.

The bank will be one of the world's most powerful financial institutions after the euro's launch on January 1 as the currency of 11 EU nations.

Its task is to ensure the stability of Europe's common currency, to fight inflation and set interest rates for the 11-nation euro bloc, which will be the world's second-largest economy, just behind the US.

Leaders of the 15 EU nations spent 11 hours on Saturday haggling over who should head the bank, with France fighting a solo battle to make sure its man would replace Duisenberg in 2002. President Jacques Chirac won a pledge that Duisenberg would step down mid-term in favour of Trichet, despite a clear requirement in the EU treaty that the job be held by one independent appointee for eight years.

The battle revealed deep differences between France and Germany, usually the twin engines behind the drive for Europe's monetary union.

The bank president's lengthy mandate had been seen as a way of establishing the long-term independence of the bank and securing confidence in the euro's stability. Political horsetrading to split the job cast doubt on that. — Sapa-Reuter.

Euro means a new era for SA business

Get ready now, experts urge

ARG 7/5/98 (56A)

INSIDE STORY

The introduction of a common currency is now a statement of fact, writes ED WEST, Deputy Business Editor

Decisions made at the European Union (EU) summit in Brussels at the weekend will have a profound effect on South African companies trading with Europe, opening up new business opportunities.

The summit made headlines across the globe yesterday because it signalled to the world that the introduction of a common European currency, the euro, was now a statement of fact rather than mere speculation.

The euro will be introduced in January next year, and its value will be made up of a basket of national currencies. Eventually, it will replace all the currencies in the European Union.

The euro has the potential to replace the dollar as the world's most dominant currency. After 1999, the euro-dominated trading bloc will be the biggest exporter and importer in the world.

The summit decided that the member states to launch the European Monetary Union (EMU) would be Austria, Belgium, Finland, France, Germany, Luxemburg, the Netherlands, Portugal and Spain. These countries would create an economic zone of 300-million inhabitants accounting for 19,4% of the world's gross domestic product and 18,6% of world trade. The United States accounts for 16,6% of world trade.

Boland Bank economist François Jansen warns that local importers and exporters trading with Europe "still haven't grasped the reality" of EMU and how it will affect them.

He says local businesses should prepare for the introduction of the single European currency on January 1 next year by:

- Beginning to collect information on the subject.
- Finding out which currency their partner in Europe wishes to trade in – European companies may still wish to trade in the old currency for a few years after January 1 1999.
- Identifying areas of business that will need to be adjusted, such as documentation and legal issues.
- Identifying commercial opportunities such as cost savings through rationalising European operations.
- Beginning to plan for changes in information systems and making sure software is compatible with the euro.

With Britain not initially taking part in the EMU, Ireland will be the only leading English-speaking participant, with Dublin the only approved offshore financial centre in the EU, says the Board of Executors (BOE).

The BOE says that, at the moment, product prices can vary by up to 30% among countries in the EMU. But these prices are likely to tend towards alignment at lower levels as the euro is introduced, creating opportunities for South African importers to offer cheaper products from Europe.

Other positive spin-offs from the single currency include reduced foreign exchange risk, lower transaction costs and a larger market for South African exports, the BOE says.

But many of the implications of the introduction of the euro, such as how the market perceives the move to EMU and how it will be priced against the rand in particular, will remain speculation until the euro is launched.

Mr Jansen does not believe the rand will depreciate significantly against the euro over time, if at all. Instead, he believes the euro will become a far more stable currency than any of the individual currencies of which it is made up.

Econometrix economist Tony Twine says exchange rates of currencies in the EMU initially will be fixed against the euro so that contracts denominated in existing currencies will have the same value in euros.

Countries taking part in the EMU have gradually had to "converge" their economies to align the value of their currencies with the euro, which is why some countries, like Greece with its high budget deficit, were excluded from the monetary union.

For three years after January 1 next year, the euro will exist only in "paperless form" pending the production of banknotes and coins by January 1 2002, at the latest.

Six months later, all the old national banknotes and coins of participating countries will lose their status as legal tender.

EU to overhaul trade, aid agreements

(36A) BD 30/6/98

LUXEMBOURG — European Union (EU) foreign ministers approved guidelines yesterday for negotiating an overhaul of a trade and aid pact with developing nations, and agreed to let Cuba attend the talks as an observer.

Talks start in September on a successor to the Lomé convention, which since 1975 has given 71 nations in Africa, the Caribbean and the Pacific (ACP) preferential trade access to the huge EU market.

In a sharp departure from the convention, which expires in February 2000, the EU ministers approved guidelines calling for the negotiation of free trade agreements with groups of better-off ACP countries.

However, the ministers guaranteed that the poorest countries, ill prepared to compete, would not be forced into free trade pacts, as critics of the EU's plans had feared.

EU officials said that it would look for alternative solutions to give poorer countries similar benefits to those they received now. "We cannot go backwards with any country in comparison to what they have today," said European development commissioner Joao de Deus Pinheiro.

EU officials say globalisation and the end of the Cold War forced a shake-up of trade and aid relations with developing countries. Its new proposals aim to eradicate poverty and integrate poor nations into the global economy.

The ministers agreed that protocols on sugar, beef and bananas, which give ACP producers privileged access to the EU market, would be reviewed in 2004 in light of post-Lomé talks and in accordance with World Trade Organisation (WTO) rules.

The ministers agreed to a Cuban request to participate as an observer in the ACP-EU talks, Pinheiro said, calling the decision "positive".

Cuban leaders have said Havana is keen to join more closely with the Caribbean region and the wider ACP group, but that it will accept no political preconditions.

Pinheiro said there was an expectation on the EU side that Cuba "can understand the spirit of the convention and the future convention concerning democratisation, human rights and the state of law". The ACP's statement of principles contains a commitment to democracy, good governance and respect for human rights.

The EU aims to negotiate economic partnership agreements with different regional groups of developing countries between 2000 and 2005, setting up free trade areas with some.

The EU will seek a waiver from WTO rules to allow current trade preferences to continue during this five-year transition period.

Free trade accords would be implemented over 10 to 15 years.

The EU's proposal for free-trade pacts, put forward earlier this year, raised howls of protest from many developing countries and nongovernmental organisations.

Caribbean leaders meeting in the Bahamas in February said that developing nations in the region would need a lengthy extension of trade privileges with Europe to diversify their economies and to compete in global free trade.

A British parliamentary committee accused the EU this month of putting "immoral" pressure on developing countries to accept free trade pacts.

However, Pinheiro said the EU was very encouraged by recent statements, which he said indicated ACP countries were converging with the EU's approach. "They are aware that the challenge is enormous, but there are not a lot of alternatives," he said. — Reuter.

EU's Lomé mandate a fitting end to UK term

(NbA) OD 16/7/98

Setting the stage for the Lomé convention to be renegotiated has been one of the success stories of the British presidency of the European Union, writes British high commissioner Maeve Fort

ON JUNE 30 Britain completed its six-month presidency of the European Union (EU). One of the objectives we set ourselves was promoting stronger ties between Europe and the rest of the world. We want a Europe that is open to contacts with other countries and not turned in on itself.

That meant making progress on the enlargement of the EU, which we did successfully. It meant paying more attention to the countries of Latin America, and also to southeast Asia, particularly given the region's turbulence.

We were also determined to build on our already close ties with the developing countries of the world, those that look to the UK not just as an important trading partner but, I hope, as a friend. Hence Britain has argued strongly for rapid and flexible implementation of the debt initiative from the International Monetary Fund-World Bank heavily indebted poor countries. I am glad to say that EU member states are contributing their share of relief for the poorest countries.

Helping developing countries to integrate better into the global economy was also a key issue at the G-8 Birmingham summit, which Prime Minister Tony Blair chaired. We are now pledged to initiatives to improve governance and strengthen civil society; mobilise resources for development and help the prevention and easing of conflict in Africa.

One specific issue relating to the developing world has dominated our efforts in the presidency: the future of the Lomé convention, which brings together the EU with 71 African, Caribbean and Pacific countries (ACP).

The Lomé convention has done an enormous amount of good since it began in 1975. It has provided a framework for relations between the EU and the ACP covering aid, trade and political dialogue. It has been widely seen as a model of co-operation. Lomé is a partnership which the UK — and the EU — values.

Existing Lomé arrangements come to an end in 2000. I know how important Lomé is and what it means for the ACP to continue the relationship. So it is good news that on June 29, EU foreign ministers agreed on a formal mandate for the negotiations — a fitting end to the British presidency.

The UK believes the mandate takes the best bits of existing co-operation between Europe and the ACP countries and builds on them — reinvigorating and adapting the relationship to face new challenges. That means reaffirming the strong political partnership upon which Lomé is founded. It also means effective ways to eliminate poverty and promote trade to help create employment and investment.

On development assistance, the mandate closely matches ideas advanced in the UK's white paper on international development nearly a year ago. We pushed for the emphasis on poverty elimination. We inserted a reference to the international development strategy, including the target to reduce by one half the proportion of people living in extreme poverty by 2015

Assistance for the ACP from the European Development Fund is one of the biggest programmes of its kind. It does not always operate as quickly as we all would like, so the EU wants to streamline it to make it operate effectively.

On trade, Europe wants to ensure that everyone benefits from the global economy. We are determined to help ACP countries prepare their economies properly and to assist them as they integrate themselves into the world trading system. This cannot be done overnight.

That is why Britain proposed that the existing trade preferences which Europe gives to ACP countries should be extended for at least five years from when the convention expires in 2000.

After 2005, the poorest countries will be able to export essentially all their goods to the European market duty free. We will continue to work to improve their ability to trade with the EU by building up export capacity. For other ACP countries, free trade areas may make the most sense. Where they do not, the EU will aim to keep our markets as open to the ACP as they are today, through an improved general system of preferences. We believe the mandate offers ACP countries a genuine choice for the future.

This is an excellent outcome, one which the UK believes to be in the interests of our ACP friends. We have had a unique partnership for nearly 25 years. We want to see it renewed and strengthened. We are pleased that one of the last acts of the UK presidency was to take the first step towards this hugely important goal.

Donna Block SHARE WORLD

Unity woes for European markets

MtG 17-23/7/98 (56A)

European stock exchanges as we know them are about to be completely transformed thanks to London and Frankfurt.

Europe's two largest markets last week announced they would end decades of heated rivalry and form an alliance to develop a pan-European market in the hope that soon all European exchanges would take part.

While some people have called the merger a marriage made in heaven, many people have not been quite so enthusiastic, least of all the French, who feel left out of the deal. Until the July 7 announcement, the Paris Bourse believed it was the one going to the altar with Frankfurt.

Behaving like a jilted lover, Michel Freyne, head of the French Bankers' Association, could barely conceal his anger, condemning "the clandestine nature of the negotiations" between London and Frankfurt which led to the merger.

The alliance also came as a surprise to Europe's financial community. As the world's third-largest stock exchange, with a market value twice the size of Frankfurt, London didn't need a partner, or so many people believed.

But London and Frankfurt have been in fierce competition to be the leading marketplace for European stocks when Europe's new single currency, the euro, is introduced in January.

The advent of the euro is expected to force European markets to consolidate and eliminate the currency risk for investors buying stocks across national borders.

Frankfurt will be the home of the new European Central Bank, which will manage the euro, while London is the capital of a country that has, so far, opted to stay out of the single currency.

The alliance now means that London will remain a vital European financial centre. One British fund manager said this alliance was "an incredible move" and "could potentially be second in size only to the New York Stock Exchange".

But it doesn't come without some risk. The two exchanges have already agreed on a 50/50 split even though London hosts 107 of Europe's top 300 stocks compared with Germany's 37. If more exchanges are added as equal partners , London's interest will shrink.

The plan is for the London/Frankfurt alliance to be the core of one European stock market that will eventually be based on a common electronic trading system and allow investment by sector rather than in each nation.

For example, investors could go to their broker or bank and deal in either British Telecom or Deutsche Telekom with no fuss. The new system will allow dealers all over the world to buy or sell shares in different European companies in a single currency on a computer screen.

No more trading floors, screaming traders throwing around bits of paper or messy currency conversions. It's a long way from the old coffee houses where the English first started trading shares 200 years ago.

Also on the upside, the alliance will reduce costs, generate a wider shareholder base and give companies access to more capital. The downside is that they will have to have the team ready for play by January 4 1999 and six months later have their rule books harmonised, trading hours synchronised and market conventions consolidated. This is the point where other European exchanges could easily become part of the alliance in the hope that they will generate so much business it will force the other exchanges to join them.

The stock markets of the 11 euro countries and Britain were valued at about $5,5-trillion at the end of last year, half as big as the United States market and twice the size of the Japanese market, according to Smith Barney Salomon.

But the growth prospects are huge. The European economy is slightly larger than that of the US and there are likely to be scores of privatisations by European Union governments in the coming years.

Attitudes towards a pan-European stock exchange vary. The Paris exchange said it would consider joining the alliance after getting answers to technical and political questions, including, "Why didn't you tell us about the alliance beforehand?" and "How do you plan to include the other exchanges?"

A representative for the Amsterdam exchange said officials would discuss the alliance but continue to support their own vision of electronic ties between national exchanges.

The Swiss exchange, which is already in a joint venture with the Frankfurt Deutsche Bourse in the futures and options side, said it was not informed of the alliance and would consider it a " new competitor".

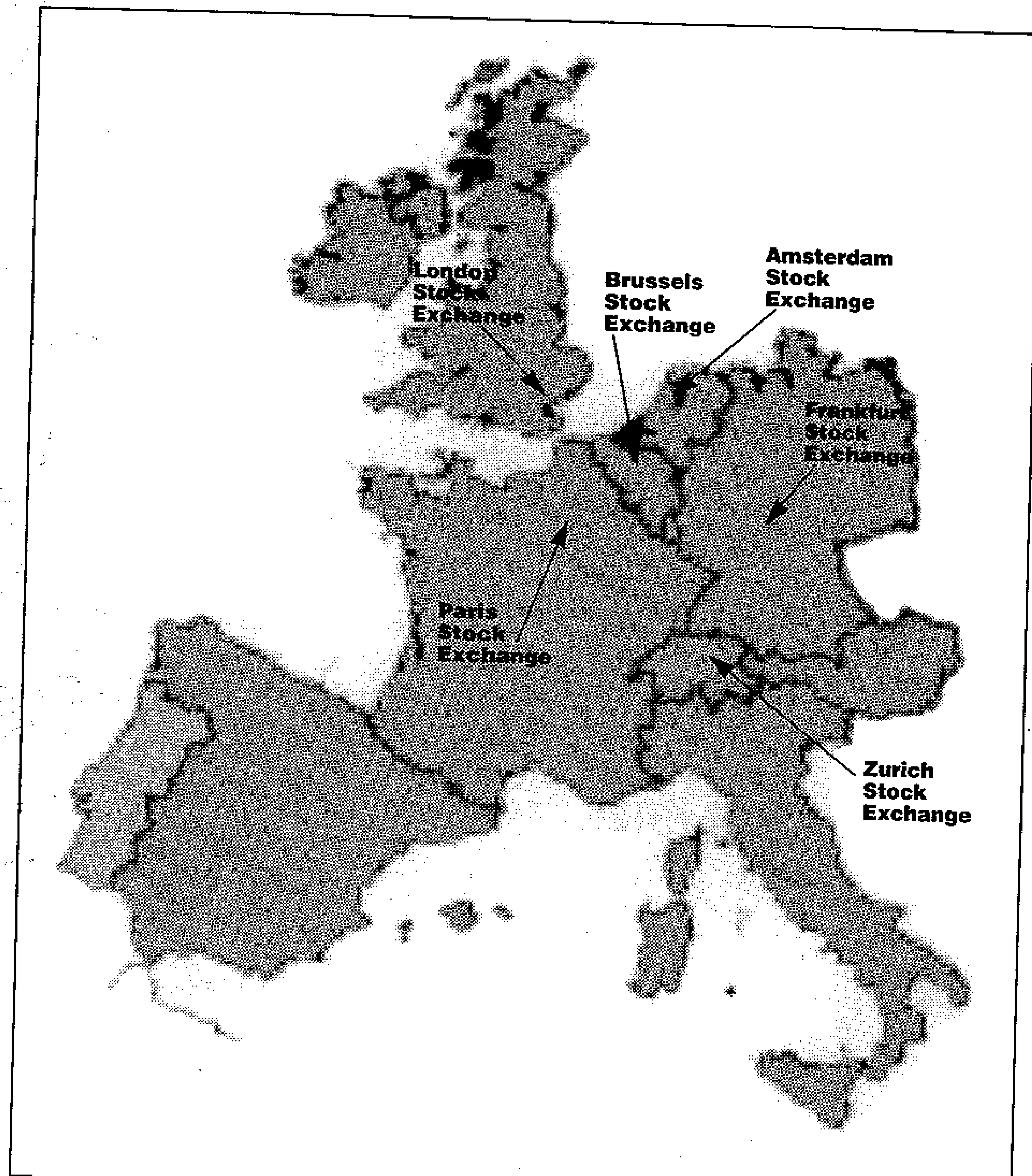
Brussels won't rule out accepting an invitation to join, but they wouldn't do anything without discussing it with their other partners, Amsterdam and Luxembourg. Milan's Stefano Preda commented that "there are likely to be more significant difficulties than meet the eye".

Werner Seifert, chief executive of the Frankfurt exchange, tried to calm tempers by saying the alliance would go forward and other exchanges would be kept informed. "We will share the results of our research with them. Then we shall see if we have the same beliefs."

There will also be an impact here in South Africa as some large companies desert the Johannesburg Stock Exchange for larger European exchanges.

For example, Billiton and Old Mutual will in future be listing in London. Some companies already have dual listings in Europe and South Africa and will benefit by the wider exposure.

The exchanges throughout Europe have been left stunned and wondering what their future holds. A wait-and-see attitude seems to be the order of the day until they can determine whether they will also walk down the aisle in the Anglo-German alliance.



Next week: South-East Asia

EU to grill candidate nations on energy

CT (PM) 20/7/98 (EE) (SGA)

Gillian Handyside

Brussels — Energy ministers from the European Union (EU) and the 11 states seeking membership are to meet in September to tackle problems the candidate countries face in bringing their energy sectors up to stringent EU standards.

Before Hungary, Poland and other central and eastern European states join, they must embrace the laws of the 15-nation bloc, including those relating to energy. That means liberalising their electricity and gas sectors, building up strategic oil reserves and accepting the EU's rules on fair competition and state aid.

The costs of these operations will be huge. So is the complexity of integrating different electricity transmission systems and filling in the gaps in the pan-European energy grid, according to officials at the EU's executive commission.

Ministers from Russia, Europe's major energy supplier, and Ukraine, a key transit country for bringing Russian reserves to the West, will also participate in the talks. They will be joined by some former Soviet satellites, and representatives of international financial bodies, donor countries and the pan-European Energy Charter treaty, which sets legal rules for East-West energy trade.

Panos Carvounis, head of the European Commission's international energy co-operation unit, said the meeting on September 23-24 would focus on the problems facing the countries of the former Soviet Bloc.

These countries waste up to half their energy through inefficient power production and industrial processing plants.

Also on the agenda will be environmental damage, nuclear safety concerns, inadequate infrastructure and the absence of market prices for power and fuels.

The commission says most of the problems will have to be solved by the countries themselves, involving some unpopular government decisions, with mainly private sector financing.

Energy official Peter Naguy said the EU was likely to use the meeting to stress that if the easterners wanted to encourage private investors they would have to introduce a secure legislative framework — including laws on the protection of investments and civil liability in the nuclear sector — market prices and a stable political climate.

"(The necessary) conditions for business are the same there as they are here: political stability, a correct legal framework to protect investments and proper energy prices," Naguy said. — Reuters

Timing of euro launch a dilemma for monetary policymakers

(56A)

One of the greatest monetary changes of our lifetime — Europe's single currency — is to start just as the full effects of the emerging market crisis become clear. **Wolfgang Münchau** considers the implications

BD 9/9/98

ONLY a few weeks ago a senior European central banker said the launch of the single currency could not take place at a better time. Economic growth was picking up, he noted, unemployment was coming down and there were few signs of inflation.

A few weeks and a financial crisis later, the opposite seems true. It now looks as if European economic and monetary union could hardly have been launched at a worse time. The fear of global recession, an unstable financial environment and a contagious spread of devaluations have all combined to create disturbing dilemmas for European policymakers. In particular, the risk is growing that the new European Central Bank will get its monetary policy wrong when it assumes responsibility for the single currency next year.

If the governors of the central bank set interest rates too high, they will be criticised for forgetting the lesson of the 1930s depression, caused by the failure of central bankers to offset falling share prices with a looser monetary policy, sending a ripple effect of bank failures across the world.

But if they set interest rates too low, they will be criticised for failing to observe another historical lesson. In 1987 many of the world's central banks made the opposite mistake by overreacting to a stock market crash by cutting interest rates in the middle of an economic boom. The result was higher inflation which required a fierce monetary squeeze in the early 1990s.

Finance ministers face equivalent risks with fiscal policy. The budgets of the 11 countries that will use the euro are constrained by a stability and growth pact, which calls for balanced budgets over the business cycle. But as signs grow of a world slowdown, politicians will face the question: should they react by relaxing fiscal policy, and thereby risk breaching the pact? Or should they stick to the pact, set policy on autopilot, and hope everything works out?

The scope for mistakes is alarming. If there is a global slowdown, Europe, which accounts for almost 30% of world output, should be better placed to act as a locomotive for the world economy than Japan or the US, the other industrial superpowers. Japan is plunging deeper into recession. The US, which has so much of its wealth in the stock market, will be harder hit by a market correction than Europe. The Organisation for Economic Co-operation and Development estimates that a 20% fall in share prices would reduce European gross domestic product by 0,2% in the second year, but would cut the US's by 0,6%. The corollary is that if Europe is perceived to have got its policy response wrong — if it retreats into its shell instead of being a locomotive — the disappointment and opportunity cost will be all the greater.

The crisis does not mean that monetary union is necessarily at greater risk of breaking up. The main threat to the currency union has always come from a so-called asymmetric shock — that is, one that affects different countries differently. The shocks of the past few weeks are not like that. Broadly, from the European point of view, shocks from Russia, Asia or on Wall Street, are all symmetrical — affecting the whole of the euro zone in the same way.

But all this is little consolation for Europe's policymakers.

They are now confronting two sharply different possibilities, with very different policy implications.

The first is the optimistic case. In its spring forecast, the European Commission forecast growth in the E-11 zone of 3% this year, rising to 3,2% in 1999. At these rates, the euro-zone would become the world's economic locomotive by the end of this year.

The other possibility is more pessimistic. The economic research team of Deutsche Bank in Frankfurt warns that E-11 growth next year might only be 2% to 2,5%.

The difference between the two forecasts is due in part to the wealth and investment effect of the recent fall in stock markets. But most of it is due to the knock-on effects of any global economic slowdown. About 40% of the world economy is either in recession or heading that way. It is difficult to imagine that the euro-zone can make itself immune from the world economy and remain a safe haven for any length of time.

The contrasting forecasts have different policy implications. If the euro-zone economy is growing at 3%, the current level of European interest rates appear extremely low by historic standards.

Under the European Commission's forecast, the euro-zone economy would be well on its way towards the peak of the business cycle and interest rates should probably go up now, anticipating future capacity shortages, and rise further next year. The correct fiscal policy response, on these assumptions, would be to keep a tight rein on spending and seek to run balanced budgets.

Now consider the pessimistic forecast. The cycle is almost flat, and the economy is stuck at low growth rates. Deutsche Bank said this scenario suggested interest rates would remain at 3,3% until the end of 1999. This would mark an unprecedented lengthy time of extremely low rates, especially bad news for Europe's unemployed.

But neither structural reforms, nor an overhaul of the international financial system, will eradicate the policy dilemma for the European Central Bank. When the bank takes over from national central banks next year, its directors must have made up their minds.

They are likely to remain more concerned about the devil they know — inflation — than the one they do not: deflation. That suggests the central bank will not loosen policy much.

If they are right, European growth will continue steadily. But if they are wrong, economic problems could get much worse — and not only in Europe. — Financial Times.

Divisions between countries, politicians and central bankers over the wider implications of the currency persist

EU ministers fail to agree on effect of euro

CT (DR) 28/9/98 (76A)

Nick Antonovics

Vienna — European Union (EU) finance ministers ended two days of talks at the weekend but failed to agree on how the birth of the euro in 96 days' time would affect everything from how they prepare budgets to EU external policy.

But ministers did agree the single currency had already saved them from being swept up in the global financial crisis, and resisted pressure from inside and outside the bloc to seek lower interest rates from the European Central Bank (ECB).

After discussions with Michel Camdessus, the International Monetary Fund managing director, ministers said: "In the world economy the EU is conspicuous as a pole of stability, conducive to economic and employment growth."

They said solutions to crises in other parts of the world depended on national economics and politics, offering only verbal support to Russia, Japan and Latin America.

Ministers also made final preparations for economic and monetary union (EMU), setting the terms for tying the Greek drachma and the Danish krone to the euro in a new exchange rate mechanism (ERM 2).

Together with EU central bankers, ministers agreed the Danish krone would join the ERM 2 with narrower-than-allowed bands, limiting its fluctuations against the euro to just 2,25 percent.

Greece, whose economy is more out of line with the euro zone, would bring the drachma in with standard 15 percent fluctuation bands.

But ministers made limited progress in areas such as tax harmonisation and targets for national budgets in the years to come. Classic divisions between EU nations, politicians and central bankers over the external representation of the euro remained clear for all to see.

Rudolf Edlinger, the Austrian finance minister who also chaired the talks, said he would work hard for a deal by December. Austria's six-month stint at the EU presidency ends then.

