The Journal of European Business

EU Reporter®

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STRASBOURG PLENARY WEEK 03 - 07 MAY 2004

AN INDEPENDENT NEWSPAPER
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INSIDE EU Reporter

Spotlight on the EU Sugar Regime:the user perspective
The EU's sugar regime is controversial but remains a mystery to many. Yet its influence has a global perspective. Brian Gardner, one of Europe's foremost agriculture and food experts charts the case for reform from the sugar users point of view. Pages 5 through 9.

The Cyprus referendum
The divided result in the popular referendum in Cyprus last month on the Kofi Annan plan to reunify Cyprus, has meant that only the Greek Cypriot southern part of Cyprus has joined the EU, leaving the island of Aphrodite's birthplace still politically divided.
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What next for the ports sector?
Parliament's rejection of the 'Access to Port Services Directive' was a surprise to the sector. This is another area of EU policy removed from the public eye. David Whitehead, Chairman of the European Sea Ports Organisation, questions the directives failure and argues for renewed action. Page 14.

I was born in a welfare state – ruled by bureaucracy...
The aftershocks of the UK's seismic decision to hold a referendum on the EU Constitution rumbles on and it seems that the "No!" campaign is already underway. Page 17

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After the party – the reality

BY ANN CAHILL IRISH EXAMINER

EU enlargement will not lead to a new surge in foreign direct investment to the eight East European new member states according to a World Investment Prospects 2004 report.

The survey of 500 global investors and the analysis of economic and business trends carried out by the Economist Intelligence Unit say the new members will lose out to Asia.

A significant factor in this is increasing labour costs and the report says investment would be up to 33% higher if wage costs had remained closer to 250 - 330 a month compared to the near 500 a month they have now reached in the new member states.

Companies surveyed showed the new members were losing out to Asia on wage and cost criteria; to India on the criteria of their skilled labour force and to China as a location for Research and Development activities.

The Eastern European countries remain attractive in terms of offering consumer and corporate

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EU enlarged to 25

The European Union enlarged to 25 member States on May 1. The 10 new states are: Cyprus (the Greek South), Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia. For full information go to: **http://europa.eu.int/comm/mediatheque/photo/enlarg_en.html**

...don't tell the trees...

Brussels was inundated at the weekend with special editions of newspapers and magazines in almost every language, all telling the story of the enlargement countries. In addition news and feature web sites did much the same with the surprising addition of firms and associations adding their own special contributions. Anyone not got the message yet?

Photo: Courtesy of Christian Engstrom

Businesses not ready for enlargement

BY ANN CAHILL IRISH EXAMINER

Business in the new EU member states are ill prepared for enlargement but no less than business in other countries when they joined the Union according to a survey carried out for EUROCHAMBRES.

However the preparations the new members have been making for enlargement will introduce a new level of competition for the current members, Paul Skehan the deputy general secretary of EUROCHAMBRES in Brussels said.

The survey was carried out last month in the eight central European countries that became full members of the EU on Saturday, and in Romania and Bulgaria.

Companies from Slovenia, the Czech Republic and Estonia – the most open economies – believe themselves to be the best prepared. But only 23% of companies in the highest scoring country, Slovenia, say they are fully informed about the current laws in the EU.

On average only 12% believe they are aware of the relevant provisions of EU legislation while 21% say they have no information and 57% say they know only parts. The bigger companies claim to be more informed than the small and medium enterprises.

Secretary General of EUROCHAMBRES, Arnaldo Abruzzini, said prior to previous enlargements businesses also felt they were not prepared. "Some took incredible advantage of enlargement but were not prepared psychologically beforehand".

Preparations are most advanced in the

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From our notebook

Photo: Courtesy of www.rodseeling.com

What they are really saying

– and we have been unable to get on-the-record

"The Committee of the Regions really want the Constitution in play. It will give them the power to go to the Court of Justice over issues of subsidiarity. That will hack-off the parliament"
A COR official

"Of course the Constitution will mean that Brussels will take over almost everything. It is not stated but the ring-fences were designed to be eroded over time."
A very senior Commission official blustering over drinks that Britain and several other countries are welcome to leave the EU

"We do not want British yellow press journalism in Belgium. We will not discuss it. We have made ourselves plain and that is that."
A member of the Belgian Press Council overheard talking to Aidan White Secretary General of the International Federation of Journalists

"The BBC is not allowed to accept grants. It does benefit from a number of Commission funded projects. These are mentioned but not detailed in our annual report. I only know about one of them. which is a ten million project to digitalise all our archive material."
A BBC spokeswoman responding to an inquiry about hidden influence on the media in the European elections and the Constitution referendum in Britain

