

2001 Country Reports on Economic Policy and Trade Practices

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EUROPEAN UNION

Key Economic Indicators

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

	1999	2000	2001 1/
<i>Income, Production and Employment:</i>			
Nominal GDP	8,464.5	7,891.5	8,280.7
Real GDP Growth (pct)	2.5	3.4	3.1
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (Thousands of US\$)	22.4	20.8	21.9
Total Employment (Annual percentage change)	1.6	1.6	1.7
Unemployment Rate (pct)	9.2	8.4	7.8
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M2/M3)	9.3	N/A	N/A
Consumer Price Inflation	1.2	2.1	2.1
Exchange Rate (USD/ECU annual average)	1.06	0.93	N/A
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	808.5	870.8	N/A
Exports to United States	192.5	214.9	N/A
Total Imports CIF	823.7	953.8	N/A
Imports from United States	167.4	183.6	N/A
Trade Balance	-15.2	-83.0	N/A
Balance with United States	25.1	31.3	N/A
External Public Debt (pct of GDP)	67.7	64.1	60.9
Fiscal Deficit/GDP (pct)	-0.7	1.2	-0.2
Current Balance/GDP (pct)	0.3	-0.2	-0.3
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gross Official Reserves (Billions of USD)	439.6	N/A	N/A
Aid from United States 2/	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

Source: European Commission

1/ Estimates.

2/ Military aid=0

1. General Policy Framework

The European Union (EU), the largest U.S. trade and investment partner, is a supranational organization comprised of fifteen European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. It is unique in that its member states are ceding to it increasing authority over their domestic and external policies. Individual member state policies, however, may still present problems for U.S. trade, in addition to EU-wide actions.

The EU's authority is clearest in trade-related matters, particularly "traditional" trade issues. As a long-standing customs union, the EU represents the collective external trade interests of its member states in the World Trade Organization (WTO). Internally, the free movement of goods, services, capital, and people within the EU is guaranteed by the Single Market program, an effort to harmonize member state laws in order to eliminate non-tariff barriers to these flows. Externally, with respect to services, investment and intellectual property rights issues, competency for policy and negotiations is shared between the EU and its member states. Beyond economics and trade, the EU is developing its other two "pillars": the common foreign and security policy (CFSP), and justice and home affairs (police and judicial cooperation).

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

The Union's budget, consisting mainly of member state contributions because the EU has no independent taxing authority, is limited to 1.27 percent of the combined GDP of the 15 member states. Expenditures of roughly \$90 billion are divided generally among agricultural support (40 percent), "structural" policies to promote growth in poorer regions (40 percent), other internal policies (5 percent), external assistance (5 percent) and administrative and miscellaneous (5 percent).

The EU is currently preparing for the fifth enlargement and is negotiating accession agreements with twelve countries: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary,

Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, and Slovenia. The best prepared of these countries are expected to join the EU by 2004. Turkey is also a formal candidate country but has not yet begun accession negotiations. Work is underway within the EU to update and reform the existing institutional structures to accommodate these potential new members.

2. Exchange Rate Policy

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

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

3. Structural Policies

Single Market: The legislative program removing barriers to the free movement of goods, services, capital, and people is largely complete, although there are delays in member state implementation of Community rules and national differences in the interpretation of those rules. The net effect of the Single Market program has been freer movement, fewer member state regulations for products and service providers to meet, and real consolidation of markets. Nonetheless, some aspects of the program have created problems for U.S. exporters (see below).

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

4. Debt Management Policies

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

5. Significant Barriers to U.S. Exports

Import Policies

Import, Sale, and Distribution of Bananas: On April 11, 2001, the U.S. government and the European Commission reached an agreement to resolve their long-standing dispute over the EU's banana import regime. The new regime, which is expected to enter into force on January 1, 2002, will provide a transition to a tariff-only system by 2006. During the transition, bananas will be imported into the EU through import licenses distributed on the basis of past trade. In the past, two EU banana regimes were challenged successfully in the WTO, prompting U.S. retaliation worth \$191.4 million against EU products. Under the terms of the agreement, the United States has suspended sanctions and will definitively lift the sanctions upon WTO issuance of an Article XIII waiver.