"There may be disagreements on structures, but we intend to take these important decisions by the Vienna Council," Edlinger said.

Dominique Strauss-Kahn, the French finance minister, proposed a complicated formula for the euro area to join in discussions of the Group of Seven (G7) nations. The discussions could have excluded national central bankers in favour of Wim Duisenberg, the ECB president, and other representatives of Euroland.

The idea won support from some countries, but was notably opposed by Germany and Claude Trichet, the Bank of France governor.

"On monetary policy it's necessary to have a single voice. But that does not mean one mouth. We have to have one sound coming from various mouths," Duisenberg said.

Robert Goebbels, the Luxembourg finance minister, said German opposition was motivated by the country's election at the weekend and the absence of Theo Waigel, the German finance minister.

"For some months the European policy of the German government has not moved ... Once the election is out of the way, we need to find a government and it must occupy itself with these issues," Goebbels said.

He expressed optimism the French proposal would form the basis for an eventual compromise. Separately, ministers agreed the euro would become legal tender at the start of New Year's Day in 1999. — Reuters

EU growth hopes cut to 2,4%

(56A) G(BR) 22\10\98

ANGUS MACKINNON

Brussels — The European Commission yesterday slashed its forecast for growth in the European Union (EU) next year from 3 to 2,4 percent because of the impact of the international financial crisis.

In the 11 countries that would adopt a single currency next year, 1999 growth would now average only 2,6 percent instead of 3,2 percent, the EU executive predicted in its autumn economic forecasts.

In the spring, the commission had forecast that the new currency would be launched in near-boom conditions, with growth in the euro-zone reaching 3,2 percent. It expressed confidence that events in Asia would have only a marginal impact.

Yves Thibault de Silguy, the finance commissioner, acknowledged yesterday that the EU could not remain isolated from events beyond its shores.

He said the turbulence in Asian markets and the crisis in Russia had provoked a slowdown in world growth and trade that, combined with the sharp fall of the dollar, had sharply cut demand for European exports.

The high degree of volatility in world stock markets had also had a negative impact by undermining investor confidence.

Nevertheless, the commission said the EU economy was well placed to weather the current storm and forecast that it would perform better than both the US and Japan through 2000.

"Better than expected economic fundamentals have fully compensated for the worsening external climate in 1998 and considerably offset the negative impact in 1999," De Silguy said.

Strong internal consumption and investment, boosted by real interest rates at their lowest level since the 1960s, would allow growth to pick up again to reach 2,8 percent across the EU and 2,9 percent in the euro-zone in 2000, he said.

Inflation, forecast to end this year at a record low of 1,6 percent, would only pick up marginally, he said. — AFP

EUROPEAN MONETARY UNION

Pressure for rate cut builds on Germany's Bundesbank

(GbA) CT(MR) 3/11/98

MICHAEL SESIT AND SARA WEBB

Is Germany's central bank about to give European stock markets the kind of interest-rate boost that US Federal Reserve chairman Alan Greenspan recently delivered to US stocks?

As Europe prepares for economic and monetary union, or EMU, short-term interest rates in these member countries have been converging gradually in recent years. With the launch of the euro in January, Euroland will have a single official interest rate, which is widely expected to be at or close to the securities repurchase rates in Germany and France, the core European economies. Currently, that rate is 3,3 percent.

Now, some investors and analysts wonder whether those core countries will lower rates ahead of monetary union, particularly as Germany and other Euroland countries face the prospect of slower than expected economic growth, and given Europe's political shift to the left. In September, Germany's left-of-centre Social Democrats defeated the conservatives, while in October, Massimo d'Alema, a communist turned social democrat, was sworn in as head of Italy's centre-left government.

Suddenly, Europe's hard-core, inflation-fighting central bankers are finding themselves under increasing pressure from left-leaning, pro-growth politicians to cut interest rates in a bid to stimulate their economies and reduce unemployment.

If Germany's Bundesbank were to lower rates, it would force other Euroland countries to follow with more aggressive cuts. Already, with Italy's discount rate at 4 percent and Ireland's repo rate at 4,94 percent, "there's still more easing to come through", says Julian Callow, European economist at Dresdner Kleinwort Benson in London, referring to European countries with the highest interest rates.

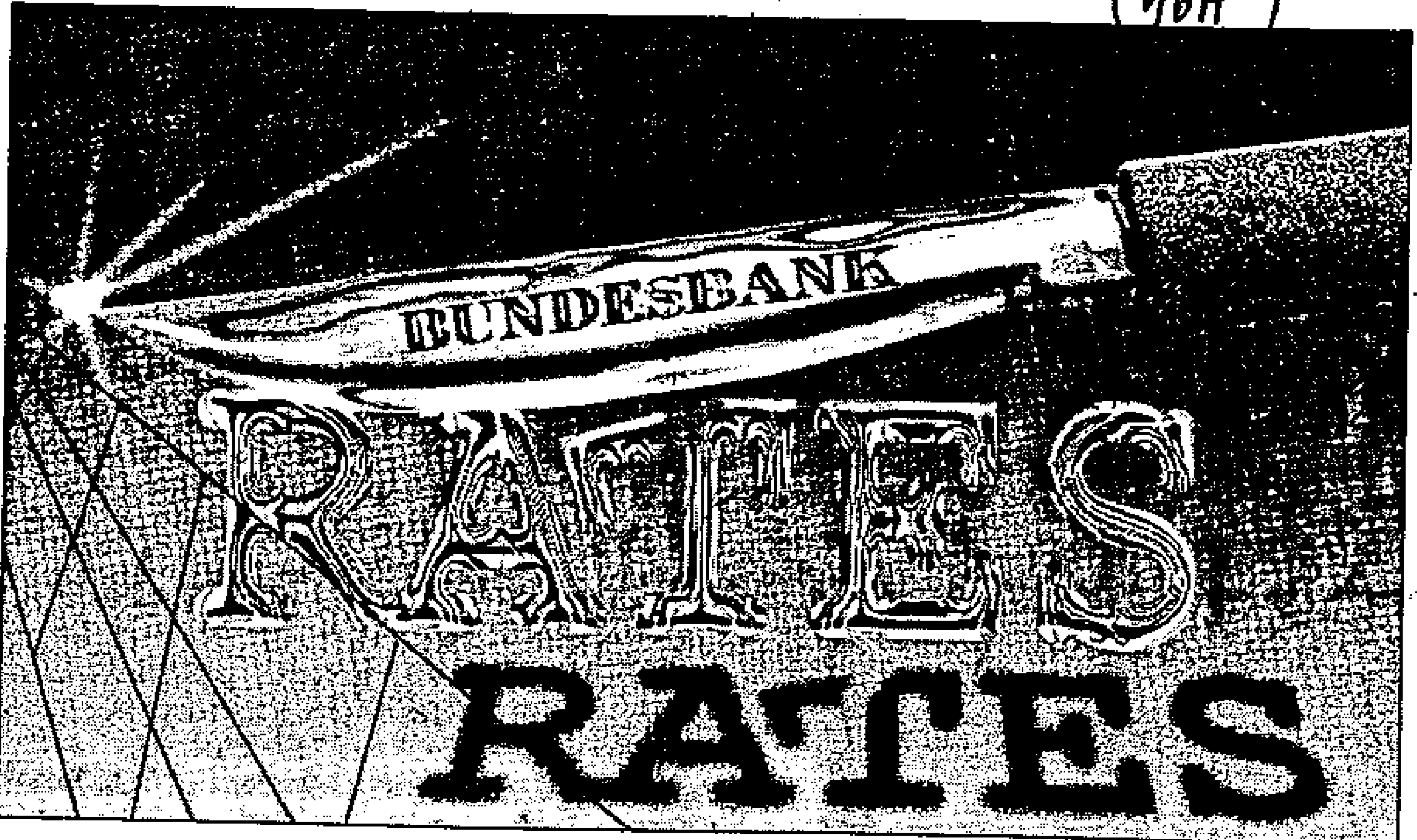
For Europe's stock markets, lower interest rates would certainly provide a welcome boost.

Even though key indices across much of Europe have generally performed well compared with Wall Street and exceedingly well relative to Asia and Latin America, European stock markets are still a long way off the highs they achieved earlier in the year. That correction is attributable to the global financial-market turmoil of August and September, and worries about a slowing world economy and corporate earnings.

For the most part, however, money managers are upbeat about Europe, while keeping their fingers crossed. Klaus Martini, the head of European equities at DWS, Deutsche Bank's mutual fund unit in Frankfurt, says there's a 70 percent chance Europe will keep growing next year, but he cautions that corporate profits on the Continent will probably grow only about 10 percent.

Jabriele Baumann, a portfolio manager at Julius Baer Asset Management in Zurich, reckons continental Europe will grow about 2 percent next year.

Noting calls for lower interest rates by Gerhard Schröder, Germany's new chancellor, its new finance minister Oskar Lafontaine, and senior French politicians, Baumann sees a change in German and French economic policy to being more demand-orientated. "There is more emphasis on Keynesian expansion but, even more important, there is more uncertainty about economic policy than before," she says.



As a result, Baumann says, stock markets in Italy, Spain, Ireland and the UK have grown more appealing "because they have clearer economic policies and more pragmatic ones than ... Germany".

One factor many see in Europe's favour is that it is at a different phase of the economic cycle than the US. "They started later and will get to the top later," says Marc Landeau, the president of Olympia Capital Management in Paris.

Nonetheless, he contends that Europe's growth outlook depends a lot on the US. "If the US continues to grow, Europe will grow; if the US plateaus or goes slightly down, Europe will grow," says Landeau. "But if the US economy falls into recession, European growth will suffer."

What happens in the US is up for grabs. The Federal Reserve's recent lowering of interest rates — and the possibility of further easing — could keep the US economy humming along. However, lower US interest rates could lead to a weaker dollar, which in turn might hurt European stocks.

Traditionally, a weak dollar spells bad news for major European markets, particularly those in Holland, Germany, Switzerland and Sweden. That is because the key stock indexes in those markets contain many multinational corporations that derive a large share of their earnings from the US.

The more the dollar falls, the less their US sales and revenues are worth when translated into local currencies. A weak dollar also hurts European corporations by making them less competitive in the world's markets.

In late New York trading last Friday, the dollar stood at DM1,6543, up from DM1,6530 on Thursday. That compares with DM1,7980 at the beginning of this year, and an August 1997 eight-year peak of DM1,8910.

Despite its recent stability, some analysts say the dollar remains vulnerable to the widening US current account deficit, further Fed rate cuts and renewed turmoil in Latin markets.

The dollar's "level right now isn't so threatening," says Martini of DWS. But the fear among some analysts is that the mark could strengthen in the face of further US rate cuts, hitting German exports and hurting German stocks. That said, some experts think the Bundesbank would consider lowering interest rates if the mark remained stubbornly strong.

"Germany is still the workhorse (of Europe) that has to perform," says Matt Dennis, European strategist at ABN Amro in London. "If you get a material appreciation of the mark, (the Bundesbank) will cut" interest rates, he predicts.

Many argue that the political jawboning for lower European interest rates will not work, at least not in the short run. History shows that "when the Bundesbank feels it is being forced into something, it tends to dig its heels in deeper still," says James McKay, global markets strategist at Commonwealth Bank of Australia in London.

Callow of Dresdner Kleinwort Benson notes that the "very dramatic deterioration in business sentiment in Belgium, Germany and France", together with some signs of disappointing economic data, are leading to grave concerns about Europe's economy. Even so, he reckons the Bundesbank will resist lowering interest rates for now, leaving it up to the European Central Bank to cut them in the first half of next year.

Lower European rates "would help", says Martini of DWS, who thinks there is still a chance the Bundesbank could lead a round of rate cuts this year, although he concedes it is "a relatively small one". Even so, he says that "in general, central banks are willing to cut rates for growth reasons, as inflation is almost non-existent".

Others also fail to see much of an inflation threat in lower European rates. "The Netherlands has shown high growth, but it is slowing. Italy isn't a problem. And there's no inflation threat in Spain," notes Baumann of Julius Baer. And while Ireland and Portugal are already growing strongly, most managers regard the two countries and their markets as too small to worry about.

Despite the European Central Bank's statutory independence, which theoretically frees it from political influence, and its mandate to preserve price stability, or keep inflation low, Olympia's Landeau contends European central bankers are realists.

"Germany and the rest of Europe have one problem: unemployment, specifically the unemployment of the young. And they will do whatever they can to lower that unemployment, including lowering rates to jump-start the economy," he says.

"The ECB is completely independent, but the central bank lives within an environment which isn't only economic but sociological and political."

He argues: "They will do whatever they can to keep rates as low as possible." — Dow Jones

Politicians and central bankers spar over last word on interest rates, forex and deficits before January 1 launch

Launch of euro is clouded by squabbling

(56A) CT(BR) 4/11/98

SIMON MORGAN

Frankfurt — The launch of the euro in less than two months' time is being clouded by risky sparring between politicians and central bankers for the last word on interest and foreign exchange rates, and on deficits.

For many observers the question is whether the sparring is bluffing or a real battle over the much-vaunted independence of the European Central Bank (ECB), two key articles of the Maastricht Treaty, and the stability and growth pact.

The ECB was to issue a statement later yesterday, and the German and French central banks are to hold regular policy meetings tomorrow.

Late yesterday, the governor of the Bank of France, Jean-Claude Trichet, warned that the muscle-flexing by politicians might upset financial markets.

He said that "any suggestion that central banks were on their way to losing their independence would affect the confidence of savers ... and, as a result, interest rates would go up".

In the past 10 days, European Union (EU) leaders meeting informally in Vienna have discussed the benefits of concerted expenditure to boost infrastructure in the EU and what they consider to be appropriate policy for the external exchange rate of the euro.

Some of them are concerned that the ECB, in applying anti-inflation interest rates, might drive up the euro against the dollar, which has fallen recently, adding to difficulties of European companies exporting at prices in dollars.

This debate occurred against a background of suggestions in some quarters that EU central bank reserves should be used to stimulate the economy or that an upper limit for deficits, of 3 percent of output during recession as laid down in the stability pact, should not apply if the deficit was caused by investment in infrastructure.

This caused Wim Duisenberg, the ECB president, to warn on October 23 that "strict compliance with the objectives of the stability and growth pact are an incontrovertible precondition to give economic policy sufficient flexibility".

Meanwhile, some analysts have suggested that national central banks in the euro area are having difficulty accepting a full transfer of powers for monetary policy to the ECB.

A former deputy director-general of the Italian treasury said on October 29 that consequently every decision by the governing council of the ECB "will be the product of a delicate compromise".

Some leading European politicians have insisted that euro-zone central banks, and therefore the ECB from January 1, while ensuring price stability, should also contribute to growth and employment by easing rates.

In any case, base euro-zone rates are expected to converge downwards to the record low German and French figures of 3,30 percent by the end of the year.

Oskar Lafontaine, Germany's new finance minister, has pressed the German central bank, the Bundesbank, to cut rates.

And Gerhard Schröder, the new German chancellor, said at the weekend the bank "must understand that its responsibility is not limited to monetary stability but extends to employment and economic growth".

Article 105 of the Maastricht Treaty states that the "primary objective" of the European System of Central Banks (ESCB, comprising the ECB and EU central banks) "shall be to maintain price stability".

And only if the objective of price stability is not prejudiced should the ESCB "support the general economic policies in the Community".

The treaty also guarantees freedom of the ESCB from political influence or pressure. But the treaty gives responsibility for external exchange rate agreements to EU finance ministers, once they have consulted the ECB.

Central bankers argue that they cannot use monetary policy to achieve two or three potentially conflicting targets — price stability, a target exchange rate and high growth with low unemployment — at the same time.

In any case, Duisenberg and many other EU central bankers, notably Hans Tietmeyer, the president of the Bundesbank, argue that unemployment in Europe is high mainly because politicians have been reluctant to introduce unpopular structural reforms to remove obstacles to efficient operation of the economy.

Therefore, a reduction of interest rates, or an increase of deficits, would have little effect on unemployment but would increase inflation, leading to an increase of rates and depression of activity, they argue. — AFP

SA Reserve Bank's strategy includes the ecu, says Paribas head

Euro is already a global 'alternative to the dollar'

(56A) CT (MR) 30/11/98

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Johannesburg — The euro, Europe's new single currency, was already an element in the financial strategies of the Reserve Bank, the finance department and leading corporates, Michel François-Poncet, the chairman of the French investment bank Banque Paribas, said last week.

"The euro has become an alternative to the dollar," François-Poncet said. "Investors in Asia have become big buyers of the ecu."

The level of foreign trade in Euroland was "about the same" as that of the US, and European monetary union (EMU) was being introduced at a time when the Japanese yen had ceased to be an alternative to the dollar, François-Poncet said. This boded well for the euro.

In the capital markets, demand for "euro-style" and ecu-denominated debt had risen from 11 billion ecu last year to almost 80 billion ecu this year.

Paribas was already publishing customer accounts in francs and euros in preparation for the advent of EMU on January 1 next year.

The final parities of EMU member-state currencies would be fixed and announced after the close of business on December 31 in readiness for the opening of business on January 4.

"The parities will be inserted into our computers on December 31," François-Poncet said.

"We have done a number of tests to check whether our systems will work, and we are happy with them.

"But whether it will function without problems in all countries is another question."

There would undoubtedly be a number of days of intense "technical" activity, he said.

All capital transactions will be denominated in the single currency from January 4 because foreign exchange operations in legacy currencies between EMU members will cease on December 31.

Equities on Euroland stock exchanges would also be redenominated, François-Poncet said. "This could cause problems in Italy, where stocks could be quoted in decimal fractions of a euro."

"But, on the whole, the euro should simplify things. For example, the elimination of foreign exchange considerations for a very large market should simplify accounting.

"The euro will also make things easier for South African exporters."

Convergence for EMU had also brought stability to member state currencies, he said.

"Take the example of Italy. In July, the lira stood at 995 against the (German) mark and in September there were 988 lira to the mark. That's virtually stable.

"But currencies outside EMU have been under pressure. The Swedish krona stood at 4,45 to the (German) mark in July but had fallen to 462 by September," François-Poncet said.

Banque Paribas may bid for Crédit Lyonnais

Johannesburg — The imminent advent of European monetary union (EMU) had already led to a number of financial services mergers in Euroland, Michel François-Poncet, the chairman of Paribas, said last week.

He said Banque Paribas could soon emerge as a bidder for a stake in Crédit Lyonnais, France's soon-to-be-privatised commercial bank.

"There has been a shakedown in the banking sector, and Crédit Lyonnais is about to be privatised," François-Poncet said.

"We could be a bidder for a minority interest ... and use its network for the distribution of Paribas financial products."

Paribas, although traditionally perceived as an investment bank, is already active in the South African direct-channel financial services arena through its partnership with Absa in Cortal Direct and with Britain's Pinnacle Group in Pinnafrica, the captive insurer.

In Europe, Paribas has teamed up with Carrefour, the hypermarket operator, in what could become a worldwide in-house credit card joint venture giving it 4 million clients.

"We prefer to do things in partnership," said François-Poncet. — Richard Stovin-Bradford

(5LA) ET (PR) 30/11/98

EMU to 'boost Europe's bourses'

RICHARD STOVIN-BRADFORD

Johannesburg — The advent of European monetary union (EMU) would have a positive long-term effect on European equities, Tim Orchard, Warburg Dillon Read's joint head of equity research, said last week.

Speaking at a Warburg Dillon Read conference on EMU and its practical implications for South African investors and corporates, Orchard said that, as exchange controls were lifted, local investment institutions should review their asset allocation carefully if they wanted to profit from the boost EMU would bring to European equity markets.

"Sustainably low inflation and low interest rates will result in higher corporate earnings, higher equity valuations and — most enticingly — much-improved liquidity across all the Euroland bourses," he said.

Liquidity would be enhanced by the advent of new European investors in Euroland's stock markets, because these investors had traditionally tended to invest only in Europe's bond markets.

"If continental European investors were to raise the equity element of their portfolios to Anglo-Saxon (US and UK) levels, this could potentially divert some $5 trillion into Europe's equity markets — an amount equal to roughly 80 percent of Europe's present-day stock market capitalisation," said Orchard.

"Such a diversion of assets requires a catalyst. We at Warburg Dillon Read see such a catalyst in the coincidence of interest between European governments and European savers.

"Most European governments face enormous unfunded pension liabilities, while European savers and investors are themselves faced with structurally lower returns from bonds."

Orchard said corporate Europe was "very undergeared", with net debt representing just 9 percent of "enterprise value".

If European companies were to raise gearing closer to US levels of about 35 percent, they would release about $2 trillion of value which could be used variously for dividends, share repurchases or acquisitions.

This, said Orchard, gave a clear idea of the value waiting to be unlocked in European markets, but also of the imminent surge that could occur in intra-European mergers and acquisitions activity.

Leaders see political union after euro birth

ST (BT) 3/1/989

Participants have hailed Europe's new single currency as a decisive step towards unity on the political front, writes TOBY HELM in Brussels

(56A)

EUROPEAN leaders set themselves the goal of achieving full political union in Europe after taking the historic step on Thursday of launching a single currency in 11 EU nations with a total population of 290 million.

From January 1, the euro became a reality in an area representing just under one-fifth of the global economy — only marginally less than the US — and 18.6% of world trade.

The new currency was born after EU finance ministers fixed irrevocably the exchange rates of the 11 currencies against the euro at a special meeting in Brussels.

Euros will be used only for non-cash payments for the first three years of the single currency's existence, with notes and coins going into circulation in 2002. The advent of the euro will lead automatically to the abolition of the 11 national currencies at end-June 2002 at the latest.

The locking of exchange rates and arrival of the euro are the most ambitious steps since the formation of the European Community in 1957.

Rudolf Edlinger, the Austrian president of the finance ministers council, said after signing the regulation to lock the rates: "The single currency has become a reality. We have opened a new chapter in the history of Europe."

France, Germany, Belgium, Holland, Luxembourg, Spain, Italy, Ireland, Portugal, Finland and Austria are taking part in the single currency. Britain, Sweden and Denmark have opted to wait and see how it works, while Greece failed to qualify.

The first big test of the euro, which has been 30 years in the planning, will come tomorrow when the major foreign exchange markets in London, New York and Tokyo reopen after the New Year holiday.

The pound fell almost two pfennigs against the German mark in the last hours of trading on Thursday.

No sooner had the technicalities of the launch been completed than leader after leader vowed to go even further — forming a full political union "between countries of euro-zone".

Jacques Santer, president of the European Commission, said political union would inevitably follow.

"It is now up to us to see that we embark on the next stage leading to political unity, which I think is the consequence of economic unity, so that Europe can in the future also play a political role on the international stage, leading even as far as a common defence policy."

Carlo Azeglio Ciampi, the Italian finance minister, said: "It is a decisive step towards ever closer political and institutional union in Europe. Above all, it is political."

Wim Duisenberg, president of the European Central Bank, which will determine interest rates in the euro area, stressed that countries taking part in the single currency had already surrendered huge powers over the running of their national economies.

"From now on, monetary policy, usually an essential part of national sovereignty, will be decided by a truly European institution."

The formation of the euro means transferring authority to set interest rates and run monetary policy to the new European Central Bank, based in Frankfurt.

Germany used the launch to warn Britain and other nations about tax harmonisation, insisting that EU nations would have to co-operate far more closely over tax to ensure the success of Economic and Monetary Union.

Germany's economy and technology minister, Werner Muller, said: "The EU needs economic policy co-ordination in Europe. National policies at the expense of other states would jeopardise the success." It was vital, he added, to implement a code of conduct to eliminate unfair competition over business tax "as soon as possible".

Oskar Lafontaine, Germany's finance minister, was noticeably absent from the proceedings, claiming he had booked a holiday that could not be broken.

Britain was the only country not to be represented by a minister at the meeting. Gordon Brown, the Chancellor, decided to send Sir Stephen Wall, the UK ambassador to the EU, instead.

Thursday's launch was clouded by a row between France and Duisenberg over how long the Dutchman should remain president of the European Central Bank.

He said he had no intention of stepping down after four years as the French claim he agreed to do last May.

One euro will be permanently worth 1.95583 German marks and 6.55957 French francs. Interest rates will be 3% "for the foreseeable future". — © *The Telegraph, London*

Picture: AP

EURO-PHORIA: Thousands gather around a euro symbol laid down in Frankfurt to mark the euro's birth Picture: AP

European bankers cautiously optimistic about currency

(56A)

London – The historic launch of Europe's single currency shifted into high gear yesterday, with banks and bourses declaring themselves "eurofit" before the nascent currency's debut on global financial markets.

For nearly 300 million Europeans in Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain the dawning of a new year on Friday coincided with the birth of a shared currency.

But the euro's first true test comes today when foreign exchange, bond and stock markets begin working with the new currency that is expected by many to rival the US dollar.

Official dealing in the euro, which is expected to begin trading at about $1,17, starts in Sydney at 8pm, although a handful of euro-for-dollar trades were reported to have taken place over the weekend.

Dealers in Sydney, Singapore, Hong Kong and Tokyo were seen taking a cautious approach to the new currency. The real test is likely to come when London's currency market starts dealing.

"The generally held view is that the euro will kick off as a strong currency," said Rob Hayward who is an economic adviser at Bank of America in London.

Bankers, who have been hard at work converting thousands of government bonds, currency contracts and equities into euros, were cautiously optimistic about their progress at the weekend.

The big unknown is whether settlement systems, electronic clearing houses for trades between financial institutions, can cope with a new currency.