"Are you saying Giscard d'Estaing has put a Catholic among the pigeons?"
A Brussels journalist on the edge of a press-room discussion about d'Estaing's interview with the BBC in which he said a referendum defeat on the Constitution would NOT force Britain to leave the EU. (Note: Cat among the pigeons)

"I went to the balloon launching event organised by the Commission to mark enlargement and it was very disappointing - just a few people huddled under the arches."
A Brussels consultant

"Commissioner Byrne must be happy: everyone in the park was laying into free drink and fast food"
An Irish Commission official escaping from the enlargement celebrations at Kitty O'Shea's in Brussels.

"We have been getting very excited here about enlargement, our landlord is planning to extend the bar."
A businessman at the White Hart Inn, Buxted, East Sussex asked about the weekend celebrations

EU Reporter
The Journal of European Business

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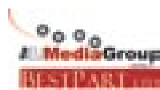


EU Reporter is published by the EU Media Group, a division of Bestpart Limited, registered in the United Kingdom at Media House, Uckfield, East Sussex, TN22 3AA.

Not bad but time to do better

SMEs give a lukewarm verdict on the outgoing parliament

BY CHRIS WHITE

The outgoing European Parliament missed opportunities to help small and medium sized businesses in Europe during its five-year term.

Giving it a lukewarm verdict Hans-Werner Müller, Secretary General of UEAPME, the ten million-member SME umbrella Group says the main criticism is the "lack of systematic business impact assessment before decisions in parliament.

Mr Müller is a former German politician and MEP and hesitates before saying that while he does "not want to criticise members, a lot of whom have been very supportive" he sees "room for improvement".

But he goes on to say that while many members have helped "others need to be informed that the decisions they reach go against the interests of their constituents.

He starts with the example of the chocolate directive, which he says, "we lost". In the environmental field he cites the volatile organic compounds report that went beyond the Commission proposal. "On he other hand the late payments directive has been extremely helpful to small businesses and parliament pressure on the Commission was he says "vital to getting reduced VAT for labour intensive industries".

However, he says that the next parliament must make "a new contract". "I do not want to criticise the members too much and I recognise that from time to time we must lose a battle".

The new Parliament will, he hopes, "adopt a more SME friendly posture and should press for the finalisation of the internal market in taxation and services and ensure that impact assessments are carried out systematically and independently".

Accord on parliament: Hans-Werner Müller (left) with SME-Union President Jacques Santer MEP

After the party - the reality

continued from page 1

FDI inflows (US $ m)	1999	2000	2001	2002	2003	Cumulative 1990-2003
Czech Republic	6,313	4,986	4,923	9,305	2,582	40,287
Hungary	3,314	2,771	3,932	2,859	2,471	37,785
Poland	7,270	9,340	5,713	4,131	4,225	54,757
Slovakia	355	2,053	1,475	4,012	594	10,479
Slovenia	107	136	503	1,865	180	4,005
Estonia	305	387	543	285	844	3,200
Latvia	348	410	164	382	351	3,383
Lithuania	487	379	446	732	179	3,824
Central Europe-5	17,358	19,286	16,547	22,173	10,051	147,313
Baltic-3	1,140	1,176	1,152	1,399	1,374	10,407
Accession countries-8	18,498	20,462	17,699	23,571	11,425	157,719
All transition economies	29,039	29,511	29,406	36,733	26,164	257,183

markets and partnership possibilities to new entrants and are most attractive in terms of offering acquisition opportunities.

These countries have already achieved the main benefits of integration for investment and between 1990 and 2003 had foreign direct investment (FDI) inflows of €132 billion ($157.7 b), the report says.

However this was a mere 4% of the FDI that went to the EU -15 in the same period and their share is forecast to increase to less than 5% over the next four years, 2004-2008, as global FDI is predominantly to developed countries.

EU membership will improve the perceptions of risk and of the business environments of the new members, at least among small investors, but these will be largely offset by the effects of higher wages, the adoption of business-inhibiting aspects of EU rules and the possibility of a post-accession slowdown in their reform momentum.

Daniel Franklin, the Economist Intelligence Unit's editorial director said the eight new members will not be able to sit back and reap the gains they expect from membership.

"The new east European members will have to work very hard to retain their attractiveness for investors, to improve their business environments and maintain competitiveness", he said.