Restrictions Affecting U.S. Wine Exports to the EU: Current EU regulations require imported wines to be produced only by specifically authorized oenological practices. Since the mid-1980s, U.S. wines have entered the EU market under a series of "derogations" granting EU regulatory exemptions. Negotiations on an agreement with the EU to ensure the EU market remains open to U.S. wine have been underway for several years but agreement has not been reached on a number of key issues, including in particular mutual recognition of oenological practices. The United States does not believe EU legislation on "traditional expressions" (terms such as "vintage" or "tawny") is consistent with the WTO Agreement on Trade Related Intellectual Property Rights (TRIPS), and therefore does not believe this area is appropriate for bilateral negotiation.

Services Barriers

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

developments with respect to the Broadcast Directive, which is scheduled to undergo a revision in 2002.

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

Postal Services: U.S. package and express mail service providers remain concerned that the prevalence of postal monopolies in many EU countries restricts their market access and subjects them to unequal conditions of competition. The Commission's May 2000 proposal to further limit the scope of the services that can be reserved for monopoly provision has faced stiff opposition in the European Parliament and some EU member states. It would require member states to reduce weight-limits on letters and direct mail from 350g to 50g by January 1, 2003. It would also require a reduction in price limits from five times the standard tariff to 2.5 times, and open up competition in express mail services and outward cross-border mail. However, in November 2000, the European Parliament's Regional Policy, Transport, and Tourism Committee voted that state monopolies could continue on all letter mail below 150g. If Parliament's vote stands, only 10 percent of the postal markets will be liberalized from 2003, instead of the 20 percent favored by the Commission.

Standards, Testing, Labeling and Certification

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

Businesses on both sides of the Atlantic have highlighted the importance of standards issues in U.S.-EU trade relations, in the context of the Transatlantic Business Dialogue and other fora. Although some progress has been made, a number of problems have caused concern to U.S. exporters. These include: legislative delays, inconsistent member state interpretation and application of legislation, the ill-defined scope of various Directives, unclear marking and labeling requirements for regulated products, and a frequent tendency to rely on design-based

rather than performance-based standards. Such problems can complicate and impede U.S. exports to the EU.

Mutual Recognition Agreements: In order to reduce standards-related trade barriers, the United States and the EU are committed to advancing joint efforts to promote mutual recognition, equivalency, and harmonization of standards. In 1998, both governments negotiated a Mutual Recognition Agreement (MRA) covering several important sectors (medical devices, pharmaceuticals, telecommunications equipment, electromagnetic compatibility, electrical safety, and recreational craft) allowing for conformity assessments to be performed in the United States to EU standards and vice versa. Both sides continue to work on issues related to the implementation of this MRA. Additionally, a separate MRA covering marine safety equipment was signed in June 2001 by the United States and the EU under the Transatlantic Economic Partnership (TEP) and negotiations are continuing on MRAs for insurance services, architects and engineers. Finally, the United States and EU continue to work through TEP in developing a joint text on Guidelines for Regulatory Cooperation.

PECAs: The EU has concluded Protocols to the Europe Agreements on Conformity Assessment and Acceptance of Industrial Products (PECAs) with several Central and East European (CEE) countries that are candidates for EU accession. PECA agreements with the Czech Republic and Hungary entered into force in June and July 2001, respectively. PECA Agreements with Latvia and Lithuania have been initialed, but no implementation dates have been set. PECAs are being negotiated with six other countries in the CEE region.

Under a PECA, the EU and the accession candidate agree to recognize the results of each other's designated conformity assessment bodies/notified bodies, thereby eliminating the need for further product testing of EU products upon importation into that country. Only those products exported to the third country which are: (i) of EU origin, and (ii) certified by an EU notified body with the CE mark illustrating compliance with EU standards, will benefit from the provisions of the PECA. The United States has raised concerns about the PECA rule of origin, and the possible discriminatory effects of this provision, in a variety of WTO and bilateral fora, as well as with PECA partners.

Biotechnology Product Approvals and Labeling: The EU's de facto moratorium on approvals for products made from modern biotechnology is adversely affecting U.S. exports of corn and oilseed rape (canola). In July 2001, the European Commission agreed on proposals for traceability, labeling, and biotech food and feed authorizations. These new proposals and draft Directive 01/18 (formerly known as 90/220) encompass the overall Commission strategy to restart the biotech approval process. The draft legislation contains three key parts: process-based labeling for food and feed products that contain or are derived from biotech ingredients, provisions for event-specific identity markers, and a tolerance for adventitious (unintended or accidental) presence of unapproved varieties. It is now up to the Commission to restart approvals based on companies' voluntary commitments to implement key elements of the draft proposals. There are concerns on the part of industry that many aspects of the new proposals would be unworkable, so that even if approvals were restarted, voluntary implementation of the Regulations as written would prove impossible.