The Bank of England said there were bound to be teething problems, but voiced optimism that firms would cope. – Reuters

Star 4/1/99

New Euro traveller's cheques available at banks and foreign exchange bureaus

New Euro traveller's cheques are already available for South Africans planning to travel to Europe and would be the nearest form of euro cash until notes and coins are introduced in January 2002.

Local economists expected the rand-euro rate to be listed at one euro dollar to about R6,80. The European currencies would now be pegged to the euro while a fluctuating euro-dollar rate would be listed.

Wendy Hillson, financial services manager for Thomas Cook, said selected branches of major banks and Rennies foreign exchange bureaus had been stocked with the new Thomas Cook MasterCard and Visa euro cheques since January 1.

The euro cheques – in denominations of 50 and 100 euros – can be cashed for local currency in participating European countries.

"Euro cheques will make life easier for travellers. There will be no need to change money while travelling in Europe, and worrying about fluctuating exchange rates," Hillson said.

Eleven of the 15 European Union members will be supporting the euro-dollar. Britain, Denmark, Sweden and Greece are countries which will not.

The EU represents 20% of the world's economic output and 18% of world trade.

The euro has been touted as a powerful new player in the world economic game and speculation is that it could rival the US dollar. – Staff Reporters

Monetary union vital to EU process

The euro is the symbol of a new economic superpower. However, the financial clout of the new unit will depend on closer integration in Europe, says **Wolfgang Münchau** of the Financial Times

AFTER a manic weekend of preparations, traders returned to their euro-compliant desks yesterday to discover that the world had changed. The euro arrived with a big bang, displacing the more familiar Deutschmarks, francs and lire to a transitional and much diminished existence, mainly in the form of hard cash.

In financial centres, the euro will be the sole currency of the 11 countries which launched this unique experiment on January 1. The symbol will be flashing on computer screens, showing new and unfamiliar exchange rates, bond and equity prices.

The euro will be larger than its constituent parts. It will be the world's second most-traded currency after the dollar. Europe's bond and equity markets, previously fragmented on national lines, will also become more liquid and integrated. In terms of size, the euro-zone and the US are evenly matched, each with a 20% share of world economic output, followed some way behind by Japan.

The world will become more tripolar.

This may prove to be only a starting point, however. Europe's economic and monetary union is far from complete. While the introduction of the euro is an important historic achievement, the task of making the euro work has yet to start in earnest.

European monetary union (Emu) is a game of double or quits. If accompanied by prudent policies and economic reforms, it could help secure sound and stable growth and reduce Europe's chronic unemployment. If Emu fails, the whole process of European integration may be at risk. To make integration work, Europe has to be prepared for far-reaching changes.

In theory, the adoption of the euro deprives its members of two traditional tools of macroeconomic policy: the exchange rate and the interest rate. In practice, these instruments ceased to be relevant when most members of Emu tied their currencies to the Deutschmark.

Emu also commits governments to strict budget guidelines through a stability and growth pact which places ceilings on fiscal deficits. Not a single macroeconomic weapon remains in the armoury of Emu members to defend them against unwelcome shocks. This means that even large countries, such as Germany and France, have ceased to exist as relevant macroeconomic units. To all intents and purposes, they have become regions.

To deal with shocks, euro countries will have to develop other defences. Two important shock absorbers in the US are the mobility of labour and financial transfers from booming to depressed regions.

In Europe, language barriers restrict labour mobility. Even within countries, workers have often been reluctant to up the stakes and move to where the jobs are.

Emu is therefore likely to remain extremely vulnerable to strong "asymmetric" shocks. Fortunately, they are relatively rare. German unification was such a shock, affecting Germany much more than its neighbours. The oil crisis of the late 1970s was also a big external shock, but it affected countries in the euro-zone in a relatively uniform fashion.

The best shock absorber for Europe would be a robust economy and a gradual return to full employment.

Critics who are not familiar with Europe often argue that labour market inflexibility is the reason for high unemployment. There is some truth in this, but labour market flexibility is not the most important issue. European labour markets are more flexible than they were in the 1970s or 1980s. Part-time and temporary work are more common and it is easier to sack employees.

The real issue is the high cost of labour — and more specifically the large gap between the cost of hiring an employee and net wages. A large part of that gap is accounted for by indirect labour costs and most of these are made up by pension contributions. Many European pension systems will need to be reformed to cope with ageing populations and to increase their return on capital invested. One way of achieving this is to move parts of the system on to a funded basis.

Rainer Roubal, left, and Reto Franioni, right, of the German stock exchange, and Yves-Thibault de Silguy, the currency commissioner of the European Union, press the symbolic start button for the euro at the stock exchange in Frankfurt yesterday.
Picture: AP

Europe's economy would be strengthened if governments reformed the way the welfare system interacts with the labour market. Earned income tax credits — tax rebates for low-income workers — reduced unemployment in the US, and might, if introduced in Europe, constitute a socially acceptable way of embracing a low-income job sector.

Fiscal policy is governed by the stability pact which recommends that governments should run balanced budgets over an economic cycle. The pact caps deficits at 3% of gross domestic product, but this ceiling is likely to come under pressure. Pension reform, for one, is likely to put a big strain on government finances, because of the loss of income when workers switch from state-funded schemes to individual retirement accounts.

It is not yet clear how effectively members of the euro-zone will co-ordinate their fiscal policies. It will be up to the finance ministers of the 11 member countries to do so. Their co-operation would greatly help the European Central Bank to keep interest rates low.

It is less clear whether Emu requires tax harmonisation. Tax systems vary widely among the 11 member states. Britain and Germany have recently been engaged in a fruitless debate on this issue. It is difficult to conceive how a single and integrated economy can afford to run completely different tax systems in the long run but the process of convergence may take some time.

Monetary policy will play a critical part in the success of Emu. It is a potentially destructive power. Bad monetary policy can destroy Emu, while good monetary policy may not necessarily save it if Emu comes under pressure.

Europe's fiercely independent central bankers have traditionally emphasised price stability as their primary target. But last month's co-ordinated interest rate cut by a number of central banks suggests a new sensitivity to global financial risks and the projected economic slowdown this year. No advantage would be gained if Europeans were to abandon the goal of price stability in exchange for uncertain trade-offs.

With euro-zone inflation at about 1% and falling, and nominal short-term interest rates at 3%, the low level of real interest rates represents a relatively expansionary monetary policy stance for the current economic environment. The European Central Bank still has limited room for further rate cuts — maybe up to 0,5 percentage points in the absence of any deflationary shocks — but it would be wise to time those cuts for maximum effect.

US officials in particular hope that Emu will make the Europeans less parochial and introspective. Emu may also render Europeans far more assertive as the euro-zone becomes an effective economic superpower.

Unlike some of its individual members, the euro-zone will be a relatively closed economy. Its share of foreign trade to gross domestic product will be about 10%, similar to that in the US. While the US has traditionally followed a policy of benign neglect towards the dollar, Europeans have tended to be obsessed by the exchange rate.

This could change as Europeans discover the euro-zone is less sensitive to exchange rate movements. It might be wise for policymakers to encourage a stable currency, and in particular, to prevent any excessive appreciation of the euro against the dollar. European Central Bank head Wim Duisenberg has already indicated that monetary policy will be designed to maintain a competitive euro. The US administration has also made it clear that it rejects Franco-German proposals for exchange-rate target zones, which would allow the exchange rate to fluctuate in a given band around a target.

One area of international policy co-operation that is proving exceedingly difficult, however, is the question of how the euro-zone should be represented on the world stage. France, Germany and Italy want to retain their individual seats at the G-7 table, alongside new representatives of the euro-zone. The US administration rejects this double representation, which might also undermine the euro-zone itself.

Emu's chances of succeeding, therefore, will depend on more than just good luck and good timing.

Monetary giant EU remains a 'political dwarf'

(56A) Star 7/1/99

By Paul Taylor
London

The European Union may have made itself a monetary giant with the launch of the euro, but it seems set to remain a political dwarf.

Once the "europhoria" over the smooth birth of the single currency subsides, the 15-nation EU will plunge back into one of its long-running battles over budgets and spending programmes.

There is no guarantee that the dawn of the euro will lead to greater political unity, although it is already increasing pressure for closer economic policy co-ordination among the new currency's 11 founder members.

In the last month, member states have split over Iraq, watched powerlessly as the Middle East peace process of which they are the main paymasters has hit the rocks again, and played second fiddle to Washington in Balkan diplomacy.

The convoluted arrangements they reached at the last minute for the external representation of the euro in world financial institutions typified the EU's difficulty in speaking with a single voice.

The 15 have also bickered over the extent to which monetary union should lead them to harmonise taxes, labour market and social policies and build a common defence force.

While many member states share a sense of frustration at their inability to translate their economic power into political clout, European governments do not agree on what the next stage in EU integration should be.

Britain and France are keen to pursue closer defence ties, Germany has pushed tax harmonisation. Others seem happy to concentrate on preparing to admit the first former communist central and east European countries.

Elder statesmen outside government, such as former European Commission president Jacques Delors, have offered more radical proposals for unity. He suggested last year that the next president of the European Commission, due to be chosen in June, should be directly elected as part of European Parliament elections.

Without such a stimulus, the EU-wide elections seem certain to remain a string of largely disconnected national polls fought primarily on domestic issues and marked by high abstention.

Delors has also proposed that EU governments should each nominate a deputy premier or senior minister to form a permanent council in Brussels – an embryonic European government to overcome creeping institutional paralysis.

"It is patently clear that even with 15 members the European system no longer works adequately," Delors said recently.

In the absence of such a "big idea", EU leaders seem doomed for the next few months to wrangle about how they can spend less rather than do more together.

Cost-cutters are targeting the two key spending programmes that jointly gobble up more than three-quarters of the $100-billion (R600-billion) annual budget, farm subsidies and aid to poorer regions, to meet the expected extra costs of enlarging the EU eastwards.

A majority of EU states want to retain the overall common budget ceiling of 1,27% of gross domestic product and cap spending for the next six years.

The common budget remains a mere drop in the bucket compared to member states' national and local government budgets.

The EU's biggest paymaster, Germany, which has just taken over the bloc's rotating presidency for six months, is demanding a substantial reduction in its R78-billion-a-year net contribution.

No one is volunteering to pay more. France is determined its politically powerful farmers should not be the victims of budget cuts while Spain is leading fierce resistance to any reduction in so-called structural and cohesion funds for poorer regions.

Regional aid to Spain, Portugal, Ireland and Greece, as well as poorer areas of Britain and Italy, is one of the EU's few genuinely redistributive programmes.

It helps balance out the natural economic advantages of the crescent of prosperity that sweeps from southern Britain across the Benelux countries, western Germany and eastern France to northern Italy.

The funds have yielded results in roads, bridges and public infrastructure of tangible benefit to Europe's citizens. But the need to redirect assistance to leading candidates such as Poland, Hungary and the Czech Republic means there will be less left for poorer EU regions.

This shift coincides with a decline in the relative power of the European Commission – the Brussels-based executive which the smaller and poorer EU countries have long seen as their defender against the rich and powerful major members.

The rise of a strong new federal institution, the European Central Bank, the increased power of the Ecofin council of finance ministers, and a trend towards intergovernmental co-operation, have all sapped the commission's influence.

National governments have largely shut the commission out of newer EU activities such as the development of a common foreign and security policy and justice and police co-operation.

The shift in power also reflects personalities. Jacques Santer, the former Luxembourg prime minister, has not wielded as much authority or generated as many ideas as his predecessor, Delors.

The absence of initiative from Brussels may have been welcome to states such as Britain and Sweden, but it has contributed to a sense of drift that the euro alone is unlikely to overcome. – Reuters

EU fraud showdown this week

CT(DA)12/1/99 (FbA)

STEPHANE BARBIER

Strasbourg — The European Commission braced itself yesterday for one of its toughest weeks as members of the European parliament arrived here for a showdown over allegations of fraud and nepotism.

The parliament, angered by what it sees as attempts by the commission to stifle investigations into corruption in its ranks, was due yesterday to debate a motion of censure against the powerful executive of the European Union (EU).

The resolution will be put to a vote in the 626-member assembly on Thursday. If it passes by two-thirds of the votes cast and at least half the total number of MPs, all 20 commissioners will be obliged to resign for the first time in EU history.

But such an outcome still appeared unlikely yesterday. Many MPs are wary of depriving the EU of day-to-day management at a time when it has a packed agenda.

The commission is at the centre of complex negotiations to reform the EU's financing and major policies in preparation for the entry of some former communist states after 2002.

Still, the censure motion could inflict major political damage on the commission and increase pressure for at least some commissioners to resign.

As well as the main censure motion, the MPs will vote on non-binding resolutions calling for the resignation of the two commissioners whose programmes have come in for the heaviest criticism: Spain's Manuel Marin and former French Prime Minister Edith Cresson.

Marin was in charge of Echo, the EU's humanitarian office, in 1993-94 when a series of contracts worth €2,4 million (R16,3 million) were issued for monitoring work which was never carried out.

Cresson's current responsibilities include the Leonardo youth training programme, from which significant amounts of cash are alleged to have been siphoned off by fraudsters. She has also been accused of appointing political cronies with no appropriate qualifications to highly paid jobs in Brussels. — AFP

Euro raises critical legal questions

And the position in some parts of world, including here in SA, is far from clear

BD 20/1/99 (56A)

THE euro will bring with it critical legal questions concerning the enforceability of currency obligations that fall due after 1999. What implications does a change of currency have for issues such as contractual debts, including floating rate obligations?

The affected obligations are estimated at trillions of US dollars, mainly in over-the-counter derivative contracts, eurobonds, exchange traded derivatives and other cross-border transactions.

Between January 1 this year and December 31 2001 (the transition period), national currencies will exist as denominations or expressions of the euro. During this phase private entities, including banks, may continue to conduct business in national currencies, but it is likely that most European banks will fully convert to the euro as soon as possible. Euro notes and coins will be introduced in January 2002, and notes and coins of previous currencies will be withdrawn by July.

Legislative and contractual provisions could resolve uncertainties arising from the introduction of the euro. However, these issues have been addressed in some jurisdiction but not in others. In European Union (EU) member states regulations provide that the contractual obligations expressed in any EU currency will be enforceable in the euro at its fixed conversion rate.

The position in some areas of the world, including SA, is not as clear. There are several precedent cases in history. During the American Civil War, the US Congress authorised the issue of paper money without gold backing as legal tender. A number of claims arose by creditors who tried to enforce obligations in US gold dollars instead of the paper money. The US Supreme Court held that Congress's issue of paper was valid under its constitutional power "to coin money" and that contracts to pay money could be satisfied using the paper currency.

Similarly, Austrian railway companies which incurred debts with Germany in "thalers" resented having to repay the debts in the gold-based mark when it was adopted in 1871. The German Supreme Court, however, upheld the responsibility of the Austrian debtors to pay the debts in the converted currency and in more recent times this way has been consistently upheld by supreme courts of other countries.

Similar cases have existed concerning debts denominated in Confederate dollars, Russian roubles existing prior to the Bolshevik revolution, the mark existing in Weimar Germany, and Philippine pesos existing prior to the Spanish-American war. A series of cases related to changes in currencies when the gold standard was abandoned, where creditors sought payment in gold instead of the successor currencies.

These cases are usually resolved on the basis of the state theory of money. Money is considered a creature of law, and the law of the country that issues a currency determines how, in the case of a currency alteration, conversions into the new currency will take place.

The contractual obligation therefore is to pay money which the law recognises as money at the time the payment is made. Every payment contract is necessarily subject to the constitutional power of the government and the obligation of the parties is assumed with reference to that power.

Despite the widespread view that the change to the euro in EU countries will not generally affect the continuity of contracts, many countries, including certain major EU trading partners such as the states of New York and California, have introduced specific legislation providing for the continuity of contracts.

There is no precedent in SA law, which has a general legal principle that if a contractual obligation becomes impossible without fault on the part of the debtor, the debtor is released from the obligation. This covers default on the part of the debtor by any factor which cannot be foreseen and guarded against, including state intervention. Under SA law foreign currency is regarded as a commodity. It could be argued, for example, that the Deutschmark is a different commodity from the euro because it is issued by the German Bundesbank, whereas the euro is issued by the European Central Bank. Also, fluctuations in the value of the Deutschmark are caused by different factors from those that will affect the euro.

However, there is some support in SA's Currency and Exchanges Act (1933) which provides for the continuity of debts notwithstanding a change in the SA currency.

It is arguable also that European monetary union (EMU) was foreseeable as far back as 1958, when the European Economic Community was established or when German Chancellor Willie Brandt proposed a single European currency.

Further, on the basis of comity, SA courts recognise the legislative, executive or judicial acts of another nation for the sake of international duty and convenience and to protect the rights of its own citizens. Thus it is likely that the contracts will be regarded as continuous.

In addition to the enforceability of contracts, the enforceability of floating interest rate obligations may be questionable, mainly in respect of derivative transactions and contracts providing for the payment of amounts to be determined with reference to rates related to the existing currencies of EMU states.

In some jurisdictions, laws address the cessation of reference prices. In the US, for example, it is expected that courts will enforce a "reasonable price source" for existing interest rates, according to the Uniform Commercial Code.

In terms of international trade, UN conventions on contracts for the international sale of goods, applicable in more than 50 countries, requires signatories to act in good faith in a manner that will promote uniformity. This could be applied also to a change in currencies.

In SA there are no legislative provisions for alternative price sources and it is uncertain whether a transaction would remain enforceable if the price source ceases to exist. However, if the State Theory of Money is applied, the introduction of the euro will not affect any term of a legal instrument and the contract will remain enforceable.

Finally, legal problems may arise with the replacement of the European Currency Unit, because there is a concern that ecu is not a currency, but rather a basket of currencies.

Introduction of the new currency and the nature of the currency give rise to interesting legal issues, particularly in SA where many have not been addressed before?

□ *Bezuidenhout is a partner at Edward Nathan & Friedland*

EUROBONDS

New EU tax proposal sends tremors across the Channel

(JbA) CT(CR) 26/1/99

From Bloomberg

In 1963, US President John F Kennedy's tax on foreign securities bought by US residents spawned the $3,3 trillion eurobond market and helped cement London as Europe's financial capital.

If Mario Monti gets his way, a new tax in Europe could spell the demise of the market.

Monti, the European Union (EU) commissioner for internal markets, wants to levy a 20 percent withholding tax on eurobond interest payments as part of a plan to eliminate tax discrepancies among its 15 member nations. Bankers said that would drive the London-based market out of the EU, eliminating thousands of jobs.

"It is financial suicide by the European Union," said Stanislas Yassukovich, now chairman of the Brussels-based Easdaq exchange for smaller companies.

In 1964, Yassukovich helped manage the first eurodollar bond for a non-government borrower, Finland's Kesko Oyj, when he worked at White Weld, which later became part of Credit Suisse Group.

The UK will argue in the European parliament next week that the tax will risk jobs and undermine markets starting to feel the benefits of the euro. UK members of parliament hope to build opposition to the tax by passing non-binding amendments to exclude international bonds from the tax and delay its introduction as long as Switzerland and other tax havens give investors a free ride.

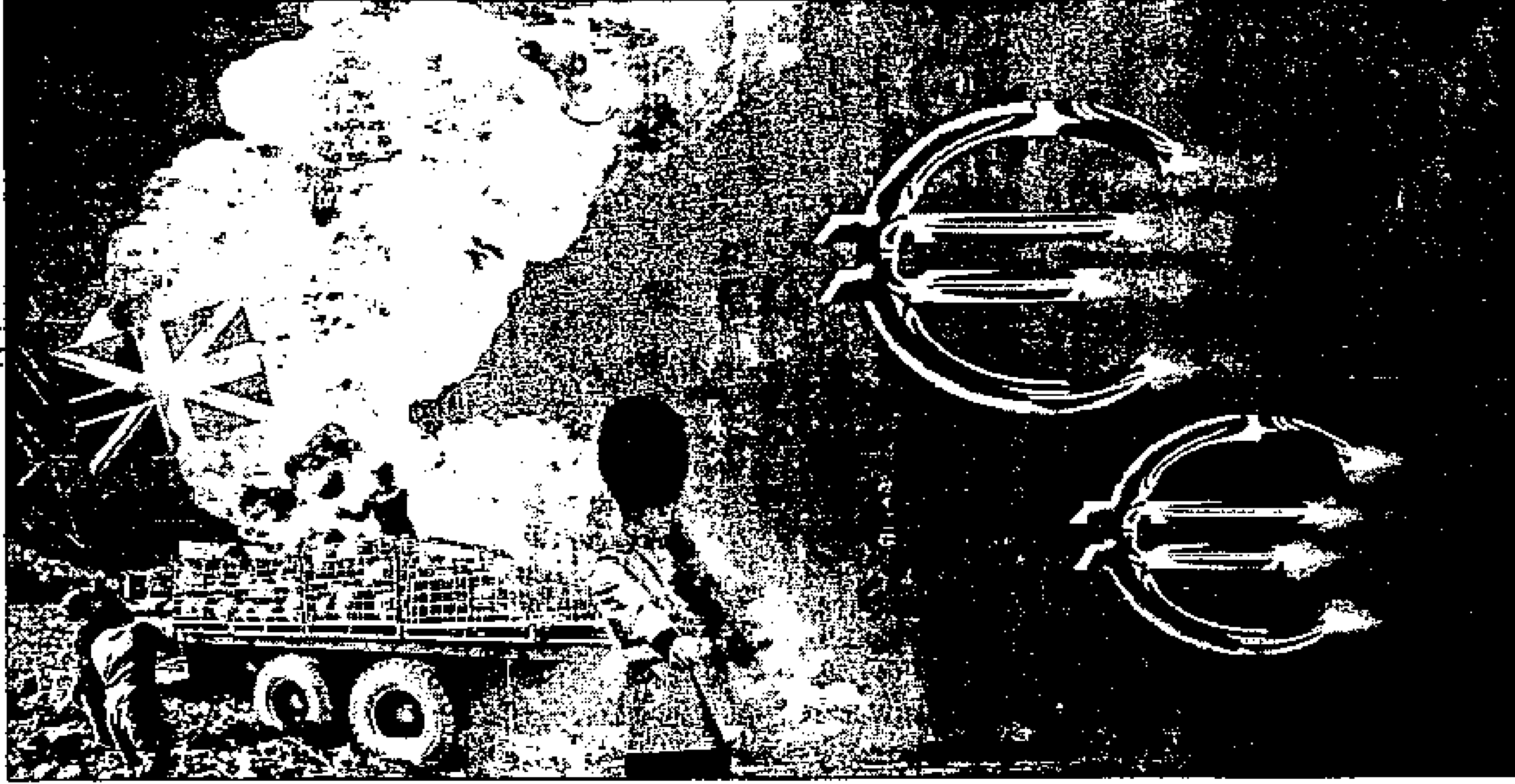
"If it happens, Switzerland will be a huge beneficiary," said Alex Bridport, the chief executive of Bridport & Cie, a Geneva-based bond brokerage. "If they start mucking around with the tax, everyone will shift money from Luxembourg to here — music to any Swiss banker's ear."

Under the European Commission's proposal, the 20 percent tax would be levied on interest income in one EU state paid to residents of another EU state. It would not apply to domestic savers, people living outside the EU or institutional investors such as pension funds.

Each EU government could order paying agents either to withhold the tax or to report the interest income to the taxpayer's home government. Taxpayers would get a credit for taxes withheld in countries in which they were not residents. Even though the UK has not adopted the common European currency, London remains Europe's financial centre.

It dominates trading in the new currency. It has a near-monopoly on the selling and trading of eurobonds, a market of about 16 000 debt securities in more than 15 currencies currently free of withholding tax.

Still, the tax plan "is not a UK issue, it's a European issue", said Yassukovich. Implementing the tax would be a sign the EU "isn't prepared to exploit its position as a world financial centre. The eurobond market is a global business we are lucky to have in Europe".



EU laws permit Gordon Brown, the UK chancellor of the exchequer, to veto the tax outright. Using the veto, though, could unnecessarily strain relations with the continent when Prime Minister Tony Blair is trying to build bridges.

The vote on Monday or Tuesday on 89 amendments in the economic affairs committee will set the stage for a full parliament vote later. While parliament plays only an advisory role on tax matters, opponents hope its disapproval could sway EU finance ministers ahead of a final decision in December.

"There is a global capital market out there," said Simon Murphy, a UK Labour member of parliament. "If we start sending out the wrong signals, it may be that some of that capital will relocate and take jobs with it."

Jobs are a key issue in the 15-nation bloc with a 9,8 percent unemployment rate and 11 governments run by centre-left parties.

The City of London estimates that one in 10 jobs in eurobonds could go — a potent threat as the EU seeks to hammer out an "employment pact" by June.

"The reality is, the market will move from London either to New York or Switzerland," said Bridport, who wrote to Brown urging him to "convince our European friends of their short-sightedness and not be obliged, for the sake of European unity, to use your veto".

In reply, Dawn Primarolo, the treasury minister responsible for challenging the tax, said the UK had "no intention of agreeing to a course of action which would damage the UK and other European financial markets, and it is our view that eurobonds should be excluded".

Monti, the author of the tax, downplayed British concerns. The tax would hit only 10 percent to 20 percent of the eurobonds on the market, he said, making it "only a very limited problem". Still, he pledged last week to "seriously consider" appeals to exempt eurobonds.

Eurobonds were left out of a 1989 proposal for a withholding tax which did not make it into law. The commission, the EU's executive agency, reckons that the chances are better this time because the arrival of the euro removes barriers to capital and makes it easier for investors to outwit the tax man.

Eurobond veteran Yassukovich agrees that banks would shift their bond businesses to Switzerland and the US if the tax goes ahead.

The eurobond market "will need a site in the euro time zone, but a good deal of the market will move back to New York because most of the major players are US anyway", he said.