The €132 billion attracted by the eight between 1990 and 2003 was more than 60% of the total going to the 27 transition economies of eastern Europe. But last year, 2003, FDI to the eight more than halved to €9.54 b ($11.4b) from the 2002 peak of €19.75b ($23.6b).

Inflows to other parts of eastern Europe held up which according to the survey authors reflects a process they believe will gather momentum of lower-cost activities relocating further east.

While almost half the FDI to the eight went to Poland, the Czech Republic and Hungary, the inflows last year collapsed in the Czech Republic, Slovakia, Slovenia and Lithuania. The inflows were well below the average annual FDI into the eight between 1995 and 2002 of €11.89b ($14.2b) and new greenfield investments also stalled.

"There is more to the FDI decline than the lumpiness of large privatisations and delays in 2003 of sales of remaining state assets", the report says.

While inflows over the medium term should recover from the 2003 low, last year's experience can be seen as the start of a lasting shift of investment from eastern Europe. Their increasing costs and wages have not been compensated by a sufficiently rapid move to high value-added production that is less sensitive to labour costs.

However it's not all gloom. Solid business environments should continue to favour the eight over emerging markets and their location gives them a lasting edge over southern EU members, such as Greece, Portugal and Spain.

Euro membership is likely to provide the next significant spur to foreign direct investment in the region, but according to the report this is a near-term prospect only for the Baltic states. Analysts say it's possible for the three Baltic's and Slovenia to adopt the euro by 2007.

The report says that EU accession preparations have acted as an anchor for business-friendly reform but having achieved membership much of this discipline on policymaking may go.

EU membership it expects will reduce flexibility and impost hefty costs on business as countries adopt EU standards on for instance environmental protection and will force countries to eliminate special incentives for foreign investment.

The rate of real convergence of the eastern European members with the wealthier west may slow down as they pursue European Monetary Union and the real appreciation of currencies will deter some direct investors, the report suggests.

Politically too there are dangers as people may be disappointed with the results of accession, especially in the short term, and this may feed popular disaffection. While the political systems in the new member states are probably robust enough to withstand these challenges, there is some political risk, according to the report.

Ann Cahill is Europe Correspondent for the Irish Examiner.

Swedish business wins campaign for free migration from enlargement countries

BY CHRIS WHITE

Sweden, on the eve of EU enlargement in an historic parliamentary vote campaigned for by the Confederation of Swedish Enterprise allowed unrestricted access to citizens from the ten new EU member states.

The confederation's 56,000 member companies are credited with swinging a centre-right and left victory over the ruling Social Democratic Government's opposition in Stockholm Wednesday.

Photo: Courtesy of www.foto.steenelm.com

The Swedish Parliament in Stockholm

The confederation, 98 percent of whose membership is SME's, were "fully behind the vote against imposing restrictions on the new EU member states".

The organisation sees the move as "helping to open up the country's labour market but regretted some measures adopted which, it says, strengthen control mechanism and trade union controls on business.

The confederation's Managing Director Ebba Lindsö, welcoming the decision that makes Sweden together with Greece, the only EU 15 states to allow unrestricted movement from the new member states, explained that Sweden is facing recruitment problems.

"Many Swedish companies are facing difficulties in recruiting the right staff. A recent study by our confederation shows that employment opportunities lost, due to recruitment difficulties account for 120 000 new jobs. That is one reason. Most important however is that we want one Europe, applying the same rules and forming one market", she said.

The confederation's campaign began several years ago and she explained: "We started our lobbying activity a few years ago to create awareness and increase the understanding of the possibilities of an enlarged EU. A lot of important work has been done and we feel proud today as we see the result of our work. As to the opponents it is no secret that parts of the trade unions are in favour of restrictions."

In Britain and Ireland the debate is continuing amid fears that there would be a mass migration from the new countries, particularly central Europe but the former editor of a business journal and a Master of Business Administration she disputes the suggestion.

"There is no factual evidence supporting this. The fact is cross border movement by labour is rare. Only about 1 percent of the working population in the EU are citizens in a country were they do not work.".

Nor does she believe that Sweden's bold stand will focus migration on the country. "Basically I don't think that Sweden, as a small country with a difficult language, is likely to be a first choice for workers or students from the new member countries. But we do need skilled labour and do welcome people from other EU-countries. Furthermore, the authorities are planning a close monitoring of the development and are prepared to discuss measures should they prove to be needed.

"Our opinion, however, is that the problems spelled out in the political debate are highly exaggerated. Sweden has a problem right now with huge absenteeism and leakages from the social security systems. But these are purely national issues and must be tackled in any case."