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

Specified Risk Material Ban: In May 2001, the EU adopted new legislation (Regulation 999/2001) affecting third-country requirements to remove specified risk materials (SRMs). The so-called TSE (Transmissible Spongiform Encephalopathies) Regulation replaces the previous SRM ban and includes transitional measures affecting imports as of July 1, 2001. These measures include certification that products of bovine, ovine and caprine origin do not contain SRMs or mechanically recovered meat and that the animals were not slaughtered by pithing or gassing. Additional transitional rules affecting imports entered into effect on October 1, 2001. These include extending the list of products that are obligated to meet the SRM requirements to include: rendered fats, gelatin, petfood, bones and bone products and raw material for the manufacture of animal feedstuffs. Exemptions from the above requirements are given to countries whose geographic BSE risk classification (GBR) is one (free from BSE). The GBR for the United States is two (provisionally free), therefore exporters from the United States will be required to certify SRM removal.

Under the TSE legislation, countries are required to submit information for classification of TSE status. This status is based on the OIE (International Organization of Epizootics) criteria and will be determined by the countries' current GBR status as well as risk management measures, education, notification, surveillance and monitoring, and an affective feed ban in place. Country applications must be submitted to the Commission by January 1, 2002, and the Commission will determine third-country classifications by July 1, 2002. Under current OIE criteria, countries classified as either one or two are not required to remove SRMs. The status of the United States will be reviewed in this context.

Antimicrobial Treatments for Poultry: In 1997, the EU introduced a sanitary regime concerning poultry that did not permit the use of antimicrobial treatments, which most U.S. poultry producers use to reduce the level of pathogens in their products. U.S. poultry exports to the EU of around \$50 million per year have since disappeared. Based on a 1998 study by the EU of the safety and efficacy of antimicrobial treatments, which concluded that some treatments could be used as a supplementary measure, the U.S. government has requested that the EU approve the use of certain antimicrobial treatments.

Emergency Measures for Coniferous Non-Manufactured Wood Packing Material: The European Commission has adopted emergency measures requiring the treatment and marking of all new and used coniferous (e.g. pine, spruce, fir) non-manufactured wood packing material (NMWP) originating in the United States, Canada, China, or Japan beginning October 1, 2001, to prevent the introduction of the pinewood nematode. The pinewood nematode is a microscopic

eelworm which has caused extensive mortality in pine trees in Japan and China. Work is currently underway in the United States to set up a program to meet the measures adopted by the EU. The United States has chosen to utilize the heat treated or kiln-dried mitigation as the preferred option to eliminate this pest on NMWP. However, the industry is likely to utilize fumigation as well. The International Plant Protection Convention, which is recognized by the World Trade Organization as the official plant protection body, will likely adopt measures very similar to those of the EU in April 2003 for all NMWP (softwoods and hardwoods).

Hushkits or New Engine Modified and Recertificated Aircraft: In 1997, pressure on EU authorities to reduce noise levels resulted in a European Commission (EC) effort to develop an EU-wide noise standard. When it became clear that it would be politically impossible to agree on such a standard, the EU member states adopted a regulation limiting the registration and use within the EU of certain aircraft that had been modified and recertificated to be in full compliance with the existing performance-based standard adopted by the International Civil Aviation Organization (ICAO), and to which the EU member states had agreed. The EU regulation that entered into effect on May 4, 2000, establishes a design standard that restricts the operation of those recertificated aircraft that were equipped with "hushkit" noise reduction devices or "re-engined" with engines of a certain design. Ostensibly crafted to reduce noise around European airports, the regulation in effect is a trade barrier and has little impact on noise. It restricts operation of aircraft based on a design standard, and disproportionately impacts U.S. manufacturers and airlines. The United States has asked ICAO to resolve this dispute pursuant to Article 84 of the 1944 Convention of International Civil Aviation (Chicago Convention). With strong support from the United States, the 33rd Assembly of ICAO has unanimously adopted a Resolution that establishes an international framework on how states should manage noise around airports called the Balanced Approach. The European Commission has proposed a Directive that will, hopefully, reflect the principles of the ICAO Resolution and replace the hushkits Regulation before April 1, 2002 - the date that the Regulation is scheduled to be implemented.