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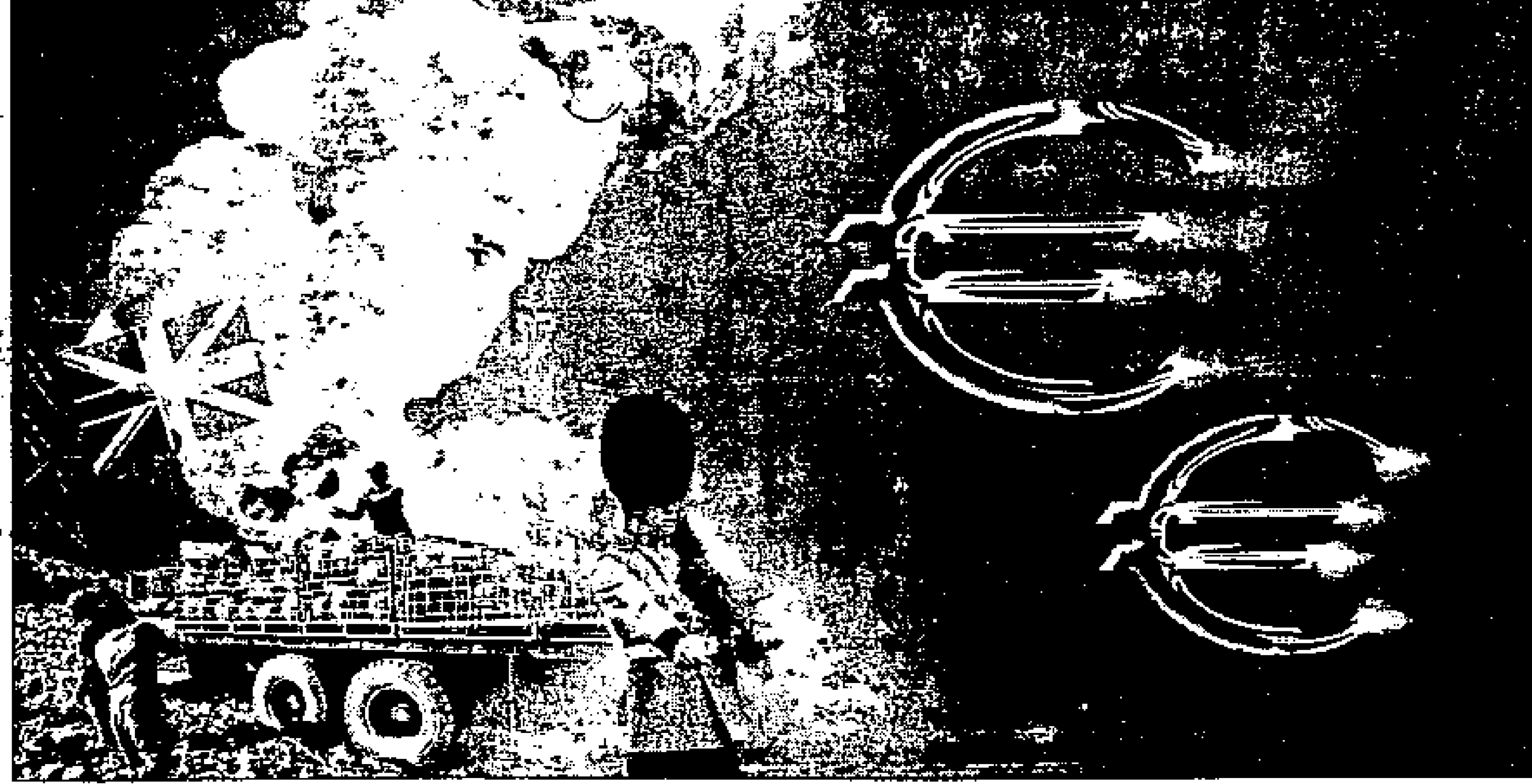


The euro is shaking up Europe's banking system

This week's merger between two major French banks could herald further consolidation in Europe, says **Samer Iskandar** of the Financial Times

(56A) BD 3/2/99

THE euro, only a month old, is already shaking up Europe's banking system. Last month saw the $34bn merger of Santander and Banco Central Hispano in Spain. This week, Société Générale and Paribas said they would be following suit.

The effect of the latest $17bn merger is likely to be felt beyond France's borders. Not only is the new group, renamed SG Paribas, expected to act as a catalyst for the rationalisation of France's own banking sector, it may also mark the beginning of a broader consolidation across Europe, where, encouraged by the single currency, half a dozen pan-European banks are expected to emerge over the next few years.

Indeed, within minutes of announcing their decision to create France's largest bank, SocGen and Paribas signalled their intention of looking for further new acquisitions.

André Lévy-Lang, who is to become chairman and CE of the new group, said there was interest in buying a stake in Crédit Lyonnais, the state-owned bank earmarked for privatisation before the end of June.

French banks have lagged far behind their European counterparts in the consolidation game. According to a report published this month by Moody's Investors Service, the French banking industry is "comparatively less concentrated than in the UK, Switzerland or the Netherlands".

No French bank has more than 10% of the country's deposits.

It is therefore likely that SocGen and Paribas are merely taking the first step towards the far more significant repositioning of European banks.

A decade ago, two French banks — Crédit Lyonnais and Crédit Agricole — were among the world's largest as measured by assets, and SocGen was the biggest participant in the global derivatives market.

However, having stayed on the sidelines during the international merger frenzy of the past few years, France had lost its seat at the top table of global banking.

Andre Levy-Lang, right, head of the French bank Parabas, checks papers with the head of the Société Generalé bank, Daniel Bouton, after the two banks announced they could merge. The new group will be called SG Parisbas and will be the world's fourth-largest in terms of shareholder funds.

Picture: AP

In the past couple of years, conditions have changed dramatically.

In particular, the euro has highlighted the importance for banks of structuring their activities along pan-European, rather than purely national, lines.

In recent months, there have been signs that the widely expected shake-up was imminent. A number of foreign banks — including Deutsche Bank, ABN-Amro and ING of the Netherlands, and Italy's San Paolo-Imi Bank — have expressed their interest in the French market by acquiring, or forging alliances with, French banks.

For some time, though, nothing happened. Potential predators among foreign banks adopted a wait-and-see attitude, with each player, as in a poker game, hoping another will show its cards first.

Several factors help to explain their reluctance to make a big move in France. First, the perceived aversion of the left-wing coalition government to hostile takeovers.

Second, the power of mutually owned and/or state-owned banks. (Crédit Agricole, now the second-largest bank and the largest before yesterday's merger was announced, is mutually owned). Mutually owned banks are under little or no pressure to distribute earnings in the form of dividends.

Some state-owned banks, such as the Caisse d'Epargne savings bank, have a monopoly on savings accounts that pay high-yielding interest rates and make it difficult for commercial banks to compete for savings. Indeed, other French banks complain of unfair competition from mutuals and state-owned banks.

Third, the privatisation method chosen for Crédit Lyonnais locks up a large proportion of the bank's capital among "friendly partner-shareholders" and makes it all but impossible for a buyer to gain control. The government wants half a dozen banks to take stakes of around 5% each — and leave the current managers in place.

Lastly, there were fears that inefficiencies in the French banking system might be exacerbated by the introduction next year of a shorter working week.

Last year, however, the pressure on profitability due to cut-throat competition for business between French banks, was lifted by an improvement — however, temporarily — in the economy.

That forms the background to France's largest banking merger.

What might happen now?

Last week, Swiss Life, the insurance company partly owned by UBS, announced it had increased its stake in Crédit Commercial de France (CCF), one of France's 10 largest banks, to above 10%. However, Swiss Life, which had to disclose its intentions under French market regulations, said it had "no intention to take control of CCF".

So with CCF, (which many had seen as a target) considered at least temporarily out of play, attention has turned to Banque Nationale de Paris (BNP).

Until recently BNP was SocGen's direct rival in commercial banking. It is still France's third-largest bank but SocGen's merger has opened up a huge gap in size between the two.

"This merger puts BNP in an unsustainable position," a banking analyst said. "It will have to react fast, or risk being marginalised, especially in investment banking."

But what can BNP do? The most obvious move is to link up with another large French bank. Along with Paribas and SocGen, BNP has expressed interest in acquiring a sizeable stake in Crédit Lyonnais. Analysts believe yesterday's deal could boost BNP's chances over its rivals.

Such a deal might also face little opposition from the government, which is thought to favour domestic alliances over cross-border mergers.

But there might still be a problem. Paribas is the only bank in France without a branch network. Any other merger would almost certainly involve job cuts, which could provoke opposition from unions. "SocGen and Paribas made the easiest, most obvious, move," one analyst said. "It does not involve any politically sensitive job cuts. Any other tie-up between two French banks will only make sense if it offers potential for cost savings. This means branch closures and staffing cuts."

So BNP might seek a cross-border alliance which may mean a large foreign bank entering the French banking system.

If that happens, the move might well be a dramatic one. "This government is not likely to allow a bank the size of Deutsche or ING to make more than one French acquisition," one banker said. "So if you have a war chest large enough to aim for a bank the size of Crédit Lyonnais, you are not going to waste your only opportunity to enter this market on a second-tier player."

And if a first-tier bank in France is indeed swallowed up by a bank from another European country, the story of French banking will move from domestic consolidation to integration in Europe.

No fireworks in EU deal

Few immediate economic benefits for consumers, say experts

Star 3/2/99

(56A)

BY CATHY POWERS

There's more to South Africa's trade deal with the European Union than port and sherry, but the spin-offs for consumers will not be immediate or that dramatic, analysts have warned.

For consumers, the deal should mean a wider variety of imported goods at cheaper prices. But Talitha Bertelsmann-Scott of the South African Institute of International Affairs, warned that the South African and European parliaments still had to ratify the deal and there would be a 10-year implementation phase.

The deal should come before the South African Parliament in mid-February.

"It might still take a while but with the politicians having reached an agreement, that is a huge step forward."

The free trade agreement will, in theory, knock off the duties and tariffs on all imported and exported goods between South Africa and the European Union.

Bertelsmann-Scott said the deal would mean cheaper imported goods but specifics were still vague: "They are being very cagey on the final elements of the deal."

"In general we would expect products like imported foodstuffs to be cheaper, if the EU is the most efficient supplier compared with suppliers from the East," said Bahle Sibisi, the Department of Trade and Industry's chief director of foreign trade.

But the other spin-off is that it should make domestic industries more competitive when they feel the pressure from these imported goods.

"In theory it should lead to more efficient production and lower prices," he added.

At present, 64% of Europe's products come into the South African market without any tariffs.

The deal would also tend to foster increased trade deals with other countries, Bertelsmann-Scott said.

But even with the favourable rand/pound exchange rate, the expected surge in interest in South Africa as an export market for Europe hasn't happened, said Tish Schutte, trade manager of the Johannesburg Chamber of Commerce and Industry (JCCI).

"France is happy with its market penetration in francophone countries. South Africa is becoming stronger on exports to those francophone countries. France should look at South Africa as a potential threat or joint venture partner," Schutte said.

Schutte said the deal would result in a wider variety of goods being available – but not necessarily cheaper goods because South Africa still had to buy them in expensive pounds and dollars.

Some of the 30 000 angry European farmers from the 15-nation EU march with a skeleton in Brussels to protest against EU plans to reform European farm policy in talks that could last all week. Picture: AFP

EU agricultural reform proposal under scrutiny

Commission offers concessions to push through reform package

Michael Smith (56A) BD 24/2/99

Financial Times

BRUSSELS — The European Commission made its first concessions yesterday on proposed reform of the Common Agricultural Policy, as part of an effort to win European Union (EU) governments' approval for a wide-ranging package of changes.

The concessions to the beef and milk regimes would cost an extra $99,8m if fully implemented by 2006 as the commission intends.

This means further changes to the reform proposals are inevitable. EU finance ministers have made it clear that they are looking for a freeze in the farm budget at the 1999 level of about 40-billion euros by 2006. The concessions were unveiled by the commission and Germany, holder of the EU's rotating presidency, as farm ministers began marathon talks in Brussels aimed at agreeing reform.

On beef, the commission has backed away from plans to end "intervention" buying, a system by which the EU buys meat at guaranteed prices. Yet the intervention prices will be below current levels and so will only come into operation when prices are exceptionally low.

Most of the additional 90-million euro expenditure, however, will be incurred by changes to direct payments, made as compensation for proposed price cuts. The changes' beneficiaries would include Spain, Portugal, Sweden, Finland and Austria. Milk proposal changes should have a negligible effect on the policy's budget.

The most important concession is a proposal to change the allocation of increased quotas envisaged under the reform. Commission proposals tabled last March suggested a 2% increase in the quotas which limit production to keep supply in balance with demand. Half of the increase was to go to farmers in mountainous regions and the rest to priority groups including young farmers. Countries without mountainous regions protested.

The revised proposal would cut the allocation for mountainous region farmers from half of the increase to a quarter. The compromise paper makes provision for an unspecified allocation of increased milk quota for specific member states. The paper says milk prices should reduce in four equal steps by a total of 15%, as envisaged in the March proposals. However, member states would conduct a review of the milk regime in 2003.

Officials of the council and the commission have embarked on bilateral talks with the 15 member states, and compromise proposals on cereals are expected today.

Nations seek a way forward after Lomé

Lofty debate but little to do with needy farmers, writes MELANIE SERGEANT-HAAPE from Dakar

(56A) ST(PT) 28/2/99

WHEN Namibian Bernd Rothkegel returned from Dakar, he had no good news for his Karakul sheep farmers. He had tried to convince the mighty EU that 10% of his people depended on the industry and needed a new form of trade support, but his pleas fell on ears tuned into headier issues.

Rothkegel, planning director at Namibia's agriculture ministry, was with an 85-nation delegation at the ministers' Dakar conference last month to thrash out a post-Lomé development aid and trade era, dubbed by EC chief Joao de Deus Pinheiro as a "more modernised" partnership.

Relations between the EU and the African, Caribbean and Pacific (ACP) states are at a jittery turning point. The EU is looking at creating new ties with the ACP countries, governed since 1975 by Lomé Convention version IV, which expires next February.

The old ties are not to be underestimated: EU member states provide almost 70% of all official aid to ACP countries, and constitute their main export market.

The conference was set against a backdrop of fast globalisation of trade and financial systems and a legitimacy crisis that has seen development falter and development aid from OECD countries falling to just 0.22% of GNP, well short of their 0.7% goal 30 years ago.

Also on negotiators' minds were new rules of the World Trade Organisation (WTO), which kick in next year.

While Rothkegel worried about his sheep farmers, talks bogged down on issues like "good governance". ACP nations objected to the EU imposing its concepts of transparency, accountability and so on.

Germany's economic co-operation and development minister Heidemarie Wieczorek-Zeul co-presided over these meetings, and stressed the importance of fighting for transparency and against corruption "which is everywhere".

Benin's delegation cynically agreed, citing a recent incident when its ministers, meeting a European delegation to discuss petrol, were asked whether the bribe should be sent to Zurich or Monaco.

Wieczorek-Zeul's group grappled with unilateral sanctions for countries that failed to comply with contracts or were corrupt. The outcome was that complex consultation was needed before sanctions could be imposed.

On the trade front, the EU wants a revamp of Lomé's financial instruments. ACP countries are keen to hang onto facilities like the mechanism for stabilising export earnings from agricultural goods and the special mining financing facility, but the EU is emphatic about creating simple instruments to support macroeconomic reforms and promote private sector development.

Debate centred on the phase-in period for new trade arrangements: the EU insists these be brought into line with WTO rules, and is promoting a five-year phase-in, calling for a derogation from WTO insistence that the bulk of trade between nations must be liberalised and no sectors excluded.

Between 2000 and 2005, the EU proposed negotiating free-trade areas with regional subgroups, with implementation periods of 10 years or more, and 2015 being the final year for establishing free trade. The consensus was that the WTO needs to consider concepts like waivers for certain goods.

Smaller, fragile ACP economies balk at the trade proposals, and are wary of the EU belief that there are fewer differences than meet the eye.

A major leap for the ACP countries is in the area of debt write-offs and debt relief. This will be addressed at the G7 conference in Cologne in June.

But SA ambassador to the EU Elias Links reckons it's not so simple. "Scrapping debt makes it harder to get more loans, and this should not be forgotten in these deliberations," he said.

So while corruption and nepotism stand in the way, and 86 nations battle to define "good governance", debate continues on unilateral sanctions. Other trade arrangements and financial instruments must be invented. Rothkegel and his sheep farmers have to wait before their plight is considered in the context of a new-look convention.

NEW DEAL ... The EU's Joao de Deus Pinheiro points to modernising ties between rich and emerging economies

Divisions in EU widen as budget row rages

(56A)

BD 8/12/98

Neil Buckley

Financial Times

BRUSSELS — Deep divisions have emerged between northern and southern states over proposals to freeze European Union (EU) spending as part of a shake-up of the EU's 85-billion-ecus-a-year ($97,8bn) budget in the new millennium.

The growing rift at a meeting of EU foreign ministers in Brussels will presage difficult talks at the EU summit in Vienna on Friday and Saturday.

The summit will seek to make progress on the Agenda 2000 reform programme designed to prepare the Union for enlargement to the east.

At the same time, pressure on the UK to give up its 3-billion-ecu-a-year budget rebate, won after several years of trench warfare with other EU members by then prime minister Margaret Thatcher in 1984, was intensifying. Robin Cook, UK foreign secretary, insisted at the weekend that the rebate could not be touched in any EU budget review.

The UK won the rebate after arguing that because of the way the EU was funded, it paid much more into the budget than it received. Other countries, notably Germany, Austria, Sweden and the Netherlands, complain that they are now also heavy net contributors.

Freezing spending for the years 2000 to 2006 at next year's level of Ecu85bn, indexed to inflation, is being seen as one way of addressing such complaints.

Stabilisation of the budget would at least allow net contributors to claim they had succeeded in ensuring their unfair share of the burden would not increase.

Up to eight EU states, including the four net contributors plus the UK and France, are now thought to back a freeze.

Agricultural spending would be capped at just below 40-billlion ecus a year while structural and cohesion funds for less-developed regions would be less than 200-billion ecus over the period — well below the 240-billion projected by the European Commission.

However, the four countries which benefit most from the structural and cohesion funds — Spain, Portugal, Greece and Ireland — are vehemently opposed.

Abel Matutes, Spanish foreign minister, said yesterday a spending freeze was unacceptable.

A middle group, including Finland, says budget stabilisation must take into account the higher costs of EU policy reforms. — Financial Times.

Plan on jobless dissolves in taxes dispute

Facade of EU summit unity shows cracks

ET(BR) 11/12/98 (56A)

FROM BLOOMBERG

Vienna — The European Union (EU) would quietly abandon plans for high-cost job-creation projects at a summit this weekend as cracks opened up between the centre-left governments now dominating the bloc, analysts said yesterday.

Calls for EU-wide steps to bring down a 9,8 percent jobless rate have dissolved amid bickering over budgets and taxes in the two months since the Social Democrats' election in Germany put the left in charge of 11 of the EU's 15 nations and stirred hopes for co-ordinated pro-growth policies.

British Prime Minister Tony Blair has blocked the ambitions of political allies on the continent by insisting on a free-market approach to job creation, while Gerhard Schröder's new German government has objected to spending fresh money during budget constraints imposed by the arrival of the single currency.

With financing ideas such as a bond issue or sale of excess central bank reserves off the table, the economy-boosting agenda up for discussion was "window dressing rather than substance", said Peter Ludlow of the Centre for European Policy Studies.

Faced with a slowdown in emerging markets, Europe's rejuvenated left had hoped to turn the common currency debuting in 11 countries next year into a tool to get the economy moving. EU forecasts show that growth is likely to ease to 2,4 percent next year from 2,9 percent this year.

The facade of unity began to crumble when Blair persuaded other Social Democratic leaders to sign an economic manifesto that gave pride of place to free enterprise and reaffirmed the constraints on public borrowing.

Rate reductions in the 11 single-currency countries last week in turn indicated central bankers were satisfied, for now, that governments did not intend to ramp up borrowing.

The cuts, announced by national central banks but co-ordinated at the European Central Bank (ECB), also reflected a darkening of the economic outlook. Easier credit three weeks before the arrival of the euro helped shield the ECB from blame for the weakening economy.

Britain also vowed to use its veto to block German and French efforts to establish a uniform tax code for the EU. A single currency and single capital market demanded tax "harmonisation", said Oskar Lafontaine, the German finance minister.

Britain said a proposed withholding tax on savings income would undermine the $2 trillion Eurobond market.

While Lafontaine settled for tax "co-ordination", the German, French and Finnish governments led calls for a switch from unanimous to majority voting on tax measures. That issue was put off until the EU's treaties come up for renegotiation late next year.

EUROPEAN UNION *Three-year transition gives time to cast off legacy currencies*

Phased-in euro eases currency shock for tourists

CT(BR) 15/12/98 (56A)

RICHARD STOVIN-BRADFORD
BANKING EDITOR

Euroland comprises Austria, Belgium, Finland, France, Germany, Holland, Ireland, Italy, Luxembourg, Portugal and Spain

- Legacy currency notes valid until July 2002
- No euro coins or notes until January 2002
- Credit cards operate as usual
- Travellers' cheques operate as usual
- Pricing may be in euros or legacy currency

Johannesburg — South Africans travelling to Euroland after the January 1 launch of the euro, Europe's new single currency, would be entering a new world — and careful preparation was essential prepared, Graham Dempster, the general manager of Nedbank's International Division, said yesterday.

This is because the euro is being launched in phases in the 11 European Union countries forming Euroland.

There will be a transitional phase lasting three years during which the existing national, or "legacy", currencies will continue to be used for cash transactions, as euro notes and coins will not be introduced until January 1 2002. With some exceptions, Eurolanders will have the choice during that period to either continue using their national currency or to switch to the euro for their banking and commercial transactions. Legacy currencies will cease to be local tender six months later, he said.

However, non-cash transactions on cheque or credit card will be processed in euros within the banking systems of each Euroland country from January 1 next year. Travellers' cheques in euros will also be available in South Africa from January 1.

Legacy currency values will be irrevocably fixed against the euro on December 31 and amounts will be expressed as one euro being the equivalent of a number or fraction of legacy currency units.

"There will not be a big bang affecting travellers arriving in Euroland next month. You will use the same wallet, but you may be billed in euros or legacy currencies and your bill will probably show the amount to pay in both," Dempster said.

"You will have a choice. If you pay cash, you will pay the same amount in value terms, regardless of whether the bill is in euros or legacy currency (because of the fixed conversion rate). But in the transitional phase, you will still pay in the legacy currency. If you visit more than one country you will still be carrying multiple currency bank notes and coins.

"But if you use your credit card, the amount can be expressed in either euro or legacy currency and the rand equivalent of the euro amount will be debited to your card."

All change as Europe heads for single currency

Martin Walker *in Brussels looks at what the coming year holds in store for Europe*

The last year of the millennium is for Europeans the first year of the new order. Everything changes, starting with the birth of the single currency and the launch of the German presidency of the European Council. If the Germans can fulfil their plans, we shall see the biggest transformation of the European system since its birth more than 40 years ago. And at the Nato summit in Washington we shall see the formal end of Europe's half-century of division, as the Poles, Czechs and Hungarians join the Western alliance.

The Germans are the pivot to all this because they are both the richest power in Europe and the most troubled. They are rich and weak, in that their military and strategic weight lags far behind that of France and Britain, the continent's two nuclear powers. They are also at a psychological turning point. Governed for the first time by a generation of leaders who do not appear to be racked by an instinctive sense of historic guilt, they do not automatically reach for their wallets to solve Europe's problems. Nor do they reflexively reach for the easy solution of more European integration to escape Germany's internal rows.

On January 1 these new Germans, in their uneasy coalition of greens and social democrats who are themselves split between Tony Blair-style modernisers and traditional Keynesians, assume a place in the sun. They start their turn of chairing all the ministerial meetings of the European Union, the meetings of the Group of Seven leading industrial nations, and the deliberations of that fledgling military structure, the Western European Union.

They have set themselves five main tasks. The first is to launch the single currency smoothly into the world financial system and Europe's single market. With luck, they hope to use euroland's own stability to anchor a global economy that is still hideously vulnerable to new shocks from those old nightmares of Asia and Russia, and the new alarms from Japan, China and Brazil.

The second task is to pass Agenda 2000 during Germany's six months at the European helm. Agenda 2000 is the jargon for the package of budgetary, agricultural and systemic reforms required for the EU's enlargement. The entry date for the Eastern Europeans may be delayed to 2005 and after, but they are already having a revolutionary effect on Europe by forcing it to reform its structures in order to accommodate new members. None of this will be easy, which is why the Germans reckon they will probably need three EU summits in six months, rather than the customary one, to achieve it.

This second German task covers three separate problems. First, they have to fix the EU budget for the next accounting period until 2006. Most countries want it frozen till 2006 at the current level of 86-billion ecus, about $100-billion.

The poor southern European countries — Spain, Portugal and Greece — know perfectly well that this "stabilisation" plan is a ploy by the rich northern countries to cut their net [illegible] net receipts. Expect a deal under which the budget is allowed to balloon a bit before 2006 and then come sharply down. Politicians are much better at promising to cut spending far into the future (after their next elections) than they are at making cuts now or next year.

There is no way that the EU budget can be cut unless the common agricultural policy (CAP) is reformed far more fundamentally than the commission's current plans envisage. And for Europe to tamper with the CAP is like a nation changing its Constitution. The CAP has been the backbone of the European project since the original deal of the 1950s, under which German industry won access to French markets in return for protecting French farmers. Even today the CAP consumes half of the entire EU budget, and warps the payments system by penalising countries such as Britain, which import much of their food yet have efficient farm sectors.