Like critics of controls in other EU countries she believes that young educated people are most likely to migrate. "I think data supports the fact that migration within EU countries is more likely if you are young and educated. The Swedish labour market normally requires comparatively qualified workers. Remember that migrants do require a job. For unemployed persons there are always restrictions to movement."

She says that "open unemployment" in Sweden currently amounts to 5.8 percent and added: "History shows that free trade is a wealth creator. Free movement is to the benefit of the whole of Europe. When Member States introduce protection measures we risk hampering growth and wealth creation in Europe. So, my answer is Yes to free movement and we do hope others will follow."

She admits that it is hard to assess how the decision will impact in practical terms. She told us: "It is hard to judge before we have seen it working for some time. But one small example is to be read about in the Swedish morning papers. A young polish tiler having worked in Sweden for two years risked being sent home. Now he can stay – to the benefit of himself and his company, which is having problems recruiting skilled tilers, and of course to the benefit of customers.

"Our member companies have asked for this decision. I think that is a clear signal of the preferences of business."

Low growth to push Germany's deficit above 3.0% in 2005

BY MICHELLE SCHMITZ

Germany will breach the EU's deficit ceiling of 3.0 percent of GDP for the fourth year running in 2005, the countries six leading institutes said in their new spring report released last week. The institutes forecast a budget deficit of 3.5 percent of GDP in 2005, down only slightly from this year's predicted 3.7 percent and last year's 3.9 percent.

Dwindling tax revenues due to slower than expected growth will once again push the deficit above the 3.0 percent deficit limit as set down under the EMU Stability and Growth Pact. In their semi-annual report, the institutes lowered their growth forecast for this year to 1.5 percent from the 1.7 percent they predicted last autumn. They also forecast 1.5 percent for 2005. "The German economy is only slowly emerging from stagnation. In 2005 the pace of economic growth will not increase further," the institutes said in their report.

The institutes blamed in particular sluggish domestic demand for their downward revision, saying that the modest upturn was mainly the result of buoyant export demand. "Consumer spending will remain the Achilles heel of the German economy," the chief economist of the Berlin-based German Economic Research Institute (DIW) Gustav-Adolf Horn said. Low incomes and the uncertainty surrounding the economic development in Germany would put a brake on consumer spending, with only little improvement seen in this year.

Given the only modest recovery of the German economy this year and next, the outlook for the labour market will remain bleak. The institutes expect unemployment in Germany to average 4.332 million this year, down from 4.376 million in 2003. In 2005, unemployment will only slightly improve to 4.276 million, they forecast.

Despite the government's efforts to boost economic growth by lower taxes and cuts in the country's welfare benefits, the institutes said the reforms were only a step in the right direction, but more action was needed to overcome the current weakness.

The institutes criticised the government by saying "it would be wrong to assume the improved economic outlook to be largely or even in part the result of the implemented reforms and complacency on the part of the policy makers now to be justified." It was now of key importance to set the right course for growth policy, the institutes noted.