New Aircraft Certification: The United States continues to be concerned by the possibility that European aircraft certification standards are being applied so as to impede delivery of qualified aircraft into Europe. Processes and procedures currently employed by the European Joint Aviation Authorities (JAA) appear cumbersome and arbitrary, and in any event cannot be uniformly enforced in EU member states. The United States desires a transparent, equitable process for aircraft certification that is applied consistently on both sides of the Atlantic according to the relevant bilateral airworthiness agreements. The EU is moving forward with the creation of a European Aviation Safety Agency (EASA). The United States wants to ensure that decisions made by this agency are based on technical criteria and that safety and certification functions are kept strictly separate from commercial or economic policy considerations.

Electrical and Electronic Equipment (EEE): The European Commission (DG Enterprise) is developing a draft Directive that would comprehensively regulate the product design of electrical and electronic equipment. It would be issued as a "new approach" Directive, outlining so-called essential requirements that could be met through harmonized European standards. Unofficial versions of the DG Enterprise draft text have been shared selectively in Brussels and a

formal proposal is expected before the end of 2002. While still assessing this proposal, U.S. industry is concerned that the draft has the potential to interfere with design flexibility, delay new product development and introduction, and impose extensive administrative burdens.

Waste Management: In June 2001, the EU Council of Ministers reached political agreement on two related proposals: a Directive focusing on the "take back" and recycling of discarded equipment (known as Waste from Electrical and Electronic Equipment or "WEEE"); and a Directive banning the use of certain substances (lead, mercury, cadmium, certain flame retardants) in new electrical and electronic equipment from January 1, 2007, (known as Restrictions on the Use of Hazardous Substances or "RoHS"). A formal Council 'common position' was adopted in December 2001. The United States supports the drafts' objectives to reduce waste and the environmental impact of discarded products. The United States has expressed concerns, however, that the proposals lacked transparency in their development and would adversely affect trade in products where viable substitutes may not exist. The U.S. government will continue to closely monitor these proposals as they proceed through the legislative process to ensure that they will not unreasonably restrict trade

Acceleration of the Phase-Out of HCFCs: The EU adopted Regulation 2037/2000, a new and stricter Regulation for phasing-out all ozone depleting substances in the EU than that agreed under the Montreal Protocol. The U.S. government actively opposed early drafts, which proposed phase-outs of HCFCs by 2001 without yielding appreciable environmental benefits. The existing Regulation requires the air conditioning industry to phase out its use of HCFCs by 2001 while most other HCFC uses may continue until 2004. Small (100 kW) fixed air conditioners and heat pump units have been exempted from the initial phase-out.

EU Chemicals Policy: In its White Paper "Strategy for a Future Chemicals Policy", the European Commission proposes a new and single system for assessing existing and new chemical substances called REACH (Registration, Evaluation, and Authorization of Chemicals). Under this new system, the burden for testing chemicals and carrying out risk assessments will shift to companies and importers, and they will also be required to make this information available to a central database run by the European Chemicals Bureau. In addition, the new system will extend data requirements to downstream users of chemicals. Potential implications of this new policy for U.S. business include the administrative burden of registering substances, the high cost and limited timeframe to carry out this testing, intellectual property rights issues linked to the release of test data, and the possible ban of some chemical substances based on the "precautionary principle." The U.S. government is actively monitoring this issue and has advocated full transparency and early dialogue with all interested stakeholders.

Investment Barriers

The European Union and its fifteen member states provide one of the most open climates for U.S. direct investment in the world, with well-established traditions concerning the rule of law and private property rights, transparent regulatory systems, freedom of capital movements and the like. Traditionally, member state governments have been responsible for policies governing non-EU investment. However, in the 1993 Maastricht Treaty, partial competence was

shifted to the EU. Member state policies existing on December 31, 1993, remain effective, but can be superseded by EU law. In general, the EU supports the idea of national treatment for foreign investors, arguing that any company established under the laws of one member state must, as a “Community company,” receive national treatment in all member states regardless of ultimate ownership. However, some restrictions on U.S. investment do exist under EU law.

Ownership Restrictions: The right to provide aviation transport services within the EU is reserved to firms majority-owned and controlled by EU nationals. The right to provide maritime transport services within certain EU member states is also restricted.

Reciprocity Provisions: The “reciprocal” national treatment clause found in EU banking, insurance and investment services Directives allows the EU to deny a third-country financial services firm the right to establish a new business in the EU if it determines that the investor’s home country denies national treatment to EU firms. U.S. firms' right to national treatment in this area was reinforced by the EU's GATS commitments.

Under the 1994 Hydrocarbons Directive, the notion of reciprocity may have been taken further to require “mirror-image” reciprocal treatment, under which an investor may be denied a license to explore for and exploit hydrocarbon resources if its home country does not permit EU investors to engage in activities under circumstances “comparable” to those in the EU. It should be noted, however, that thus far no U.S.-owned firms have been affected by these reciprocity provisions.