That being said, the CAP has been a thumping success. Beyond subsidising France, the original CAP had two goals. The first was to make Europe self-sufficient in food, and that has been more than achieved. The second was to cushion the inevitable fall of Europe's peasantry, which still made up a fifth of the French and nearly a third of the Italian populations in 1957. This has also been triumphantly achieved. Back in 1965 the farm sector accounted for 11% of the gross domestic product (GDP) of Italy and 8% of that of France. Today agriculture's GDP share is 3% for Italy and 2% for France, and Britain now has a larger farm sector (2% of GDP) than Germany (1%).

Common sense would suggest that it is time for Europe's farm ministers to declare victory and go home. They won't, because farmers vote, rural electorates matter, and big farmers and agribusiness are now so rich that governments must listen attentively.

The good news is that the new German government does not depend on farm votes, unlike Helmut Kohl's coalition. The bad news is that lots of other governments — in Spain, Portugal, Greece, Italy and Luxembourg — still do. Nor does the French government dare to ride roughshod over its own farm sector. Rich France is currently a small net EU payer, contributing [illegible] more than it gets [illegible] grain farmers alone receive from the CAP, and France would become a much bigger net payer than Britain.

These issues are not insoluble, just very difficult. But what makes them acute is the third aspect of this budget problem, which is the German determination to stop being Europe's banker of last resort. Germany now pays out to Europe each year $13,5-billion more than it gets back, even while the former East German provinces, which are among the poorest parts of the EU, qualify for large infusions of structural funds. The Germans refuse to pay more, and indeed are insisting that they want to start paying a lot less. This may be the decision that finally cuts the Gordian knot of Europe's intertwined budget and CAP problem.

That at least is the cheery opinion of Dietrich von Kyaw, Germany's permanent representative in Brussels, and the man who really matters. He will be chairing the most important body that Europeans have never heard of. It is called Coreper — the committee of permanent representatives — and it is at its weekly lunches and conclaves that all the deals get done that can be done, and where the problems labelled "too tough" get tightly defined and then kicked upstairs to the political masters.

> **The Europe of the next millennium is likely to be a new animal indeed**

In the hands of Von Kyaw, an ebullient and self-confident Prussian whose ministers know his value, Coreper can do a lot. So if Europe does fix its budget and its farm problems and also massages down the German payment next year, Von Kyaw will deserve a modest statue.

If all this fails, then Europe's politicians deserve great disgrace. The sums in dispute are, in relative terms, peanuts. The entire EU budget is fixed at just below 1,2% of GDP. Germany's net payments to Europe, as former chancellor Helmut Kohl used to point out, are about 0,5% of German GDP. This is the equivalent of two months' spending on the German defence budget, and buys a great deal more security and prestige in world affairs.

This brings us to the final task, the ability of Chancellor Gerhard Schröder's government to make Germans feel relaxed about their role, their identity and their history. Given that normality in this context embraces a France and Britain that remain obsessed with their [illegible] obsessed with Germany), this should not prove insuperable despite the uncomfortable echoes that will resonate from the shift of the capital from Bonn to Berlin.

The unshiftable fact is that Germany has never been a "normal" nation. Otto von Bismarck's unification drive of the 1860s catapulted the country into European primacy virtually overnight. The subsequent self-destructive adventures of the mad kaiser and the madder Corporal Adolf Hitler still dominate Europe's thinking about a country that has been ably and solidly governed by a series of decent bourgeois types for the past 50 years. The real question for the coming year is whether Schröder's uneasy coalition can maintain this worthy record.

There are three reasons to suspect that the climate should be favourable for this. The first is that the euro has so much political and corporate will behind it, in the United States and Europe alike, that euroland should enjoy a stable macroeconomic base for growth next year. The second is that in Lionel Jospin and Tony Blair the new German government has been blessed with the supportive partnership of two unusually level-headed and politically sympathetic leaders in the other two important European capitals.

Blair's readiness to put Britain's formidable defence forces into a European pot is an intelligent use of an important asset. None of this will make the eventual referendum on the single currency any easier, but by turning Britain into a normal European country, Blair is making it easier for Germany to be normal too, and for the great experiment of European integration to continue.

Bear in mind the overarching context of all this. National governments in Europe decide less and less these days. The coming of the euro removes most of the usual levers of economic policy-making from their hands. The aspiration of a common foreign and security policy, as mandated by the Amsterdam treaty, and the new Anglo-French initiative for a common defence identity, means ever more pooling of traditional nation-state sovereignty. The European Parliament's new powers under the Amsterdam treaty, to have co-decision powers with the national governments on most aspects of EU legislation, erode the old role of the nation states yet further.

The new Europe of the next millennium is [illegible] a new animal indeed.

Launch of the euro a leap of faith into the unknown

ARG 29/12/98

Grand plan, but no one sure it'll work

(56A)

Europe is due to take a huge leap into the unknown on Friday, January 1. HAMISH MCRAE of The Independent newspaper in London explains how it will work

This is the week when Europe starts its gigantic experiment – the launch of a single currency for 11 members of the European Union.

It will soon be possible, for the first time since the fall of the Roman Empire, to travel from the Channel to the tip of Italy without having to change money.

The patchwork quilt of currencies that Europeans have used in their daily lives for more than 1 500 years is being replaced with a single one. The euro becomes legal tender on Friday.

It will swiftly replace the national currencies and – within three years – francs, marks, pesetas, lire and so on will have become history.

It is an experiment in the sense that there is no precedent for such an event. There have been currency reforms, of course, where a country has decided to replace an old currency with a new one: Germany has done so three times this century.

Sometimes countries have chosen to link their currency to that of a foreign power – many to the United States dollar.

There have been attempts by countries to bind their currencies together: there was an attempt at a European currency in the last century, which failed.

And there have been occasions when a country has had its own currency replaced by a foreign one, usually as a result of conquest, colonisation or some other political shock.

This is, however, the first time that a group of countries which are not part of a political union, and which have not been conquered or colonised, have agreed to give up their own currencies for another.

So anything said or written about the launch of the euro, and in particular its political and economic consequences, has to be taken with a pinch of salt. We have to guess; we cannot know.

This is a journey that has no maps or charts.

What we can do is make a stab at gauging some of the effects of this decision. There is one clear political consequence, and a number of less clear economic ones.

Start with the political impact of the new European Central Bank, the body that will "run" the euro.

Up to now, the European political institutions have been quite weak. The key decisions supposedly imposed by the Brussels bureaucracy have almost invariably been approved by national governments; power still lies with the ministers of the countries concerned.

As for the importance of the European Parliament – well, a quick test: can you name one Euro MP?

Now there is a new institution for Europe. All national countries have some sort of central bank to run their currencies. The recent trend has been to make that central bank more independent of the government, to give it more power.

But central banks operate within the framework of a national government: the Bank of England has its independence because that has been given to it by a powerful parliament.

The new European Central Bank in Frankfurt has been given independence, but the counterweight of the European Parliament is weaker.

In one sense, having a new independent body running the euro compensates for the weakness of other European institutions. In another sense, Europe has created a new focus of power, sharply reducing the scope for national parliaments to exert their own authority.

New currency: a handout photograph of a drawing of the euro side of the one euro coin. The back of the coin is left blank for each country to decide its own design

Remember that Europe is not just getting a single currency. It is getting a single interest rate too.

That, at least is the theory. If you ask practical questions as to how the European Central Bank will exert its power, the answers are guesses.

Will European interest rates be high or low? Will the currency be strong or weak? Will the bank pay more attention to the needs of the countries on the fringe or will the big battalions dominate?

If we do not know what sort of currency the euro is going to be, judging its economic effects is obviously hazardous. But some things can sensibly be said.

For a start, giving Europe a single currency will spur economic integration. The fact that prices are fixed in the same unit will mean that they will tend to converge.

Buy a new car in Inverness in Scotland, and it will be pretty much the same price as one in Truro, Somerset; buy a car in Copenhagen, Denmark, and the price will be very different from one in Seville, Spain. Expect those differences to narrow swiftly - and expect the prices to narrow down, not narrow up.

That will have an enormous impact on companies. Those with plants in different countries, with different wage rates and productivity levels, will immediately be able to compare those differences. They will be forced to improve efficiency and Europe's economy will become more competitive as a result.

There will be other effects. We are already seeing the impetus for cross-European mergers; expect that to proceed apace.

We are already seeing the impetus for a cross-European tax policy; the single currency will inevitably encourage that process, not because some politicians and officials are determined to impose common taxes, but because the scale of the differentials will be exposed.

The pressure for companies to pay similar taxes across Europe will grow, for if large differentials remain, they will relocate towards the lower tax zones.

So the European economy will become more integrated and more efficient. Some parts will benefit; others will find the new burst of competition very tough.

The single interest rate will be a particularly powerful discipline. It is not just that some parts will have to operate on interest rates that are too high for their local needs, others that are too low.

It is also that finance will tend to flow towards areas and projects that deliver the highest returns. Investors will think pan-European, rather than in little national boxes. The leaders will bound forward, the laggards will suffer still more.

The fact that investors have a new common zone in which to operate will have one further impact – one that will, if the euro is successful, change Europe's place in the world.

Since World War 2 there has been a single global currency standard, the dollar. It has been challenged at times by the yen and the German mark, and in the early post-war years sterling was bracketed alongside. But the dollar has really dominated.

No longer.

The euro will be close in value to the US dollar, backed by an economy of similar size. The world's currencies will have two anchors, not one.

Will that be a source of tension or will they co-exist happily? Will people trust the euro?

And therein lies the greatest question of all. Will the euro succeed? There has been no lasting currency union without a political union. So what Europe is attempting is a great daring leap into the unknown.

Just three days to get it right – or it's chaos

ARG 29/12/98 (56A)

London – On Thursday, Europe's finance ministers will meet in Brussels to set the rates for converting their 11 national currencies into euros.

This will be followed by a champagne reception, but there will be little time to celebrate for 25 000 people in the City of London.

As with their counterparts in Europe's financial centres – not to mention many in New York and Tokyo – they will be hunched over their screens, acting as midwife to the euro. For it is in the financial markets that the single currency makes its debut.

The "conversion weekend" begins on Thursday, New Year's Eve, when the staff of the central and investment banks responsible for putting the new currency into practice begin the mad scramble to switch over their computer systems.

They have two days to get it right. Some will grab only snatches of rest on office floors.

The markets will reopen on January 4 with every share in the 11 member countries, every government or company bond, each derivative deal and all flows of money between banks and big companies redenominated from marks, francs and lire into euros.

Every City bank has put a senior manager in charge of the changeover.

Bronwyn Curtis, handling the transition for Nomura, an investment bank, explains that everyone in the financial world has prepared to the extent of doing trial runs. But, she says: "A lot of it you can't actually do until the last minute."

The conversion will use the exact level of all financial market prices at the end of 1998, and the exact conversion rates.

Huge numbers of computer files in virtually every bank on the planet will need to be amended. To add to the difficulties, different ways of rounding numbers can be used.

The novelty alone is expected to lead to lots of mistakes.

Some are better prepared than others. The Bank of England, which has published quarterly reports on preparations, is concerned about whether all UK banks have done everything they can to be ready for the crucial weekend.

Not only the financial markets will suffer a last-minute scramble. The treasury departments of all big corporations around the globe, in effect mini-banks themselves, have to make the same kind of computer adjustments. And in euroland itself, every business from the smallest corner shop to the biggest multinational will have to start converting prices, accounts, wage bills and tax payments into euros.

'Now it's actually happening. It is very exhilarating – but also frightening'

Although national currencies will continue to be legal tender until midway through 2002, when the new notes and coins are due to be in issue, their exchange rate will be "irrevocably fixed" in terms of euros.

The citizens of the 11 members will have to become wizards at converting from one to the other.

So will Britons travelling to the euro-11 countries.

Travellers will still use the familiar cash, but they will find two differences: shop and restaurant prices will often be shown in both euros and the national currency, and their credit card bills will show just euros – with a euro worth around 70p.

Ms Curtis says many in the financial markets did not expect this project to go ahead at all. "Now it's actually happening. It is very exhilarating – but also frightening."

– The Independent, London

THE EURO

Baptism of fire shouldn't surprise us

CT (MR) 5/3/99 (96A)

HAMISH MCRAE

It has been quite funny, hasn't it? Just about all the forecasters said the euro would be a strong currency. International funds would want euro exposure, the European economy was entering an upswing, and the European Central Bank (ECB) would be determined to win its spurs.

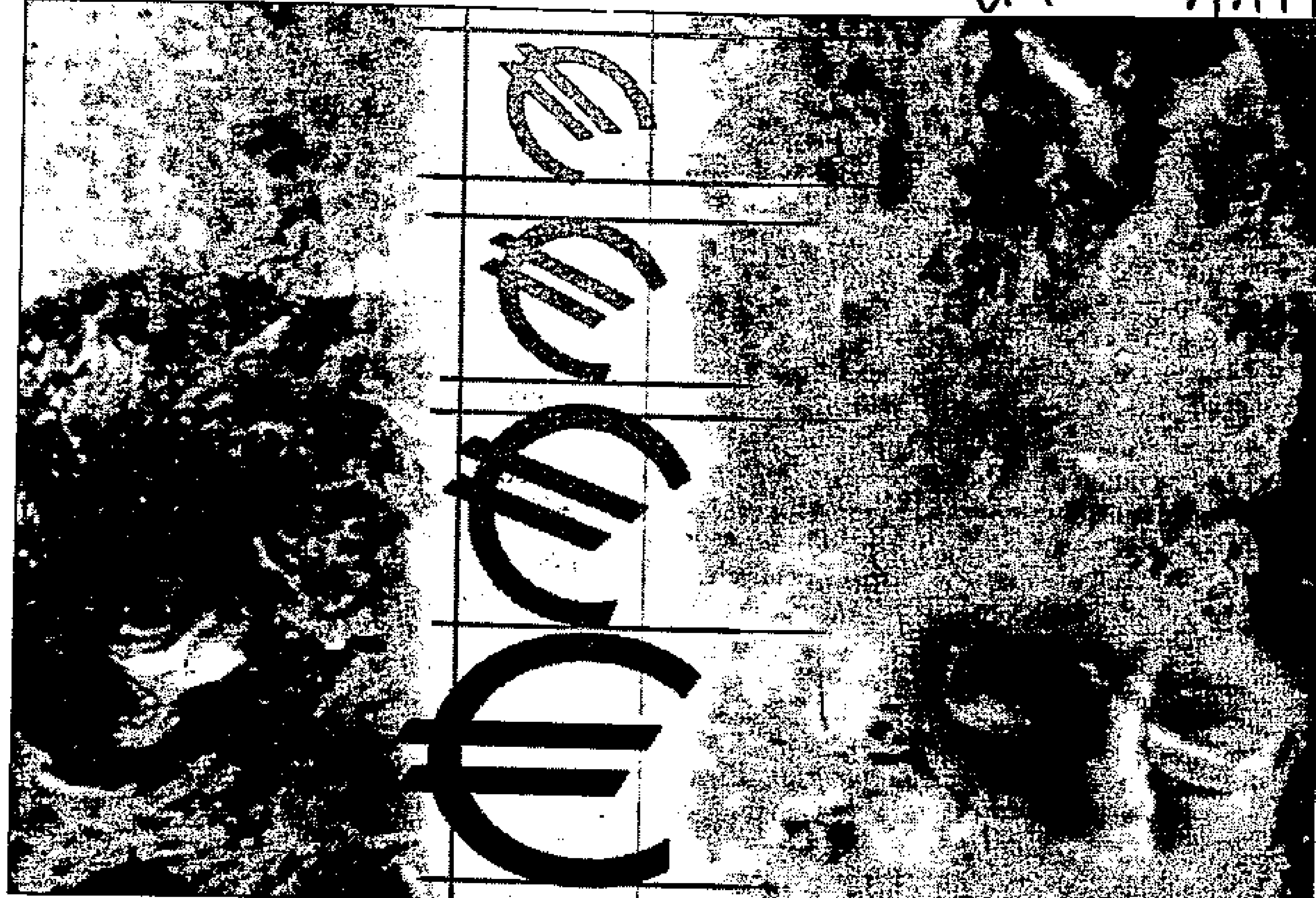
When experts agree, they are usually wrong. With hindsight, their near-unanimity was a classic sell signal. The combination of what may turn out to be a recession in Germany and Italy and sniping by the French and German finance ministers at the ECB has driven the currency lower almost every day.

It has now lost about 7 percent of its value since the January 1 launch. Maybe those international funds do want exposure, but they don't mind waiting for the price to come down a bit further.

Funny, yes, but does it really matter? The answer is mostly no. Consider the euro's trade-weighted value this year together with the performance of the constituent currencies over the previous three years. The euro's fall has just been continuing a trend established last autumn.

Even if the euro were to lose another 10 percent, it would still be well within the margins of the last three years; it is still 20 percent above its 1990 value.

That said, there are two risks. First, the pace of the fall could become destabilising. If the movement were to get out of control, the ECB might find itself having to make its next interest rate adjustment up instead of down. That would send a political shockwave through Europe at what would, in economic terms, be a particularly unfortunate time.



Second, a weaker euro at the margin helps European exports but it would also tend to widen the current account imbalance between Euroland and the US. That gap is at the limits of the acceptable (to the Americans, that is) and risks stirring up much more serious trade friction than the banana war.

Those risks aside, a slightly weaker euro should not be a big concern. But if the external tensions between Euroland and the rest of the world look manageable, the tensions within Euroland look alarming.

The euro zone's overall consumer price inflation has been falling, but there is a growing divergence between France and Germany on one hand and Italy on the other.

In France and Germany there is effectively no inflation. Not so in Italy: over the past 18 months there has been no fall, unlike in its big neighbours.

There is another sort of tension. In the fourth quarter of last year Euroland growth stopped. This disturbing fact conceals national variations.

The German economy contracted at an annual rate of 1,8 percent, but France carried on with solid growth, confirming it was the fastest-growing large European economy last year. Elsewhere, JP Morgan predicts good growth in Spain and contraction in Italy.

You see the problem. The unbalanced growth within Europe is not, as seemed likely six months ago, between a stagnant core and a fizzy periphery, or between slow-growing large countries and fast-growing small ones.

The core itself is undergoing variable conditions. The problem is not just finding an interest rate that suits Ireland and Holland as well as Germany and France. It is worse. The core is split.

There is no way of fine tuning this. Given time, maybe the monetary authorities could devise administrative schemes which made credit a bit cheaper or a bit more easily available in the stagnant economies and a bit more expensive or a bit harder to find in the booming ones. This would not be easy, and only justifiable on prudential concerns.

Structural policies could be adjusted to lift or curb demand, but that would take time. Meanwhile, countries have to live with the wrong interest rates.

In Germany's case, you can even argue Oskar Lafontaine, the finance minister, may be right — perhaps the country should have cheaper money — even if his attempted bullying of the ECB to cut rates is likely to be counter-productive.

This is still early days, though. Experience of financial markets would caution us against drawing firm conclusions from a few weeks' trading.

Markets are dedicated followers of fashion. That the current fashion seems slightly different from what we were told in the brochure should not trouble us. But the euro is on trial, and the trial is this: is the Euroland economy flexible enough for a one-size-fits-all monetary policy?

In the weeks ahead, watch the GDP numbers, not the currency. There is a serious danger that large parts of Europe could be struck by the Japanese disease because, like Japan, they have had to cope with an inappropriate monetary policy.

One final thought: two big countries in Euroland have less appropriate interest rates than the UK, at least according to the Bank of England's monetary policy committee. — The Independent, London

EU aims to secure WTO support

(56A)

BRUSSELS — The European Union (EU), incensed by a US move to penalise its exports in a banana trade row, will try to win support from the 134 countries of the World Trade Organisation (WTO) at a meeting in Geneva today.

The EU asked the WTO's general council to convene after Washington told importers of EU products ranging from Scottish cashmere sweaters to Italian pecorino cheese last week to post a bond of 100% of the goods' value.

The EU's letter urging the meeting said the US measure was "extremely serious" and affected the functioning of WTO dispute settlement procedures. The general council cannot force the US to back down, but Brussels will hope for broad condemnation of the US action to dissuade it from similar tactics in other rows.

The EU has separately launched a formal WTO complaint against the US. It has declined to retaliate, but says if it wins the case it will be legally entitled to do so.

Adding to fears of a transatlantic trade war, the US has also threatened action if the EU fails, by a May 13 WTO deadline, to lift a decade-old ban on beef reared with artificial growth hormones.

The US move on bananas, which could affect EU exports worth $520m a year, has caused fury in Europe and led to fears of 2 000 job losses in Scotland's cashmere industry alone.

UK Foreign Secretary Robin Cook said after meeting US Secretary of State Madeleine Albright in the UK on Saturday that both sides agreed on the need for urgent talks.

Meanwhile, Caribbean Community nations issued condemned the US for exacerbating the trade row with Europe over bananas on Saturday. The 14 governments of the predominantly English-speaking Caricom trade bloc released a statement deploring a unilateral decision by the US to slap punitive tariffs on its imports from Europe.

They warned that their own countries would suffer disastrous consequences from the latest escalation of the transatlantic row. — Reuter, Sapa-AFP

BD 8/3/99

Mass EU exodus deals blow to SA trade hopes

(56A) (illegible handwritten annotation)

CLIVE SAWYER AND SAPA-DPA

The shock resignation of all 20 European Commissioners has dealt a devastating blow to South Africa's efforts to negotiate a free trade deal with the European Union and officials were today desperately trying to get clarity on the future of the talks.

The resignations came at a time when EU commission negotiators were in daily contact with their South African counterparts in what were described as "extremely delicate" talks aimed at a settlement.

And they came just ahead of a possible meeting in Brussels this week between Trade and Industry Minister Alec Erwin and the EU commissioners, at which it was hoped that the impasse blocking an agreement would be resolved.

Among the commissioners who resigned was the EU's chief negotiator, Joao de Deus Pinheiro, who was considered sympathetic to South Africa's efforts to gain free access to EU markets for Western Cape agricultural produce.

The resignation of the EU commissioners followed a report which found the commission to be riddled with fraud, nepotism and financial mismanagement.

Mr Pinheiro and Mr Erwin brokered the compromise on the port and sherry issue which cleared the way for significant progress on the proposed EU-SA trade pact.

But a deal negotiated earlier this year in Davos, Switzerland, was later opposed by five countries – France, Spain, Portugal, Greece and Italy.

The mass resignation came shortly before next Monday's Brussels meeting by European foreign ministers on the proposed EU-SA trade pact.

At a news conference before the exodus of the commissioners, EU director-general for development Philip Lowe said countries that favoured the proposed accord "will want it to be discussed again and again until there is agreement".

ARGT 16/3/99

Spaniard tipped as new EU chief, page 6

EU warns its commissioners

(56A) BD 16/3/99

There will be no mercy for those singled out

BRUSSELS — European parliament leaders warned the European Union's (EU's) 20 executive commissioners to expect no mercy if a long-awaited report found them guilty of fraud or mismanagement.

One or more of the commissioners could come under pressure to resign if singled out for criticism in the report, to have been handed to European Commission (EC) president Jacques Santer and parliament president Jose Maria Gil-Robles last night.

"If the report shows wrongdoing by any individual, then whoever they are they must be rooted out.... If Santer dithers or delays, it will be his own head that is on the block," said Pauline Green, leader of the parliament's biggest Socialist group. "If the report ... confirms evidence against any EU commissioner, we will support their sacking," said Edward McMillan-Scott, leader of the parliament's British Conservative members.

Santer has promised to act on the findings and indicated he will sacrifice any commissioner strongly criticised.

The EC, responsible for proposing and implementing EU laws, has been bombarded with charges of fraud and favouritism.

This has weakened the executive at a crucial time soon after the launch of the European single currency and as the 15-nation bloc struggles to reform its 85-billion euro annual budget to prepare for new members from eastern Europe.

The EC agreed to the probe by five retired judges or auditors, called the "committee of wise men", in January to avoid being toppled in a European parliament censure vote.

The 11 commissioners interviewed during the six-week probe were invited to examine passages of the report on Sunday.

Parliament leaders and groups have scheduled meetings last night and today to assess whether the findings merit a new move to sack the commission by the 626-member assembly.

The Spanish daily El Pais said the report sharply criticised the EU executive over its contracting and oversight functions.

It said the strongest criticism was aimed at former French prime minister Edith Cresson, the commissioner responsible for education and research and Anita Gradin, the Swedish commissioner in charge of fighting fraud.

Cresson has been criticised because a dentist from her home town was given an EC contract as a scientific adviser. She also has come under fire because she ran vocational training programmes in which money went missing.

Another heavily criticised commissioner, Manuel Marin, a Spaniard responsible for relations with Latin America, was in charge of the EU's humanitarian aid programme at the time of alleged fraud involving bogus payments made for projects in Bosnia and Rwanda.

The EC this month adopted a code of conduct which bars commissioners from holding any other job, requires them to declare financial interests and stops them accepting expensive gifts.— Reuter.

Crippling crisis as entire EU executive quits

(56A)

Shock move heightens concern about sinking euro, shaky Germany and a looming trade war with United States

Star 17/3/99

REUTERS
Brussels

The resignation of the European Commission hit Brussels like an avalanche yesterday, burying the 15-member bloc in crisis at the worst conceivable moment.

The departure en masse of the 20 executives who run the EU machine magnified worries about a sinking euro, a shaky Germany, a looming trade war with the United States and the biggest restructuring challenge in the bloc's history.

"It is a disaster and it requires speed and ruthless determination to deal with," European Trade Commissioner Sir Leon Brittan said in a radio interview.