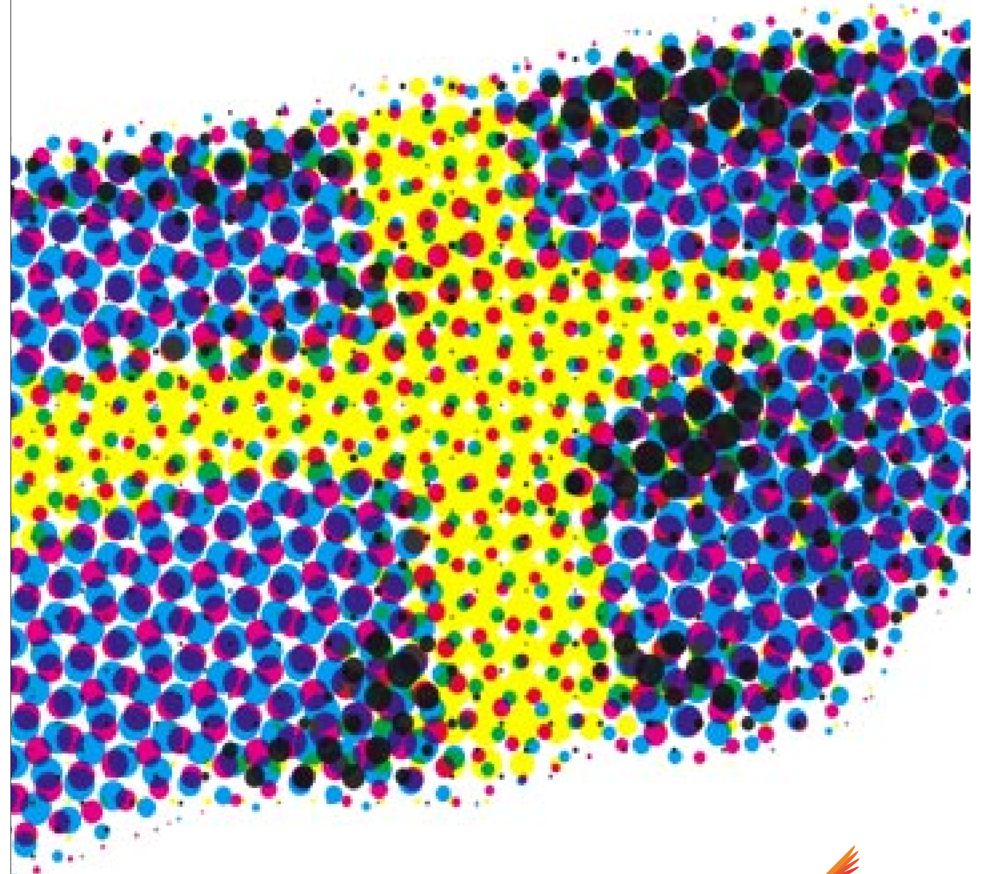
In their outlook for the 12-nation euro area, the economists projected growth of 1.6 percent for this year, compared with their previous forecast of 1.7 percent. For 2005, the think tanks said they expected growth to come in at 2.0 percent. Private consumption is also seen as the Achilles heel of the euro area economy. " At present, signs of an economic rebound of private consumption demand in the eurozone are not discernible, nor has investment regained in momentum," according to the institutes.

In this economic environment, the institutes said there was no need for the European Central Bank (ECB) to act unless inflation would drop significantly below the ECB's price stability target of 2.0 percent – what appeared to be unlikely. Since the outlook for price stability in the euro area would remain benign, the current interest rate level was appropriate, the institutes said. No major price pressure would come from the euro's foreign exchange rate.

They expect the ECB to hold its rates steady at the current level of 2.0 percent until the end of 2005.

The Confederation of Swedish Enterprise welcomes the new EU member states

Free movement of people, together with free movement of goods, services and capital, constitutes the foundation of the European Union. We therefore welcome the decision of the Swedish Parliament to allow free movement of workers from the new EU countries without any transition periods. We regard this as a success not only for Swedish companies but also for Europe's 450 million citizens.



Does the European Union Believe in Ghosts?

An Unwarranted Fear of Tax Competition

BY NEIL HRAB

A spectre is haunting Europe: the spectre of tax competition. The cause for this fear is the upcoming entry of 10 new members into the European Union: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. According to reports, some European leaders fear the 10 new states will use their lower corporate tax rates - on average, 10 percent lower - to poach businesses from older EU members.

Fear of tax competition is especially acute in Germany. In March, German Chancellor Gerhard Schröder warned that the difference in taxation rates could spark a "competitive situation that is problematic for the current members of the European Union." He has even branded German companies thinking of relocating to a lower-taxed EU jurisdiction as "unpatriotic." Unfortunately, such overheated rhetoric is obscuring the benefits that tax competition could bring to the EU.

Capital mobility

Herr Schröder is not alone. Two years ago, American political scientist Kenneth Thomas gave an excellent summary of why some developed world governments fear the effects of tax competition. He began by noting that, "over the past 40 years, the world has witnessed a sharp increase in capital mobility." The fall of the Soviet Union quickened the pace, as countries which previously rejected market economics sought to join the global market system. As capital mobility increases, states "engage in more intense efforts to compete for investment." One of the most popular ways to do this has been by cutting corporate taxes.

Thomas also notes that, as taxes on capital fall, governments have to adjust by either raising other taxes, incurring greater debt, or cutting spending. However, politicians, as rational actors who seek re-election as their primary goal, hate having to make such hard choices. Raising taxes, borrowing money, and cutting spending are not exactly ways to make one-self popular.

When a leader such as Chancellor Schröder complains about tax competition, he illustrates Thomas's contention that "governments are now attempting to jointly regulate their own behavior to reduce tax competition." That is, they are tired of having to make hard fiscal choices and this risks upsetting voters. Discouraging tax competition provides a way to return to the "good old days" of taxing and spending without having to compete with lower taxing jurisdictions.