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

Anti-Corruption: Per EU Treaty Article 280, the EU and its member states are jointly responsible for the fight against fraud and corruption affecting the EU's financial interests. A detailed overview of EU and member state achievements in this regard (e.g. legislation protecting the euro against counterfeiting; public procurement legislation introducing a compulsory mechanism for excluding tenderers convicted of fraud/corruption) is provided in the Commission's year 2000 annual report on the fight against fraud. This report, presented in May 2001, is available on-line at http://europa.eu.int/comm/anti_fraud/documents/annual_reports/index_en.htm. All but one EU member state, Ireland, has ratified the OECD Convention on combating bribery of foreign public officials in international business transactions. The implementing legislation of some countries, however, appears to fall short of the Convention's requirements.

Government Procurement

The EU public procurement market is regulated by four “classic” Directives: public works, public supplies, public services and utilities. The Directives cover contracts above a certain threshold in all public sectors except utilities, which is regulated by a separate Directive applicable to private as well as public undertakings. Large EU tenders for public works/supplies

are open to American companies and will remain so under the terms of the Government Procurement Code. However, some contract opportunities in the utilities sector (water, transport, and telecommunications) are closed to U.S.-based companies because of certain articles in EU law permitting a local content requirement of 50 percent. Moreover, in the utilities sector, preference must be given to an EU bid over a non-EU bid if the bids are equivalent and the price difference is less than three percent.

EU procurement rules are in the process of being reworked and simplified. Amendments include the clarification of existing Community Directives by merging the Supplies, Services and Works Directives. The second aim of the reform is to adapt procurement rules to modern administrative needs. Rules would be softened for complex contracts, where a dialogue between contracting authorities and tenderers is envisaged to determine the contract conditions. In addition, contracting authorities would be able to specify their requirements in terms of performance and not only in terms of standards, which would make it easier for U.S. firms to bid on EU tenders. Lastly, the new proposal will exclude telecommunications from the Utilities Directive, and provides for the exclusion of sectors such as water and electricity once liberalization is achieved in these areas. The direct consequence of this move is that neither public nor private telecommunications operators will have to follow procurement rules when awarding contracts, enabling U.S. firms to bid on them. (Note that in 1998 the Commission issued an interpretive Communication in which it said that since most member states had achieved full competition in the area of telecommunications, this sector was to be excluded from the Utilities Directive).

The changes proposed by the European Commission are currently being reviewed by the European Parliament. Parliamentary sources indicated that it is unlikely to be fully approved before the end of November 2001. Various Parliamentary committees have submitted approximately 400 amendments to promote "green" procurement practices, such as specific production processes, eco-labels and environmental auditing certifications, as well as provisions designed to link the procurement procedure to social and labor law. One of the most contentious amendments submitted by the European Parliament would increase the level of thresholds of application of the Directives. Once the Parliament comes to agreement on these issues, it will submit the amended proposals to the Council, which will then work to find a common position with the Parliament and the Commission. This process may last until the end of 2002.

6. Export Subsidies Policies

Government Support for Airbus: Since the inception of Airbus in 1967, the Airbus member governments (France, Germany, Spain and the United Kingdom) have provided massive direct subsidies to their respective member companies to aid in the development, production and marketing of the Airbus family of large civil aircraft. These subsidies have enabled Airbus to garner approximately 50 percent of new orders over the last three years. The Airbus governments continue to subsidize their member companies and have offered financial support for the development of the A380 "superjumbo" aircraft. European officials have claimed that member states' support will be in compliance with the 1992 bilateral Agreement on Large Civil

Aircraft. However, the United States believes that government support of Airbus raises serious concerns about member state adherence to their bilateral and multilateral obligations in this sector, including the 1995 WTO Agreement on Subsidies and Countervailing Measures (SCM). It has urged the Airbus governments to ensure the terms and conditions of their support for the A380's development are consistent with commercial terms, reflecting the fact that Airbus is now a highly competitive global producer of aircraft. Discussions on this issue are expected to continue in 2002.