The entire Commission stood down after coming under fire from an independent report which partly blamed arrogance and complacency for a loss of control over the sprawling bureaucracy that implements EU legislation.

The seeds of the Commission's destruction were planted in December when an official blew the whistle on fraud, nepotism, mismanagement and abuse which he said was being ignored.

Symptomatically, he was gagged and suspended.

In January the European Parliament served notice that EU credibility could no longer survive another whitewash and came close to voting the Commission out of office.

President Jacques Santer, in a back-me or sack-me move which has now blown up in Europe's face, defended all 20 commissioners, but agreed to the probe which produced Monday's devastating report.

By putting his whole team on the line to defend a very few commissioners who looked vulnerable to some of the allegations, notably former French prime minister Edith Cresson, he has lost everything.

But, the uprising of the Euro-deputies dumped untainted commissioners alongside those singled out for criticism by the report.

Six days after the shock of German finance minister Oskar Lafontaine's resignation, eight days ahead of a special EU summit in Berlin to cut the Gordian knot of sweeping financial reform, the Union suddenly has no one at the helm.

The euro single currency is sickly and the US is mounting a challenge on trade in a row over the right to sell bananas.

A shaken government in Germany, current holder of the rotating EU presidency, has been handed a huge crisis on top of its own major crisis.

Lafontaine's departure may have boosted the euro, but commentators are not convinced that Chancellor Gerhard Schroeder is out of the woods yet. Some speculate that a breakup of his red-green coalition could be on the cards.

Not long after their midnight collective resignation, the commissioners were already beginning to distance themselves from tainted colleagues.

This raised the faintly optimistic possibility that some might be reinstated, and permit work by a caretaker crew.

The British government quickly announced yesterday that it would seek reappointment of its two commissioners, Brittan and Neil Kinnock.

The commissioner for competition, Belgian Karel van Miert, slammed the fraud report as unfair.

He said: "With the exception of a case in which Ms Cresson was involved, (the report) mainly concerned cases that were several years old."

► See Business Report

CAPE TIMES
WEDNESDAY, MARCH 17, 1999

ENTIRE 20-MEMBER EXECUTIVE RESIGNS

Pressure on EU to reform

eT 17/3/99 (9bA)

BRUSSELS: The European Union's executive has resigned after an independent report accused it of losing control and turning a blind eye to fraud and corruption.

EUROPEAN UNION member states stepped up the pressure yesterday to use the shock resignation of the entire European Commission as an opportunity to radically reform the bloc's discredited top management.

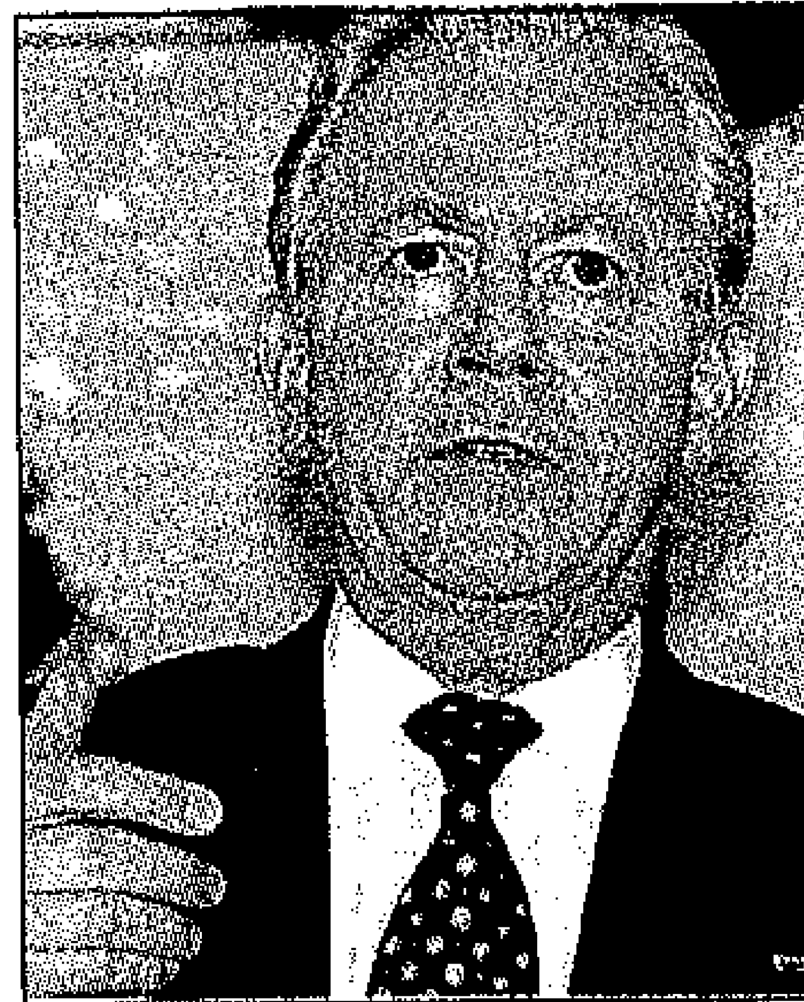
All 20 members of the EU executive quit in the early hours after a panel of independent experts accused it of losing control of the huge Brussels bureaucracy and turning a blind eye to widespread fraud and cronyism.

German Chancellor Gerhard Schröder, on a whistlestop tour of EU capitals to gauge progress in crucial EU budget reform talks due to be finalised at a summit in Berlin next week, said the 15-nation bloc should move quickly to shape a new executive.

But, playing down talk of a crisis, Schröder said next week's summit would be too early to agree on a successor to commission president Jacques Santer.

A humiliated Santer launched a bitter counter-offensive, deriding the experts' report as "shocking and unbalanced".

He said he was "whiter than white" and would stay on as head of the executive until national governments sought to replace him.



HUMILIATED: Jacques Santer hit back, calling the report "shocking and unbalanced". *PICTURE: AP*

British Prime Minister Tony Blair said Santer's reaction was "wholly inadequate" and urged him to leave office as soon as possible to make way for a "real political heavyweight" with a new contract to achieve reform targets.

Blair said he would push to reform the unelected and largely unaccountable EU executive, which drafts and implements EU law.

French President Jacques Chirac said the EU should learn from the "unprecedented crisis" and reform its institutions to make them more effective, responsible and close to the people. France called for a stronger executive, with fewer commissioners, and insisted EU enlargement should be delayed until reforms were agreed.

While some commissioners joined Santer in airing their frustration at the report's blanket attack on the executive, others urged deep cultural change.

Vice-president Sir Leon Brittan told a European Parliament committee that the commission should accept the report's conclusions and focus on responding to the charges.

"I don't think this is the time to carp at the content of the report. What is needed is comprehensive root and branch reform of the commission," he said.

Brittan said some EU programmes which suffered from a lack of resources should be axed, internal disciplinary procedures should be beefed up and external management consultants called in to review management structures.

The commission's attempts yesterday to conduct business as usual fell on deaf ears as European Parliament President Jose Maria Gil-Robles demanded the team should go and not stay on in a caretaker position till their elected term ends.

National governments will discuss their options for naming a new commission over the next days and weeks as they try to head off a crisis just as the EU reshapes its finances to prepare for an ambitious eastern expansion.

While Britain and Germany called for swift change, Italy and Spain said Santer and his team should see out their five-year mandate which expires next January.

The experts' scathing 144-page judgment catalogued gross irregularities in the management of programmes and funds in the commission's keeping, while accusing research commissioner and ex-French prime minister Edith Cresson of favouritism.

The crisis hit the EU's fledgling single currency but the euro later regained ground.

Some dismissed talk of a crisis, saying the commission's resignation was a chance to cleanse the powerful European institutions, heralding a new era of accountability and openness. — Reuter

● See Business Report

EU races to rebuild shattered executive

(56A) ARG 17/3/99

Brussels – The European Union, faced with the task of making monumental reforms soon, is racing to put the pieces of its shattered executive back together.

The entire European Commission, which spends the EU's R580-billion budget, resigned yesterday over a damning report of fraud and mismanagement.

But none of its 20 members accepted responsibility for any of the shortcomings outlined in the investigating panel's 140-page report.

German Chancellor Gerhard Schroeder, chairman of the 15-country EU, is consulting fellow European leaders about ways to give the commission greater efficiency.

"We have to see to it that Europe is up and running," Mr Schroeder told reporters in Brussels yesterday.

First on the agenda will be finding a new president, whom Mr Schroeder said must be a "convinced European" with political experience, a knowledge of economics and "personal integrity".

EU presidents and prime ministers are to meet in Berlin next week for a final round of negotiations on reforming the EU's colossal farm subsidies programme, part of an even larger overhaul of EU spending.

But outgoing commission president Jacques Santer of Luxembourg, who now heads a caretaker commission, was indignant at being forced to resign. He called the experts' report unfair and unbalanced.

■ In Tallinn, a spokesman for Prmine Minister Mart Siimann said the mass resignation would not damage Estonia's effort to join the EU.

"Our negotiations are at an early stage, so it will not influence us much," he said. As a "fast-track" candidate to join the EU, Estonia is working through lengthy entry negotiations and a screening process. – Reuters and Sapa-DPA

Europe reels as its 'cabinet' quits

BD 17/3/99 (56A)

Schröder seeks to avert panic in the wake of corruption bombshell, but Brittan declares it is a disaster

David Evans

Financial Times

BRUSSELS — The European Commission's mass resignation has left European Union member states scrambling to cope with what history may record as united Europe's first "government crisis".

German Chancellor Gerhard Schröder, whose administration holds the rotating EU presidency, tried to dispel panic after the 20-member commission's resignation over fraud allegations by refusing to use the word. Still, the unprecedented departure of Europe's executive arm is a crisis in anyone's language for EU governments facing an Everest of restructuring challenges as the euro currency sickens.

Schröder, starting a tour of EU capitals after last week's shock resignation of German Finance Minister Oskar Lafontaine, said he would consult partners before deciding the next move.

Deputy commission president Sir Leon Brittan acknowledged: "It is a disaster and it requires speed and ruthless determination to deal with it."

Bonn hurriedly signalled that the commission had to pick itself up and carry on for a while in a caretaker capacity until a permanent solution to the debacle can be fashioned from the wreckage. Spain added its appeal for continuity.

The executive, which drafts and implements EU legislation, stood down *en bloc* after a devastating independent report accused it of losing control of the 19 000-strong Brussels bureaucracy and turning a blind eye to fraud and corruption.

The scathing 144-page judgment, compiled by a panel of five experts in little more than a month, catalogued gross irregularities in managing programmes and funds in the commission's keeping.

This is no ordinary financial scandal. The probe found no hands in the till, no pockets lined, but in a penetrating blow the panel found: "It is becoming difficult to find anyone who has even the slightest sense of responsibility."

That went to the heart of a growing malaise in the EU fed by the fear that the European ideal is floundering in a vast administration where executives have neither the time nor the proper oversight structure to worry about accountability.

Unbowed, commission president Jacques Santer called the report "distorted ... wholly unjustified, shameful". He said he was "whiter than white" and intended to stay in office until replaced.

The battle to succeed him is under way. British Prime Minister Tony Blair's office, sweeping Santer into history, said Blair would call for a "real political heavyweight" for the job. A senior German politician proposed a former Spanish prime minister, socialist Felipe Gonzalez. It is an open race, with former Italian premier Romano Prodi a front-runner.

The commission has pre-empted a dismissal vote by a newly assertive European parliament which served notice in January that the old live-and-let-live days were closing. The shock put a fresh dent in the euro currency, which shed half a cent on the dollar. Its impact on multimillion EU farm and regional aid programmes, due to be thrashed out in Berlin next week, could only be guessed at.

Contrition was in short supply. Commissioner Edith Cresson, a former French prime minister singled out for awarding a sweetheart contract to a friend, denied she was the villain of the piece. Santer shielded her when parliamentarians tried to force her out in January, leading inexorably to Monday night's drama. "Maybe I was a little careless," she said. "I have no need to have my name cleared."

Commissioner Karel Van Miert, untainted, said the report was unfair. "They act as if everything here went wrong."

European parliamentarians hailed the clean-out. Socialist group leader Pauline Green said: "We have the opportunity to create a better commission ... based on the trust and confidence of the people." Christian Democrat leader Wilfried Martens saw it leading to "a new beginning, a new culture of political responsibility and democratic accountability".

All 20 members of the European Commission resigned yesterday following a report accusing them of vast corruption. Above are commission president Jacques Santer, left, and German commissioner Monika Wulf-Mathies. Pictures: AP-AFP

Sudden crisis in the EU

Latest developments in the European body create unexpected problems for South Africa. A Sapa-Reuters report puts the issues into perspective.

THE mass resignation of the European Union's 20 commissioners over allegations of corruption and cronyism yesterday, has dealt a blow to South Africa's hopes of finalising a trade deal with the 15-nation trading block ahead of its March 22 council of ministers meeting.

EU officials went to great lengths yesterday to stress that work on the trade deal would go on, but said the political impetus for finalising the accord was certain to lose some steam.

The commissioners are responsible for running the day-to-day affairs of the EU, and their resignation places the body in an institutional crisis,which is likely to result in trade negotiations with South Africa being placed on hold.

Since the commissioners' resignation is unprecedented, it is still unclear how the EU's business will be conducted at a political level.

The commissioners resigned after the publication of a damning report by a panel of five independent experts appointed by the European Parliament.

The report criticises, among others, Joao de Deus Pinheiro, the commissioner responsible for Africa, for giving his brother-in-law a top job in Brussels.

Pinhero has been a key broker in the SA-EU trade negotiations and was seeking a meeting with Trade and Industry Minister Alec Erwin to try and resolve the latest impasse.

The relationship between Pinheiro and Erwin is a good one and South Africa will not be happy to see him go.

Erwin and Pinheiro put together a draft trade deal in Davos, Switzerland, in January which was acceptable to South Africa, but rejected by five EU states on the grounds that the concessions made to this country were too generous.

EU spokeswoman Mary McCaughey said: "All it really means is we do not have commissioners in office." Other officials busy with the negotiations would carry on with their work.

Bahle Sibisi, South Africa's chief director of bilateral trade relations, was in the United States and unavailable for comment.

Meanwhile, the resignations have plunged the European Union into crisis just days ahead of a crucial summit on budget reforms.

Germany, holder of the European Union's rotating presidency, said it acknowledged the commission's decision to resign.

But the foreign ministry said the commission would stay on in a caretaker role to provide support in talks on the Agenda 2000 EU reform package, which German Chancellor Gerhard Schroeder wants to wrap up at the summit next week in Berlin.

Commission president Jacques Santer was expected to meet Schroeder in Brussels late yesterday to gauge the impact of the move on continuing Agenda 2000 reforms of EU farm and regional aid programmes.

Joao de Deus Pinheiro is one of the 20 European commissioners who resigned yesterday over allegations of corruption.

European trade commissioner Sir Leon Brittan said the resignations were a disaster.

"It is a disaster and it requires speed and ruthless determination to deal with," Brittan said. He accepted there had been a loss of control. "The important thing is how to handle it."

The unprecedented step follows the launch of the euro single currency and shortly before EU leaders meet in Berlin next week to overhaul the bloc's R558 billion annual budget ahead of an ambitious expansion into east Europe.

Dutch foreign minister Jozias van Aartsen said EU member states must act quickly to make the new appointments.

"The commission's resignation has created a dramatic situation. There are many important things on the agenda," Van Aartsen said.

Deputies from the 626-seat European Parliament, who earlier called on the commission to resign or face being sacked, welcomed the resignations and called for an urgent EU summit to appoint a new team.

"This is an opportunity for a new beginning and a new culture of political responsibilities and democratic accountability in the commission," Wilfried Martens, leader of the assembly's Christian Democrats said.

The hard-hitting 144-page report, which prompted the resignations, accused the executive commission of losing control of the sprawling Brussels bureaucracy that proposes and implements EU legislation.

It accused commissioners of irregularities in managing humanitarian aid, tourism, vocational training and other programmes.

"In the light of the ... report, the members of the commission have decided unanimously to resign collectively," Santer told a packed news conference after a crisis meeting of the EU's executive.

In a stinging criticism of the commission as a whole, the report said: "It is becoming difficult to find anyone who has even the slightest sense of responsibility."

It also charged research commissioner and former French prime minister Edith Cresson of favouritism in bringing her hometown dentist on to the commission payroll as a scientific adviser.

Cresson commented later: "The commission did very good things, very positive things during its four years.

"Unfortunately a certain amount of dysfunction appeared, as in every administration and the collective conclusion of this committee of experts was such that the commission decided to submit its resignation unanimously," she said.

The report said that commissioners, who earn over R1,25 million a year including expenses, were not personally involved in fraud and did not gain financially from it.

European competition commissioner Karel van Miert slammed the report as unfair.

"They act as if everything here went wrong ... the departments that worked well have not been discussed or commissioners contacted so it is unfair to pretend that everything here just derailed, that is wrong," Van Miert said.

Diplomats said the outgoing commission would operate with its current powers of proposing legislation until the 15 EU member states appoint a new team.

Britain was quick to say it would seek the reappointment of its two commissioners, Sir Leon and Neil Kinnock, neither of whom were implicated in the fraud report.

Belgium's security service indicted as a 'state within a state'

CT (MR) 18/3/99 (5bA)

STEPHEN CASTLE

In the end what toppled the European Commission (EC) was not damning revelations of corruption in its ranks but the shadowy world of former intelligence officers and army officers running Jacques Santer's "state within a state". The report painted a sinister picture of the security services that the Belgian president controlled, staffed by a former French intelligence official and a one-time Belgian police colonel.

Although they reported directly to the office of Santer, the palace guards became a law unto themselves, apparently beyond the control of the EC's most senior staff.

The "wise persons" who wrote the report complain that "no supervision was exercised and a 'state within a state' was allowed to develop".

The security staff even put the EC's own internal fraud-busting team under surveillance. The inquiry concluded that they were a clique, "a private club for former police officers from Brussels or the vicinity, for whom special recruitment 'competitions' were arranged".

Monday's report was not the first time concerns were raised about the security office, whose deputy head at once point was Claude Willeme, a former French intelligence official. The scandal which led to the investigation revolved around the awarding of a contract for security work to the private British security agency Group 4.

The report starts back in the days of the former EC president, Jacques Delors, in 1992, highlighting the behaviour of the security staff when 10 security guards accompanied Delors to the Seville World Exhibition.

"Their behaviour (feet on the table, heavy drinking and so on) was considered intolerable," it said. Their performance was so bad that the EC president himself noted it. However, when complaints were made, the director of the service simply 'covered for his staff'."

The document sheds light on how key posts in the security service were allotted. "On the recommendation from the director of security in Belgium, the director of the security office recruited into the Commission Security Office an ex-colonel from the Belgian police [in December 1997]".

The main reason for this decision, however, was simply "to improve relations between the commission's and the Belgian security services". The ex-colonel then had to be moved from his post, five days after a heightened state of alert during the Gulf war, when "no particular measures had been taken".

The report puts part of the blame for the state of the security service on Santer. "Neither he, who is nominally responsible for the Security Office, nor his private office, took any meaningful interest in the way it operated".

The report argued that "protestations of ignorance on the part of commissioners concerning problems that were often common knowledge in the services, even up to the highest official levels, are tantamount to the admission of the loss of control by the political authorities over the administration that they are supposedly running".

The report says allegations raised against the service were "so serious and illustrative of a dysfunctional organisational climate and structure that they should have been seen by those who were in charge".

It was these damning conclusions, which said it was "difficult to find anyone who has even the slightest sense of responsibility", that drew an angry response from Santer. He insisted they were not substantiated by the report.

The text directly indicts Edith Cresson, the education and science commissioner, for favouritism. The charge centres on her decision to employ a dentist from her home town of Chatellerault as a scientific visitor. The appointment of Rene Berthelot, the report judges, was "manifestly irregular". "What we have here is a clearcut case of favouritism," the five independent experts conclude.

It notes that Berthelot's frequent "missions" to the French town of Chatellerault were "hard to justify ... without considering the significance of that town and of its links with the commissioner, who was its mayor until the end of 1997.

"It is hard to understand why Chatellerault and the surrounding region should be almost the sole centre of interest of a visiting scientist whose remit in theory covered very wide fields," it said. "These missions may, therefore, be regarded as evidence of the fictitious nature of the 'scientific advice' which Berthelot was in principle deemed to be giving." — *The Independent, London*

Act now — EU commission

(96A)

BRUSSELS: The outgoing European Commission, which resigned on Tuesday amid allegations of corruption and mismanagement in the EU executive, urged member states yesterday to name a successor line-up as soon as possible.

In the meantime, the commission said it would continue in a caretaker capacity, dealing with urgent work but taking no new political initiatives.

The EU's 15 member states scrambled to find consensus on a solution to the crisis. German Chancellor Gerhard Schröder, whose country holds the rotating EU presidency, began another day of whirlwind talks to sound out his counterparts in Vienna, Athens, Rome and Lisbon.

While some leaders were calling for the discredited executive to be replaced at once, a French minister said European governments should wait until after European Parliament elections in June before naming a new commission.

Finding its position untenable, however, the outgoing commission called on EU governments to act as soon as possible. — Reuter

CT 18/3/99

Back to square one for EU tariffs

ET (MK) 19/3/99 (5bA)

TANI FREEDMAN

Geneva — The European Union (EU) would submit all of its trade tariffs for review at a new round of global trade negotiations, Sir Leon Brittan, EU trade commissioner, said yesterday.

"The EU will put all its current tariffs on the table for negotiation in the new round," Brittan told trade and development seminar at the World Trade Organisation (WTO). There would not be "no-go" areas. "Instead, we are prepared to negotiate tariffs across the board and look to others to do the same."

The two-day meeting is intended to shine the spotlight on ways to push forward a development agenda, taking into account both the views of WTO members and developmental non-governmental organisations (NGO).

NGOs in the field tend to criticise the world body for failing to address the needs of the poorest countries in its pursuit of trade liberalisation, while the most impoverished argue that globalisation has left them worse off.

ROUND TABLE *Leon Brittan, EU commisioner* PHOTO: AP

The meeting follows a symposium at the WTO on trade and the environment, which sought similarly to provide a sounding board for the views of the WTO's diverse membership, academics and ecological parties.

Brittan said a millennium round was necessary "in the current economic climate to stimulate trade growth and reduce the risk of protectionism".

It was important to establish a more open and predictable regulatory framework for business, "particularly for developing countries which can only attract the investment that their citizens so clearly need by providing just such a framework", he said.

Renato Ruggiero, the outgoing WTO director-general, said there was no "rational sign" why a new round should not take place at the end of the year.

Trade ministers scheduled to meet in Seattle at the end of November are expected to launch the new round — the ninth since the General Agreement on Tariffs and Trade was set up after World War 2.

To help developing countries, new pacts should set realistic transitional periods to bring new agreements into force, while the world's poorest countries should be given special treatment, Brittan said. — AFP

Commissioners in line for generous payoffs (1bA)

BD 19/3/99

BRUSSELS — European commissioners who resigned en masse this week will walk away from Brussels with up to 60% of their salaries under generous payoffs that are unaffected by the charges of mismanagement that triggered their resignations.

The arrangements to help the former commissioners adjust to life after the chauffeur-driven luxury of Brussels include a special transitional allowance that is payable for three years after they leave the EU executive.

The payment is worth between 40% and 65% of a commissioner's basic salary, depending on their length of service.

For Manuel Marin, the Spanish commissioner who is the longest-serving member of the team that resigned this week, the rules mean he will be entitled to 124 836 euros a year. If he does not take up another post in public life in the three years after leaving Brussels — in which case the allowance is lost or reduced — he will be able to accumulate a retirement nest egg of just under 375 000 euros.

Not that Marin or any other commissioner has too much to worry about on that score. From the age of 65 they will all receive a pension worth 4,5% of their final salaries for every year worked at the commission.

In the case of Marin, this will mean a pension of about 63% of his salary.

For Edith Cresson, the French commissioner whose nepotism triggered the downfall of the commission, the arrangements are particularly advantageous. Cresson turned 65 earlier this year so she will also be immediately entitled to a pension of about 20% of her 187 000-euro annual salary plus a further 50% under the transitional allowances.

Under EU regulations, a commissioner can only be stripped of such benefits if he or she is "relieved of their duties because of serious misconduct".

Although the 20 commissioners resigned en masse on Tuesday after the publication of a damning report on instances of fraud and corruption within the commission, they remain in office in a caretaker role.

On Wednesday, they said they would be confining their activities to "current and urgent" business and not making any new policy proposals — something which is normally the commission's primary role. Despite drastically reducing their activities, the commissioners will nevertheless continue to receive their full salaries until a new team is appointed. — Sapa-AFP.

Commission chief achieved more than his predecessor

(56A) MD 23/3/99

Jacques Santer and João de Deus Pinheiro of the European Commission are among those to have fallen from grace in the recent unseating of the executive body. **Emma Tucker** of the Financial Times and associate editor **John Dludlu** take a look at the differences between the two men

JACQUES Delors was always going to be a hard act to follow as president of the European Commission. Jacques Santer did not try; nor was he meant to. Indeed, it was the contrast between the two Jacques' personalities which helped to secure Santer's appointment by heads of government to lead the European Union's executive from early 1995.

Whereas the charismatic Delors fizzed with ideas and challenged governments to follow his lead, Santer was low-key and set out his stall as a policy implementer. "We will do less, but better," he said.

In the event, the commission under his command did far less than during Delors's 10-year tenure. But it was not idle. Nor, despite the recent damning experts' report, was its work all bad.

Santer's problem was that where he tried to do better, he failed miserably. The achievements of his commission included the successful introduction of the single European currency. True, the political will on which the launch of the euro depended was generated in the member states. But the commission's management of the euro's introduction was efficient.

The commission also won praise for its Agenda 2000 blueprint of reforms of the EU's finances, common agricultural policy and regional aid that is intended to create scope for the union to expand into eastern and central Europe. The commission's work is the basis of the current negotiations among EU member states.

Santer also tried to improve accountability, financial controls, efficiency and work practices. He achieved more than his predecessor, who was also criticised in the experts' report. But the progress was too small and too slow.

Jacques Santer, 61, entered politics after working as a barrister. When he arrived at the commission he had already served 10 years as Luxembourg's prime minister and before that he was finance minister. He has been a supporter of free trade, EU enlargement into central Europe, and subsidiarity, the doctrine of devolving EU decision-making to the lowest appropriate level.

His appeal lay in his Christian Democrat background and his small-state credentials, both important factors after the 10-year tenure of Delors, a French Socialist. He seemed unlikely to offend anyone. But in a foretaste of things to come, European Parliament members voted only narrowly to support his nomination, with 260 votes in favour and 238 against. Parliament threatened to unseat him and his commissioner colleagues again in 1997 over their handling of the mad cow crisis, but subsequently backed off.

Within the commission Santer has been seen as decent but uninspiring. He dislikes confrontation and his critics say he has failed to give a coherent lead.

One of Santer's big problems was always his presentation. In recent weeks, he and his mainly Luxembourg staff had shown a consistently unsure political touch, which led to last week's cataclysm.

João de Deus Pinheiro, the commissioner for relations with Africa, like Santer, represents to South Africans the face of the EU, or the commission, the executive of which has amassed huge amounts of power for itself.

Each time the EU's talks with SA hit a snag, both men's names have, to varying degrees, been mentioned as part of the solution. They have supported the negotiations for a bilateral trade, development and co-operation accord over the past four years.

Jacques Santer ... low key

João de Deus Pinheiro ... fighting back

So their exit from the EU centre stage will be a setback to the EU-SA negotiations. Whether they continue serving in a caretaker administration until later in the year will be known only after this week's summit meeting of EU leaders.

The publication of the experts' report on maladministration and nepotism in Brussels and the resultant press coverage have made the past week most "annoying" to Pinheiro.

Like Santer, Pinheiro was fighting back after the report's release. On the afternoon of his resignation he appeared before a hostile EU legislature, which included MPs who were calling for their immediate departure, and told MPs of the difficulties he had encountered with Pretoria since the draft deal was rejected last month.

He informed the largely pro-SA parliament that he would still push for the agreement's endorsement by ministers this week.

The experts' report mildly criticised Pinheiro of being imprudent in employing his relatives: his brother-in-law worked for him. Though the experts found nothing irregular in the relative's appointment, it concluded that under no circumstances should a commissioner hire a relative to work in his private office.

His annoyance stemmed, mainly, from the fact that the report's authors mentioned him at all, if there was no irregularity in the appointment.

But either way, Pinheiro would still have to go thanks to the doctrine of collective accountability.

Manuel Pereira, the Portuguese ambassador to SA, says Lisbon would have no problem with Pinheiro's continuation provided, of course, EU leaders want the entire commission to continue. His critics say Pinheiro's chances of returning are slim: firstly, because of his name's appearance alongside that of sleazy colleagues, and secondly, because of the fact that he has already negotiated a deal (between the EU and SA) that was rejected by his political masters.

In his current position as a commissioner for relations with the EU's former African, Caribbean and Pacific (ACP) colonies, Pinheiro has to live with an unfortunate reputation that he spends more time on golf courses than on addressing the plight of those less fortunate than he.

However, João Vale de Almeida, Pinheiro's former spokesman, says his deep commitment is unquestionable. "He was the right man for the job." Almeida says Pinheiro works hard and plays hard — whether that relates to golf, beaches, good food or parties. However, he says his golfing record has declined slightly over the years. The image in the media of a golf fanatic was "terribly unfair". "He does not work from 7am to midnight. But when he works, he is intense."

Pereira echoes this sentiment. He attributes Pinheiro's casual approach to issues, which is sometimes mistaken for disinterest, to his excellent sense of humour, which creates a good atmosphere among colleagues.

Almeida calls Pinheiro a political party animal. Pinheiro's interest in Africa was cultivated long ago: in the 1980s Pinheiro spent time as a professor in Mozambique. He has a doctorate in chemical engineering.

He showed his political skills during the Maastricht treaty, the agreement that laid foundation to the euro. As Lisbon held the EU presidency then, Pinheiro, as foreign minister, had to steer the EU ship towards unity, recalls Pereira.

Pinheiro's successor in the commission faces a difficult task. Not only does the deal with Pretoria have to be expedited, but he or she will also have to conclude negotiations with the increasingly sceptical ACP on a framework for future relations with the EU.

A case of sins of commission

24/3/99 (56A)

PETER CONRADI
& STEPHEN GRAY

The crashing of the European Commission last week has provided an opportunity for reform.

JACQUES SANTER thought the worst was over last Sunday week when he persuaded the five "wise men" investigating corruption and mismanagement at the European Commission to remove their most damning allegation against him.

That afternoon Santer, the most amiable and ineffectual leader in the commission's history, sat down with the "wise men"— three auditors and two lawyers — to discuss their findings. Seven other commissioners, including Edith Cresson, the acerbic former French prime minister most damningly accused of cronyism, also filed in to read what had been written about them.

Santer was shocked to find himself accused of misleading the European parliament by denying knowledge of reports of fraud in a programme supervised by Cresson. His protests led to the removal of the accusation and after four hours he left the meeting, satisfied that he had been exonerated. He had miscalculated badly. It was only that evening that the "wise men" sat down to write their conclusions. They had been particularly angered by the arrogance of Cresson, who denied any wrongdoing. "Of course we changed the report afterwards," said Walter van Gerven, the Belgian member of the committee.

The conclusions made devastating reading at the foot of a 144-page report that illuminated a series of financial scandals. They sent the European Union spinning into its worst crisis in 42 years. Within hours, all 20 European commissioners had resigned and Tony Blair was demanding radical reforms to rein in a Brussels bureaucracy that had run out of control. Only 11 weeks after hailing the launch of the euro as a decisive step towards European integration, the commissioners' immediate thoughts were of little more than their survival.

In the course of their three-month inquiry the "wise men" had examined six examples of alleged fraud and mismanagement and had uncovered firm evidence from commission files to back almost every allegation. Claiming to know nothing about a fraud, said the wise men, was no defence for a commissioner. Their "protestations of ignorance", while problems were common knowledge among their staff, was "tantamount to a loss of control by the political authorities".

The final paragraph said: "The responsibility of individual commissioners or of the commission as a body, cannot be a vague idea. It is becoming difficult to find anyone who has even the slightest sense of responsibility."

What had started as an inquiry into specific incidents of fraud had become an indictment of the way the commission was run. While the commissioners' horrified staff pored over the report, the mood at the Brussels headquarters of the European parliament was quite different.

For years, the parliament had been one of the least powerful and most maligned of the EU's main institutions, its members known more for their generous expenses than their legislative prowess. Even the building was the stuff of eurolegend: completed in 1997 at a cost of more than R8 billion, it had become known as the *caprice des dieux* (the folly of the gods).

Discredited EU commissioner Edith Cresson claimed that the whole affair was the result of a German plot against her.

> What had started as an inquiry into specific incidents of fraud had become an indictment of the way the entire commission was run.

With European elections due in June, the report gave parliament the perfect opportunity to burnish its own image at the expense of its arch-rival, the commission.

That evening, Pauline Green, the former North London police officer who heads the 214-strong Socialist group, the most powerful in the 626-seat parliament, met other leading members from across Europe. Her role in the unfolding crisis had been a decisive one. In December, following parliament's refusal to approve the commission's accounts, Green had tabled a censure motion against the commissioners — although she had baffled allies and enemies by saying she hoped to lose it. She eventually came up with the compromise of an investigation by a committee of auditors, hoping it would conclude that the crisis of management was a media fantasy.

By the time Green emerged from her meeting on Monday evening, her tone had changed. "We are calling on the European Commission to accept their responsibility and resign," she declared.

The commissioners gathered in sombre mood in their meeting room on the 12th floor. Almost all were convinced they would have to resign. Cresson remained defiant to the last — she repeated previous claims that the whole affair was the result of a German plot against her.

As he prepared to go down to meet the hundreds of journalists packing the entrance to the building, Santer turned to an aide and said: "Iacta alea est" (the die is cast), echoing Caesar's words as he crossed the Rubicon. Yet Santer still gave the impression of having failed to grasp the severity of the situation. The next day he called the report's conclusions "dishonourable". Speaking in French, he announced he had been *"entierement blanchi"*, words translated by the interpreter, to gasps, as "I am whiter than white". His words were re-translated later as: "I have been exonerated".

Blair was appalled. Denouncing what he called the "sad catalogue of negligence and mismanagement" revealed by the report, he said: "The president of the commission should leave as soon as reasonably and practically possible and a new president should take his place." It was not until Wednesday, however, that Santer finally made clear the commission would go as soon as possible.

Santer, whose catchphrase has been "do less but better", was finished. His achievement in launching the single currency was forgotten. He would go down in history as the first commission president to have been forced from office.

For Paul van Buitenen, the softly-spoken Dutchman who blew the whistle on corruption and mismanagement at the heart of the EU and precipitated the wise men's inquiry, the relief was overwhelming when their report was published. Three months ago, he risked his job as an assistant auditor in the commission's financial control department by appealing to the European parliament for action. His infuriated superiors not only suspended him on half-pay but condemned him as disloyal and "unbalanced". On Monday afternoon, sitting in an office in the parliament in Brussels, Van Buitenen could scarcely contain his emotions as he read their report. "My main feeling when I saw it was just one of simple relief," he said.

The EU's bureaucracy was braced this weekend for further embarrassment. The positions of at least three of the 31 directors-general, the powerful "barons" who run the commission's day-to-day business, are believed to be untenable.

No fewer than 11 separate police teams are closing in on the EU staff with inquiries into alleged frauds under way in Belgium and several other countries.

The "wise men" are also determined to continue their investigations and will meet senior members of the parliament this week to discuss their next targets. Among them are likely to be the EU's aid programme to Palestinian territories and the "disappearance" of food aid sent to Russia six years ago. Sources close to the committee said it would broaden its inquiry to look more at the organisation of the commission itself, whose Byzantine structure is believed to encourage abuses. Modelled broadly on the French civil service, the commission has long been a byword for inefficiency.

The 18 000 Eurocrats who work there enjoy salaries as much as double those of their counterparts in national civil services and a special low rate of tax. The staff also enjoy a quasi-diplomatic status that gives them immunity from prosecution for any crime they may commit during their work. It can be lifted only by the explicit agreement of the commissioners.

One of the most blatant cases of misconduct concerns George Tzoanos, a former head of the EU's tourism unit, who been been under investigation by Belgian police over an alleged scandal involving R30 million of EU money — part of which allegedly ended up in his pocket. In their report, the "wise men" criticised Erkki Liikanen, the Finish commissioner in charge of personnel, for neither stripping Tzoanos, who now lives in Athens, of his pension rights nor making any attempt to recover money from him.

Other senior officials linked to frauds highlighted by the "wise men" involving aid to Rwanda and Bosnia and the manipulation of a security contract are also still at their desks.

While commission officials were pondering their fate last week German chancellor Gerhard Schroder was shuttling between the capitals of the EU member states to prepare for this week's Berlin summit. The main item on the agenda was a complicated package of EU financial reforms known as Agenda 2000 and the issues included the question of a special budget rebate worth R20bn a year won by Baroness Thatcher at the Fontainebleu summit in 1984. It was clear that the summit risked being overshadowed by the question of what to do about the discredited EU team.

The French government, keen to protect the commission, initially argued against rushing into any decisions. By the weekend most member states appeared to be coming around to the view of Blair and Schroder that a speedy solution was required.

Although some of the less tainted members of the commission, including Neil Kinnock, the transport commissioner, and Leon Brittan, the vice-president, could be reappointed, Santer is on his way out.

Romano Prodi, the former Italian prime minister, was formally proposed by his successor, Massimo d'Alema. A personal friend of Blair, he is believed to have the support of other European leaders and has the advantage of being immediately available.

D'Alema is especially keen to see him go, even promising to increase Italy's annual contribution to the EU by R7bn. Prodi is trying to form a centre-left political party; sending him to Brussels would get him out of the way. The extra money will not only go some way to appeasing Schroder, who has been battling to reduce Germany's R70bn annual bill for EU membership. It could ease pressure from the Germans on Blair to surrender the British budget rebate.

Prodi's appointment is not certain, however. Blair is believed to be enthusiastic about Wim Kok, the Dutch socialist prime minister. Two other possible candidates, also socialists, are Javier Solana, Nato's Spanish secretary-general, and Antonio Guterres, the Portuguese prime minister.

Regardless of who is chosen, it is clear last week's events will shift the balance of power within the EU further towards the parliament. — The Times, London

INTERNATIONAL

New EU head of commission is chosen in Berlin

(??) BD 26/3/99

Prodi's election has been based on a full five year term in office

BERLIN — The European Union (EU) government leaders agreed on a quick change of the head of the European Commission yesterday, making former Italian Prime Minister Romano Prodi the new president of the embattled executive commission.

The decision was unanimous.

"Prodi has the ideal profile. He has the political experience," said German Chancellor Gerhard Schröder, who is chairing the EU special financial summit in Berlin ahead of the regular EU summit in Cologne in June.

Prodi will replace Luxembourg's Jacques Santer, who resigned with the other 19 EU commissioners on March 16 after a scathing report of fraud, cronyism and waste at the EU executive.

Schröder said Prodi would not serve as an interim commission president but serve a full term, which was a key condition for the Italian taking the job.

"There is no question of an interim period. We can be sure that this will involve a full period in office of five years," said Schröder.

"It is a very good choice," Greek Prime Minister Costas Simitis said. Asked if Prodi would carry out the necessary reforms, Simitis said "he can do and will do it".

Adding to the leaders' problems were complex EU rules. Prodi, a 59-year-old economist, said he would only take the top commission job for the full five-year mandate, and would not serve as a stand-in for Santer.

A permanent replacement, however, can only be sworn in by the European Parliament after voters in the 15 countries elect a new EU assembly on June 13.

One scenario is for Prodi to be appointed temporarily but on the understanding that he would be confirmed for a full term after the EU-wide elections.

It is likely that those members of the outgoing commission not personally criticised in the fraud report would stay under a new leader until the end of the year.

Also at the summit, the EU leaders tackled the budget wrangle that could hold back the EU's expansion over the next decade. The issue centres on a complex package of reforms to overhaul the EU's 85-billion euro annual spending plan in order to make expansion possible.

EU member governments are haggling over proposals to freeze farm subsidies at an average of 40,5-billion-euros a year from next year to 2006 and how to limit spending on poorer regions. The latest proposals allow between 190-billion and 216-billion euros over seven years for poor regions.

Spain, Portugal, Greece and Ireland do not want to lose aid just because east European nations, which are poorer states, join the club.

Another contentious issue is the demand by Germany, the Netherlands, Austria and Sweden — which pay more into the EU than they get back — to reduce their membership fees. — Sapa-AP.

EU has stringent standards on governance

The European Union has been harshly judged by some critics in SA, argues ambassador Michael Laidler

BD 26/3/99 (56A)

OVER the past couple of weeks, the resignation of the 20-member European Commission on the basis of findings in a report on fraud and other problems within the commission has naturally attracted large-scale media attention. This has global implications.

Overall, the coverage has been balanced, and I have been impressed by the ability of SA's media to grasp issues and understand institutional complexities which are often difficult for Europeans to follow.

Nevertheless, in more recent days, articles in some newspapers have caught my eye, being disingenuous about the European Union's approach to issues of good governance, accountability and democratic processes.

We, in the European Commission delegation in SA, at present implement a large development programme in this country to the tune of about R900m each year. It is well known that a significant proportion of this funding — nearly 20% to be precise — is targeted at programmes of good governance, democratisation and human rights. It is true that the European Union (EU) feels very strongly about these issues and is, I feel, justifiably proud of its record in these domains over the years. This is why the recent aggressive reports on the European Union's inability to practise what it preaches requires some response.

The recent situation in which the 20 commissioners resigned their posts *en bloc* in response to the report of the "wise men" appointed by the European Parliament is certainly a tragedy for the European Commission and the EU at large. Nobody would have wished for this to happen, particularly at this time of change, with so many crucial issues on the agenda. This is all the more so given that there were no instances of fraud in the implementation of the huge aid programmes administered by the commission's development directorate general.

European Commission president Jacques Santer of Luxembourg, who resigned on March 16 over charges of not controlling corruption, prepares for the start of the crucial summit meeting on Wednesday on European Union financing and operations as the threat of imminent air strikes on Yugoslavia was diverting EU leaders' attention. Picture: AFP

Yet while it remains an unhappy fact in the life of the commission, it also serves to underline the positive processes which the EU imposes on its institutions — a point many observers appear to have overlooked.

These points should be noted:

- ☐ The European Commission itself uncovered the allegations of fraud that were investigated;
- ☐ The commission itself then took action to address these allegations;
- ☐ The findings of the report did not, in fact, uncover any further allegations or incidents of fraud; and
- ☐ On the basis of these findings, all of the commissioners nevertheless agreed immediately to resign from their posts as a mark of accountability and responsibility, even though none of them was actually accused of fraud or self-enrichment.

At no stage, incidentally, did any commissioner lie or attempt a cover-up.

These points are worth noting, not because they absolve the commission, or indeed the EU, from the findings that the commission's management systems were lax and slow, and that in some cases favouritism was perceived to have been involved, but rather because they serve to show that the systems of accountability, which we in the EU hold dear, do actually work.

In this case, the implementation of these principles of good governance and accountability has resulted in the commissioners losing their jobs (despite an acknowledged record of high achievement throughout the lifetime of this particular commission), and it rendered the EU vulnerable to unbalanced assaults of the sort published recently.

To claim that the EU would be best advised to get its own house in order before supporting good governance in the rest of the world on the basis of recent events misses the point entirely, and mischievously.

It is precisely because stringent standards of accountability and good governance apply in the EU that the commission resigned. It is not our place to offer comparisons, but recent months have shown us that throughout the world accountability and the principles of good governance are sorely lacking.

Where else would you see a ministerial cabinet resign en masse on the basis of a report accusing some of its colleagues of lax management and favouritism? When has an entire government resigned on the basis of such a report?

I am not saying that this is a great day for the commission. I do, however, say it is a mark in favour of transparency and good governance which augurs for a better future than in many places elsewhere.

Despite these difficulties, we have just been able to conclude a complex and global agreement which will link the EU and SA in a long-term partnership of inestimable benefit to both sides. This has been thanks to the hard work and self-belief both of SA's ministers and officials, and the commissioner and his staff in Brussels and Pretoria.

Let us please keep self-righteousness to manageable proportions.

☐ *Laidler is head of the delegation of the European Commission in SA.*

EU courts super-sleuth Heath

(5LA) CT(BR) 1/4/99

Mothofela Niemand

Jerez — Romano Prodi, the incoming president of the European Commission, had approached Judge Willem Heath, South Africa's top anti-corruption investigator, with a proposal to undertake an audit of the affairs of the executive of the European Union (EU), sources in Brussels said yesterday.

The entire 20-member EU commission resigned two weeks ago after a damning report released by an independent panel said the EU's executive body had lost control over its operations and was guilty of financial bungling and widespread neglect in its handling of millions of dollars of EU business.

Speculation is circulating in Brussels that the commissioners stood in the way of the trade deal with South Africa, only concluded shortly after all 20 resigned, due to personal financial interest in the European port and sherry markets. It is thought many were involved in a company that imported South African port and sherry only to relabel it as Portuguese port and Spanish sherry.

Heath is expected to unravel this saga, among others, using the skills he has learnt while uncovering so-called "amateurish fraud" in South Africa. He may find the more sophisticated Europeans "a hard nut to crack", said a top US FBI investigator also involved in uncovering fraudulent imports of Californian sparkling wine apparently relabelled as champagne.

Heath's record of recovering missing millions and bringing the perpetrators to justice in South Africa has led to many top companies and countries competing for his services.

Heath was abroad yesterday and could not be contacted for comment.

However, top political pundits in South Africa are concerned by the possible "brain drain" of experts to assist in managing internal European affairs.

South Africa recently lost the services of Judge Richard Goldstone to a European tribunal investigating war crimes. Speculation circulated at the recent World Economic Forum in Davos, Switzerland, that Alec Erwin, South Africa's top trade negotiator credited with solving the EU/SA trade deal impasse, would in future conduct trade negotiations for the EU with the US.

And the Swiss-based International Telecommunications Union is said to be headhunting Jay Naidoo, the minister of telecommunications, who was unable to comment as he is somewhere in Africa on a car rally.

New EU payment system

George Graham

(56A)

BD 3/5/99

Financial Times

LONDON — Leading European banks will start work on a new system to handle small cross-border payments throughout the European Union.

The Euro Banking Association, which already runs a clearing system handling $188bn of payments a day, will start developing a low-value payment system which it hopes to have in operation before the introduction of euro notes and coins in 2002.

Banks have come under attack for not making large enough cuts in the price of transferring money to other countries since the introduction of the euro.

Although the euro has eliminated the currency risk involved in transfers, it has not got rid of the expense. A cheque denominated in euros can still be cleared only in the country in which it is issued.

EU takes vow of silence on the euro

COLOGNE — European Union (EU) leaders attending a summit meeting yesterday vowed to send markets a positive message on the battered euro currency by signalling a commitment to growth and stability.

As the fledgling euro bumped to a record low of $1,0303, German Chancellor Gerhard Schröder reaffirmed that no one in Europe had an interest in the euro being a weak currency.

With the euro plumbing new depths against its rival dollar, leaders were under pressure to reassure jumpy traders, but Germany urged them to keep a lid on public comments, reckoning that a flurry of soundbites may do more harm than a collective vow of silence.

EU finance ministers, at the Cologne meeting later agreed to keep mum in future and let the European Central Bank do the talking on euro exchange rates.

EU leaders were also waiting to hear how Belgrade views the international community's latest Kosovo peace plan.

There was no immediate reaction to news from Yugoslavia that the Serb Parliament had accepted the EU-Russia plan put to Yugoslav President Slobodan Milosevic by EU envoy Martti Ahtisaari and Moscow's Balkans envoy Viktor Chernomyrdin.

The summit meeting was due later to endorse an unambitious European "Employment Pact", discuss the bloc's latest health scare over poisoned animal feed that has led to dumping of chicken and eggs, and formally kill off duty-free shopping on internal travel within the Union from July 1. — Reuter.

BD 4/6/99 (56A)

Europe sits tight as weakness effects trickle down

CT (BR) 9/6/99 (56A)

THOMAS SIMS

Patience will be a virtue for those hoping to see a boost for the euro-zone economy resulting from its weakening currency.

Economists say the 12 percent weakening of the euro against the dollar so far in 1999, and the subsequent boon to the region's exports, will only add 0,10 percentage point to euro-zone gross domestic product (GDP) this year.

The full effect of the weakening euro will emerge in 2000, with an additional 0,5 percentage point of GDP growth if the euro remains at current levels.

International institutions forecast 2 percent growth this year and 2,7 percent growth in 2000 for the 11-nation region.

German GDP data for the first quarter, released yesterday, showed continuing export weakness despite the euro's 8 percent fall during the period.

On the whole, however, German GDP for the first three months of this year was better than expected on the back of strong investment, providing hope that the economy has bottomed out.

Germany, the euro zone's largest economy, has also been the region's greatest burden with its dismal outlook.

Wim Duisenberg, the president of the European Central Bank (ECB), shares the view that the weakening of the euro is having a positive effect on the economy. Last week he said the weakening of the euro "isn't something we strive for. But that it has the effect (of stimulating exports) cannot be denied".

Like the Fed, its counterpart in the US, the ECB has proved during its short history to be relatively relaxed about exchange rate fluctuations because the euro zone, like the US, is a largely closed economy.

Only about 15 percent of euro-zone GDP stems from exports.

As long as the euro doesn't weaken to such an extent that it causes imported inflation, the ECB is likely to enjoy the economic benefits of a weaker euro.

Top ECB officials have stressed that the currency would have to fall quite a bit further before triggering such inflation. Many economists believe corporations will accept lower profit margins rather than pass on imported inflation to consumers.

"The euro will have a positive effect on exports," said Ulrich Beckmann, the head of German economic research at Deutsche Bank in Frankfurt.

"But we won't see the first effect of this until the second quarter of this year."

Germany's GDP rose a real 0,4 percent in the first quarter compared with the fourth quarter last year, and 0,7 percent on the year. The government expects GDP growth of 1,5 percent this year.

The data are better than expected. According to a survey of economists, analysts had expected a rise of 0,2 percent on the quarter and 0,5 percent on the year.

First-quarter growth benefited most from a 7,9 percent annual increase in capital investment. Before placing funds in the first quarter, investors were apparently holding out for the introduction of the euro and special tax laws.

They were probably also waiting for the global economy to improve from its fourth-quarter slump, said David Kohl, an economist with Bank Julius Baer in Frankfurt.

Exports, by contrast, were still suffering from the negative influence of the Latin American and Russian crises last autumn, economists said.

Exports fell a real 0,8 percent on the quarter from the first quarter of last year.

Economists are split over whether the strong exports revealed in German April manufacturing data on Monday are linked to the euro's weakening.

"It takes a long time for currency changes to take effect, up to a year to 18 months for the full effects," said Robert Prior, the European economist with HSBC in London.