Shipbuilding Subsidies: Responding to pressure from the shipbuilding industry, the United States, in 1994, successfully brokered an OECD agreement to eliminate subsidies that were distorting the world ship market. Following the non-ratification of the agreement by the U.S. Senate, the EU adopted its own Shipbuilding Directive in May 1998. In accordance with this Directive, EU shipbuilding subsidies were eliminated as of December 31, 2000. In July 2001, the European Commission put forward a proposed Regulation setting up a "temporary support mechanism" for those segments of the EU shipbuilding industry (container ships and products and chemical tankers) found to be considerably injured by unfair trade practices of Korean shipyards. The proposed Regulation would enter into effect after initiation of a WTO dispute settlement proceeding against Korea and would expire with the conclusion of the WTO proceeding, or in any case on December 31, 2002. EU member states still have to formally approve the Commission's proposal.

7. Protection of U.S. Intellectual Property

The EU and its member states support strong protection for intellectual property rights (IPR). EU member states are members of all the relevant World Intellectual Property Organization (WIPO) conventions, and they and the EU regularly join with the United States in encouraging other countries to adopt and enforce high IPR standards, including those in the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). However, there are a few member states with whom the United States has raised concerns, either through Special 301 or WTO Dispute Settlement Procedures, about failure to fully implement the TRIPS Agreement.

Patents: Patent filing and maintenance fees in the EU and its member states are significantly more expensive than in other countries including the United States. In an effort to introduce more reasonable costs, the European Patent Office (EPO) reduced fees for filing by 20 percent in 1997. In July 2000, the European Commission proposed a Regulation to establish a European Community (EC) patent that, once granted, would be valid in all 15 EU member states without additional costly translations. At present, the Regulation is being considered by a Council working group, which hopes to complete its work by the end of 2001. Internal Commission disagreement has blocked progress on a parallel effort to propose an EC software patent. Patent protection for biotechnological inventions is governed by a 1998 Directive harmonizing national member state rules in this area. This Directive is still in the process of transposition.

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

Madrid Protocol: The WIPO Madrid Protocol, negotiated in 1989, provides for an international trademark registration system permitting trademark owners to register in member countries by filing a standardized application. EU accession to the Protocol is hampered by Spanish objections, but member states in favor of EU accession hope to persuade Spain to drop its opposition.

Geographical Indications (GIs): In 1999, the United States initiated a WTO dispute settlement case against the EU, based on apparent TRIPS deficiencies in EU Regulation 2081/92 governing geographical indications for agricultural products and foodstuffs. The regulation denies nations treatment to foreign GIs. Under the regulation, only domestic GIs can be registered; foreign GIs cannot be registered and are thus ineligible for protection. Further, the regulation permits dilution and even cancellation of trademarks when a GI is created later in time. At the most recent U.S.-EU consultations on this issue, held in July 2001, the EU indicated it is in the process of amending certain articles of the regulation so as to bring those articles into compliance with the TRIPS Agreement. This would fix many of our concerns. In addition, we have asked for further amendments, and the EU has agreed to take our request into consideration. The United States looks forward to reviewing the adequacy of these amendments, and will consider the next steps in this dispute accordingly.

Copyrights: The EU's legislative framework for copyright protection consists of a series of Directives covering areas such as the legal protection of computer programs, the duration of protection of authors' rights and neighboring rights, and the legal protection of databases. In May 2001, the EU adopted a Directive covering copyright in the digital economy. It guarantees authors' exclusive reproduction rights with a single mandatory exception for cache, or temporary, copies, and an exhaustive list of other exceptions which individual member states can select and include in national legislation. This list is meant to reflect different cultural and legal traditions, and includes private copying "on condition right holders receive fair compensation." EU member states have until the end of 2002 to implement the new rules.

8. Worker Rights

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

60 percent to 70 percent by 2010. It also stressed the need for appropriate lifelong learning and training to meet the needs of a growing information society. The EU is also beginning to address the problems of the population bulge, pensions, and health care for the elderly through informal coordination mechanisms.

In July 2001, the European Commission put forward a communication setting out a proposed EU strategy to promote core labor standards in the context of globalization. The Commission proposes, among other things, to make existing ILO (International Labor Organization) instruments more effective and to continue efforts to launch a regular international dialogue on trade and labor. The proposed labor standards strategy is subject to European Parliament and Council review before final adoption.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

Category	Amount
Petroleum	26,051
Total Manufacturing	168,648
Food & Kindred Products	15,594
Chemicals & Allied Products	52,605
Primary & Fabricated Metals	9,385
Industrial Machinery and Equipment	23,141
Electric & Electronic Equipment	17,490
Transportation Equipment	15,497
Other Manufacturing	34,936
Wholesale Trade	34,365
Banking	18,083
Finance/Insurance/Real Estate	239,523
Services	47,243
Other Industries	39,504
TOTAL ALL INDUSTRIES	573,416

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