"Orders data are also quite volatile."

German manufacturing orders jumped 3,3 percent in April after a weak start to 1999, with a 5,1 percent in foreign orders compared with a 2,3 percent decline in March.

To get a better view of how the euro's weakening may be helping the economy, analysts are keeping a close eye on industrial confidence indicators.

Indeed, confidence at industrial firms in the euro zone improved in May.

The European Union Commission said last week its industrial confidence index rose to minus 10 in May from minus 11 in April.

It said managers in European industry were again more optimistic about output expectations, as well as both order books and stocks, compared with the previous month. – Dow Jones

Mercosur, EU enter new era

AN 1/7/99 (5bA)

However, only preferential access to global markets will benefit Latin America's poor

RIO DE JANEIRO — Leaders from the European Union (EU) and Latin America have ended a two-day summit that was, on the face of it, about free trade.

In a wider sense, however, it celebrated the economic and political changes that have transformed western Europe and Latin America in recent years, enabling them to elevate relations to a more meaningful level and counterbalance US trade clout in the Americas.

German Chancellor Gerhard Schröder set the tone in an address on Monday in which he praised Latin governments for taking to heart democracy, market economies, disarmament and financial reforms.

That kind of talk stands in sharp contrast to the image — long popular in Europe — of Latin nations run by medal-bedecked tin-pot dictators who come and go in bloody coups. However, Europeans no longer see it that way, Schröder said.

He praised such milestones as the Peru-Ecuador peace accord; Colombia's talks with warring factions; the end of civil wars in central America; and Brazil and Argentina shedding military dictatórships to become champions of free trade.

"We have seen progress towards more democracy on this continent ... we could not have imagined 10 years ago," Schröder said on Tuesday, the final day of the summit.

That is also true for the EU, whose 15 members have forged an unprecedented political union and launched a single currency in the past 10 years.

The Rio summit launched a new era of economic and political co-operation marked by a drive to liberalise trade, for starters with the Mercosur nations of Brazil, Argentina, Paraguay, Uruguay and Chile.

These talks have no deadline — their duration depends on the evolution of global trade talks through the World Trade Organisation, which open late this year.

Free trade, according to the EU, will enrich the EU by $6bn a year and the Mercosur side by $5bn. EU exports to Latin America in 1997 reached $52,4bn, well above EU imports of $38,1bn.

President Fernando Henrique Cardoso of Brazil, the summit host, called a decision to launch negotiations towards a Europe-Latin America free trade zone "ambitious".

"What is at stake is fundamental.... It's the development of a shared prosperity. It's the construction of a legitimate international order. Globalisation has to apply to all. It cannot be a gift for the rich and a hardship for the poor."

Will free trade with Europe benefit the poor in Latin America?

The British charity, Oxfam, which does poverty-relief work around the world, said the EU mistakenly believes "trade and investment liberalisation equals ... poverty reduction". It said the Latin American poor would benefit only if the EU granted preferential access to European markets for Latin goods.

That will not happen. France is eager to keep sugar, beef and cereals out of a free trade deal, fearful that such imports will harm its farmers. Brazilian officials said, however, that even without agricultural products, an EU-Mercosur free trade agreement would cover 90% of two-way trade.

The new "strategic partnership" the Europeans and Latin Americans set in motion coincides with efforts by the US to craft a pan-American free trade area by 2005.

For the Europeans, their new relationship with Latin America mirrors their efforts to forge stronger ties with countries in southeast Asia. Those relations have soured amid Asian complaints of European harping on human rights.

Schröder made clear that Latin America would not be treated differently. "I appeal to those who up to now have resorted to violence to put an end to it," he told the Rio summit.

"Massacres by paramilitary forces are to be condemned in just the same way as terrorism.

"Hijacking aircraft or dragging people off in the middle of church services are criminal acts." — Sapa-AP.

EU wants protection dismantled

CT(BR) 12/7/99 (56A)

JOHN FRASER

Brussels – Sir Leon Brittan, the European Union (EU) trade commissioner, last week called on the industrialised nations to dismantle virtually all their protectionist tariffs against exports from the least developed nations within three years.

He made his call after the entire EU Commission had adopted a strategy paper for the next round of multilateral trade negotiations, which has become known as the Millennium Round, and which will be launched by ministers from the World Trade Organisation in Seattle later this year.

The document, which now goes to EU ministers and to the European parliament, says "a new round should provide benefits to developing countries, and assist the integration of those countries, particularly the least-developed countries".

Sir Leon noted that it also contained a call for all industrialised countries to "commit themselves to tariff-free treatment on essentially all products from the least developed countries, to be implemented by 2003, while more advanced developing countries could also make a contribution." – Independent Foreign Service

Top European officials face job moves curb

Commission deal reflects president-designate Romano Prodi's determination to run a clean and transparent administration

(ทbA) BD 20/7/99

Peter Norman

Financial Times

AARTSELAAR — Romano Prodi's team of European Union (EU) commissioners will be subject to a one-year "cooling-off period" after leaving office in which their prospective jobs could be vetoed by a special ethics committee to prevent them using inside information for financial gain.

Prodi, the Commission president-designate, has announced agreement on a wide-ranging code of conduct that will require the EU's top executive body "to act in accordance with the highest standards of public life".

The deal, agreed at Prodi's first, informal meeting with the 19 future commissioners near Antwerp in Belgium, marked a rapid response by Prodi to the recent scandal surrounding the decision of Martin Bangemann, the outgoing industry and telecommunications commissioner, to accept a lucrative post with Telefonica, the Spanish telecoms company.

By tightening other rules covering business trips and expenses, the composition of the commissioners' private offices, and declaration of commissioners' private financial interests, the code also reflected Prodi's determination to run a clean and transparent administration to avoid the fate of the one that resigned in March after a damning report into charges of mismanagement, nepotism and fraud.

At the weekend bonding session, Prodi also modified commission procedure to reflect the more prime ministerial style he plans to exercise once his executive begins functioning in late September.

He said the meeting marked "important progress" towards a "new era of change" with a commissionworking on the principles of "teamwork, transparency, efficiency and accountability".

Promising to "offer leadership", he said: "I want each commissioner to be a star, a big star, in his or her own policy area."

The new commissioners agreed to strengthen co-ordination of policy-making in the EU executive by setting up five working groups of commissioners to tackle important policy issues, including unemployment, external relations and reform of the commission.

The meeting adopted new procedures for senior appointments to the public service to banish suspicions that many important jobs at director-general and deputy director-general level were effectively reserved for nationals of a single country.

Prodi made it clear that he wants his executive to be independent of member states' interference.

To prevent national governments arm-twisting commissioners into delaying EU action that they regard as unpalatable, it will no longer be possible for one commissioner to seek postponement of a commission decision without Prodi's agreement.

The tighter code of conduct will restrict commissioners' use of air taxis to cases of "strict necessity and extreme urgency" and make travel on supersonic Concorde flights dependent on prior authorisation from Prodi.

Commissioners will also have to declare their spouses' professional activities and financial interests when these might trigger a conflict of interests.

EU plans to use aid funds for debt relief

BD 6/9/99

European Union's new proposal could help ease pressure on IMF to sell gold stocks

(56A)

(297)

John Dludlu

CERTAIN European Union states are proposing that about €1,7bn worth of unspent aid funds be used in alleviating the debt burden of the EU's former African, Caribbean and Pacific (ACP) colonies, a move that could substantially lessen the pressure to sell gold stock of the International Monetary Fund (IMF) to fund further debt relief.

Philip Lowe, the director-general for development in the European Commission, the EU's executive, indicated on Friday that the proposal to use the aid funds to "strengthen the position of highly indebted ACP countries" would require a go-ahead by the ACP. The proposal, raised by some EU members, had yet to be confirmed.

Lowe mentioned the fresh thinking on the controversial issue of financing further debt relief for poor nations in the context of the EU's attempt to assist SA's neighbours to cope with the negative effects of the EU-SA agreement on trade, development and co-operation.

The EU is also considering using unallocated funds from the fund to provide budgetary support to SA's Southern African Customs Union partners whose income from the union stands to decline when SA begins scrapping tariffs on EU imports.

Lowe stressed that he was not indicating the precise manner in which the unallocated funds would be used. "All I'm saying is in response to specific requests from a (customs union) country, it seems to us there's quite good margin to manoeuvre to build in that extra (budget) support..."

The fund is the financing mechanism of the Lomé Convention, the EU's longstanding trade, aid and political accord with the ACP nations.

It is understood about €1,7bn in aid was unallocated during the implementation of the sixth and seventh development funds — which part-financed the third and fourth Lomé. The funds have accumulated thanks to poor aid absorption capacity of the ACPs and due to the conflict situations in about 17 ACP countries which have led to the suspension of EU aid.

The suggestion to use unallocated aid to provide debt relief comes in the wake of continuing calls by African governments that rich countries should look at other means of funding further debt relief rather than using extensive sale of IMF gold holdings.

Lowe also disclosed that he expected fisheries talks with Pretoria to start as early as SA's spring. However, informal discussions between technocrats from both sides were taking place.

The EU, which has a general negotiating mandate, would have to formulate a more comprehensive position.

He said the issue of EU fishermen's access to SA waters should not be looked at in isolation from other aspects of the deal such as co-operation in conservation, research, and assistance with control. The fisheries agreement is inextricably linked to the general EU-SA agreement: in other words, tariff reduction in certain fish-based products will only happen after agreement on a fisheries accord.

MONETARY UNION

The euro still faces major obstacles

CT(BR) 17/9/99 (GLA)

Christopher Rhoads

The nearly nine-month-old single currency of the 11 European countries that make up the economic and monetary union (EMU) has passed most of its initial tests, but bigger ones await.

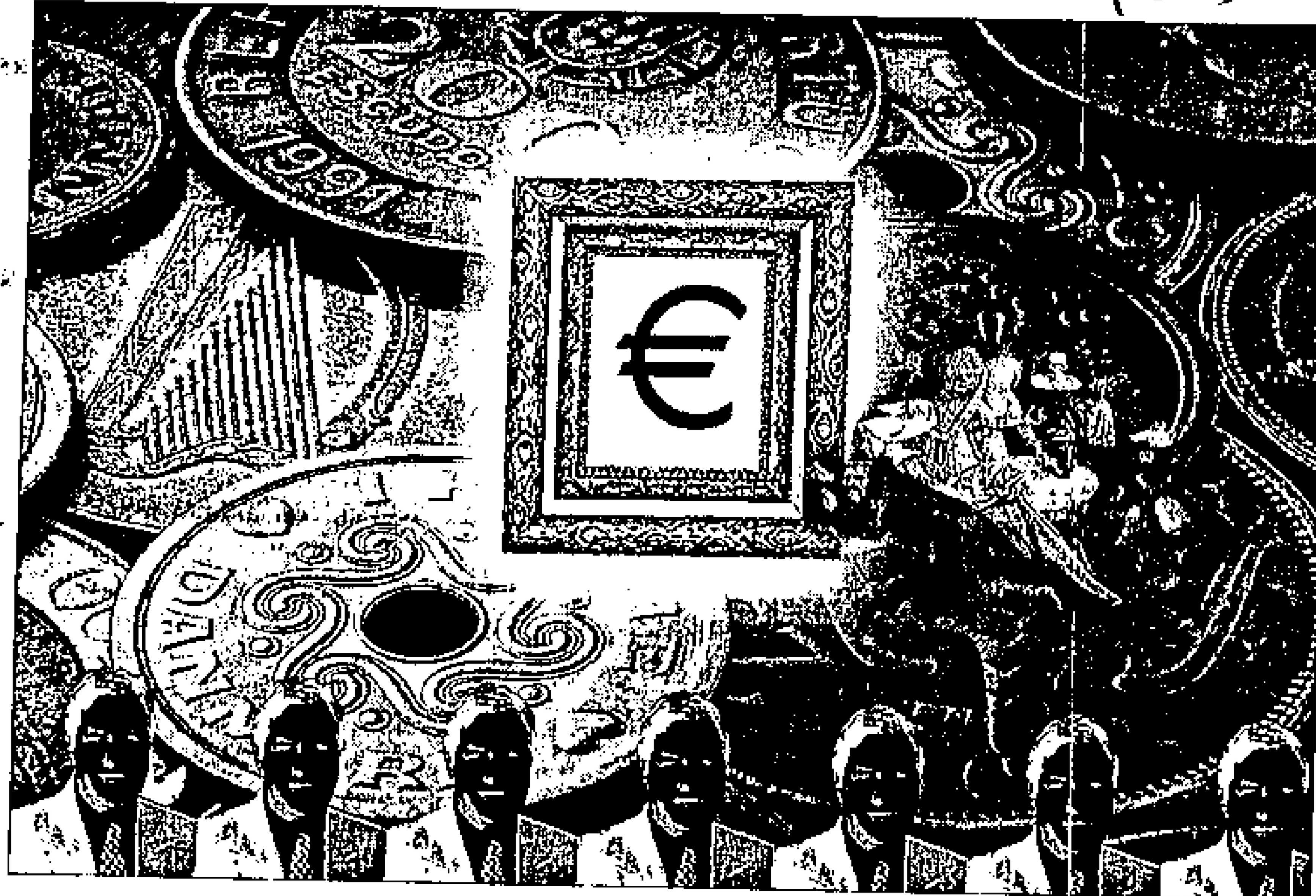
Threats to the euro's success include potentially softer fiscal policies emanating from left-leaning parties that now run European governments; political discontent that could arise from the first European Central Bank (ECB) rate increase expected early next year; and a correction - or even crash - of the US stock market.

"If the euro is not successful, and does not become stable, then that would be a harsh slap (to) the entire European community," said Martin Huefner, the chief economist of HypoVereins-Bank, a Munich-based bank. "We cannot allow that to happen."

Huefner was speaking at a recent round table discussion on the future of the euro. He was joined by Norbert Walter, the chief economist of Deutsche Bank; Roland Vaubel, an economics professor at the University of Mannheim; and Thomas Mayer, a economist with Goldman Sachs in Frankfurt.

The four agreed that a host of questions about the new currency, and indeed the entire EMU project, had yet to be answered.

Firstly, they said, the stability and growth pact, which outlines deficit, debt and other criteria for member countries, would probably be tested as a number of member countries approached national elections in the next two years.



Vaubel said that with the majority of member governments already run by left-leaning parties - including those of Germany, France and Italy, the largest three countries - fiscal austerity was not likely to be the order of the day. He said 10 countries would go to the polls between 2002 and 2004. "I see a serious risk in this period."

If softer fiscal policies ensued, the ECB might feel compelled to compensate with a tighter monetary policy.

Vaubel also said there would be potential danger when the ECB's executive council was changed in 2002. Except for Wim Duisenberg, the president and a Social Democrat, the six-person council is made up of liberal conservatives. But Vaubel said with left-leaning parties now at the reins of many governments, the new representatives were likely to reflect their governments' softer monetary outlooks.

Mayer and Huefner disagreed, pointing out that the Bundesbank, Germany's central bank, had maintained its allegiance to low inflation regardless of the political positions of past bank presidents.

Another test will come when the ECB decides to raise interest rates for the first time, expected by many in the first half of next year. "The big political problem will come when the ECB raises rates for the first time," Huefner said. "(It) could well be the test of maturity for the ECB."

While several countries, such as Ireland and Spain, are showing growth above 2 percent, others, including Italy and Germany, are closer to 1 percent. A rate increase would crimp the nascent growth in the slower countries.

The ECB has lowered rates once, by half a percentage point in April - a move described by several of the economists as shortsighted and "a mistake".

They said many leading indicators at the time pointed to an upswing in the economy, and because interest rate moves typically took up to a year to feed through the economy, euroland would feel April's rate cut when it expected to be well into its recovery.

Economists expect euroland growth of about 3 percent next year, challenging the US gross domestic product growth rate.

The economists also faulted the ECB for confusing markets in the months after the euro's introduction in January. They said the bank made contradictory remarks about its view of the euro's value against the dollar, and the euro plunged by close to 15 percent from its initial value to about $1.01 in June.

But Walter said the clamour over the euro's fall was overdone. "The debate over the life of the euro so far is factually false," he said.

This is true. Theoretically the euro's performance should be measured back to May 1998, when the 11 countries voted to formally accept it. It was valued then at $1.08 based on the constituent currencies, meaning that its fall was much less dramatic than perceived. It was introduced on January 4 at $1.18 and was at $1.04 last night.

Whatever the coming months bring, the euro had already had a positive effect on creating a more liquid capital market and forcing companies to become more efficient, the economists said. They added that though Italy caused some concern six months ago when it said it couldn't meet its initial budget deficit forecasts, the belt-tightening it had accomplished would have been unthinkable without EMU. - Dow Jones

BD 11/10/99 (56A)

Finally, an EU man with no baggage has arrived

The new development commissioner appears squeaky clean and has a long history of assisting the developing world, writes John Dludlu

Surfing the internet, anyone interested in the new European Commission, the European Union's (EU's) executive, finds a declaration of personal interests signed by Poul Nielson, the commissioner responsible for development, including SA.

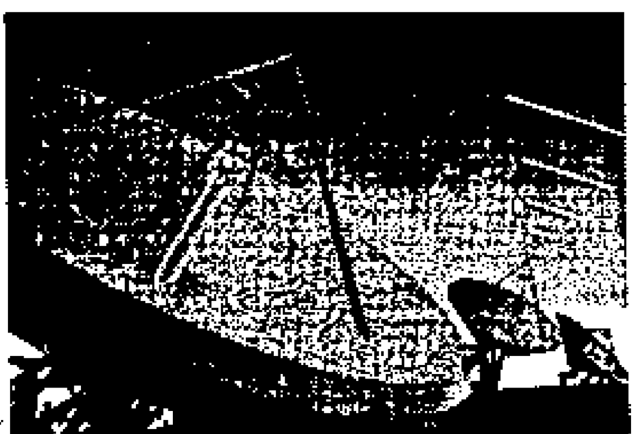
Part of a strategy to enhance the transparency and incorruptible image of the new commission headed by Romano Prodi, Nielson's declaration is littered with "none" and "0". It shows that the former Danish development co-operation minister owns no shares or investment securities, has no real estate or other property and has held no post in an educational institution or foundation in the past 10 years.

The entries convey a symbolically powerful message. Finally a man with no baggage has arrived. Unlike his predecessor João de Deus Pinheiro, the former Portuguese foreign minister, Nielson comes from a country which has been associated with the struggles of the poor worldwide and the dispossessed, notably in SA.

Today he is in SA for the first time since joining the commission. Initially scheduled to arrive for a signing ceremony marking the culmination of years of negotiating over the EU-SA deal, he has had to don the mantle of fireman.

With hectic exchanges on the port and sherry clauses of the trade agreement continuing through the weekend, Nielson had to negotiate at the highest levels yesterday in the hope of saving the signing ceremony. He is a man who brings more heart, more personal sympathy than most European bureaucrats to the talks with SA.

His declaration of assets reflects pretty much the day-to-day lives led by hundreds of millions of poor people worldwide: most tend to have no access to such sophistication as share investments or real estate.



Newsmaker

Poul Nielson

EU commissioner: development

As a development and humanitarian aid commissioner, Nielson is responsible for bettering the lives of those less fortunate than him in Europe and other parts of the world. Most of these live in the EU's 71 former colonies in Africa, the Caribbean and the Pacific.

Nielson's personal relationship with SA dates back to his days as development minister. This is his third working visit to SA this year: he represented Denmark at President Thabo Mbeki's inauguration and earlier took part in celebrations of the solidarity struggle.

Before being asked by Prodi to join the EU commission after the mass resignation of Jacques Santer's team following a damaging report on nepotism and mismanagement, Nielson was a strong contender for the top job at the United Nations Development Agency. This testifies to his strong development expertise and international stature.

Veronika Wand-Danielson, the spokesman for Philip Lowe, the EU's development director-general, says Nielson has identified poverty alleviation as one of his priorities. He also wants to reform EU aid to improve efficiency and access by simplifying the budget lines from 40 to seven.

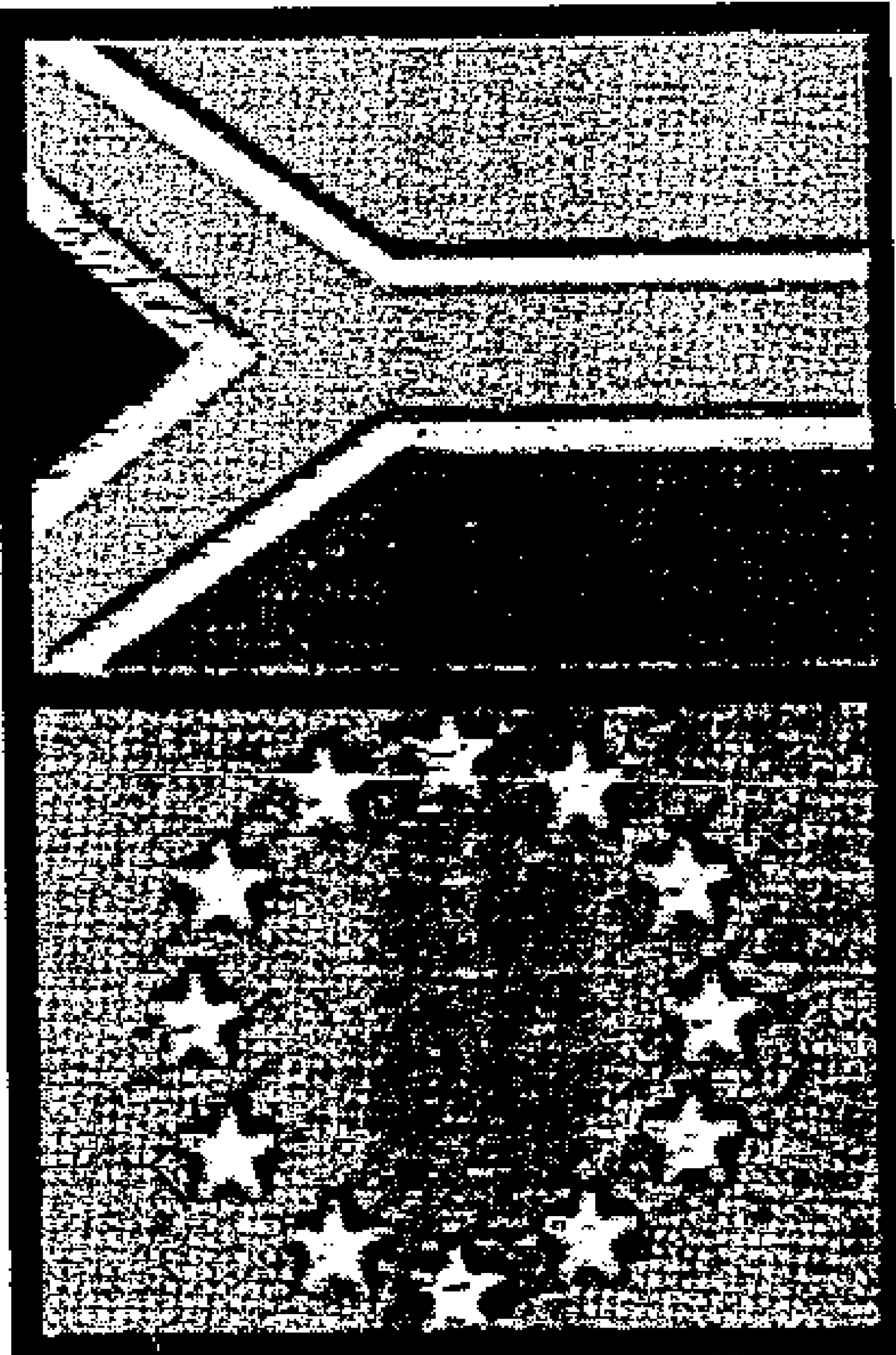
Christian Balslev-Olesen, the director-general for development agency Danchurchaid, says Nielson, with whom he worked for five years, is committed to both "quantity and quality of aid" to Africa.

Nielson has lobbied strongly for more aid to Africa, an attitude that he brings to the commission, says Balslev-Olesen.

He is also keen to decentralise development co-operation by working more closely with civil society in "our partner countries", Wand-Danielson says. The promotion of human rights is also close to Nielson's heart.

As a professional manager of development, he brings to the job a certain truthfulness about aid: he does not see aid in ideological terms. He sees it as a tool for development and not merely an instrument of foreign policy by donors, says Balslev-Olesen.

Nielson is known for being "open and direct" in his dealings with others and a stickler for detail, a trait that often puts him on collision courses with those working with or for him.



Balslev-Olesen says it is this quality that makes Nielson appear arrogant and difficult in the eyes of the press. Together with a sharp intellect and quick grasp of complex subjects, the perceived arrogance is among some of the traits that Nielson shares with Pinheiro. However, unlike the golf fanatic and easy-going Pinheiro, who had a passion for life, Nielson seems a serious-issues man.

His challenge in the commission will be to convince his colleagues, notably the bigger EU states, to step up or maintain at decent levels aid flows to the African Caribbean Pacific (ADP) countries and other regions.

This will not be easy in an environment fraught with varied political agendas, says Balslev-Olesen.

It will also be crucial that he helps ACP countries improve their capacity to absorb aid and enhance its effectiveness.

Nielson will also be in charge of negotiating a new Lomé Convention, the EU's trade, aid and political partnership with ACP countries. In spite of its generous trade concessions, this pact, of which SA is a qualified member, has failed to assist the integration of ACP countries into the global economy.

With the tough negotiations over Lomé and in SA, Nielson will discover that being development commissioner requires more than just an image of blending with the poor.

He will also have to build a strong partnership with civil society, EU governments and their partners in the developing world to alleviate poverty.