"Race to the bottom"

Opponents of tax competition say that interstate pressure to keep taxes low represents a destructive "race-to-the-bottom." In Germany's case, the Schröder government worries that lowering tax rates to keep German industrial firms from relocating to, say, Poland, would put undue pressure on the German welfare state and German labor laws.

However, contrary to Chancellor Schröder's fears, tax competition would greatly benefit Europe. British pundits Barry Bracewell-Milnes and Josephine Carr have made the case for tax competition as follows: Government spending and taxes always seem to go up in modern Western democracies. This is due to what they call "the pressures of lobbies for increased government expenditure and taxation." No mystery here - politicians find ready supporters when they shower tax monies on some voting bloc. Thus, the incentive to tax and spend recklessly is great. This is where tax competition comes in. "Internationally," Bracewell-Milnes and Carr note, "tax competition can provide an effective institutional counterforce" to this trend. Put another way, "governments learn good as well as bad tax habits from their neighbors."

Further, they point out that attempts to "harmonize" corporate tax rates throughout the Union would "lessen the competitive strength of European economies" in relation to non-European jurisdictions.

The spectre haunting Europe is nothing to fear. A bit of intra-EU tax competition seems like just the thing to make sure the EU as a whole remains tax-competitive relative to North America and Asia. By these lights, the 10 new EU members are doing their neighbors a favor by creating pressures for low taxes overall.

Neil Hrab is the Warren T. Brookes Journalism Fellow at the Competitive Enterprise Institute.

See Michelle Schmitz Berlin column page 20

Photo: Courtesy of www.till-morning.net

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Spotlight on the EU Sugar Regime: the user perspective

By Brian Gardner

EU sugar regime will damage new member food industries

Consumers and food processors in the eight Central and East European countries currently joining the European Union will be seriously damaged by being forced to adopt the EU's highly regressive sugar market support regime. In a move seen by many in the food industry as a move back towards the state regulation which hamstrung the food industries in these countries during the communist regime, production will be controlled by quotas, prices will be regulated and imports of sugar and other sweeteners will become prohibitively expensive.

A serious threat to jobs

Photo: Courtesy of www.plur.net

Rise of sugar price

Most importantly, the price of sugar is likely to have risen by more than 60 per cent from May 1. For heavy users of sugar in the biscuit, confectionery and chocolate industries, average raw material costs are likely to rise by as much as 30 per cent . Food manufacturers in the new member states, struggling to become competitive in international markets, will find themselves seriously handicapped by having to adopt the restrictive rules of the EU common market organisation for sugar. In the domestic markets of the new member states prices will rise and consumption will be reduced.

The European Association of the Chocolate, Biscuit and Confectionery Industries CAOBISCO says: "This does not give a good signal to the new member states of the EU. A market-managed and high-priced sugar regime is inappropriate for East European countries where GDP per capita is low and where competitive raw materials have been essential to the growth of local industries." CAOBISCO Secretary-General David Zimmer maintains that: "The EU sugar regime is especially detrimental to the European consumer and the sugar processing food industry due to artificially high sugar prices." The Association is highly critical of the EU authorities for not reforming the sugar regime along with all the other common market organisations for the major food raw materials. With programmes for reform of even the Mediterranean commodity sectors now agreed, the sugar CMO stands alone as the only market regime which has not been modernised.

The EU sugar regime restricts supply from domestic producers so as to inflate prices. Imports are excluded or admitted on a very restricted basis. This system ensures the EU consumers and sugar users have to pay a price three times the price paid for sugar on the international market. Vast surpluses, more than 5 million tonnes a year, created by this highly protective system, are exported with large subsidies from EU taxpayers and consumers. The annual cost of these subsidies is currently in excess of €1.6 billion.

Failure on sugar reform

"The EU sugar market regime is especially detrimental to the European consumer and the sugar processing food industry due, to artificially high sugar prices arising from governmentally fixed prices and production quotas which are protected by high import duties", Zimmer points out. "Due to the failure of the European Commission and the Council of Ministers to include sugar in the reform programmes of the last two years, the accession countries are now being forced to make the retrograde transition to the EU Sugar Regime structure."

Similar to communist market management system

This is a system very similar to the market management operated in these countries when they were under communist rule. In adopting the sugar CMO they are also facing difficult measures in order to achieve a transition from a market economy to the managed anti-competitive structure for sugar which is the hallmark of the EU Sugar Regime."

CAOBISCO says that it is clear that the transitional arrangements will cause, and are already responsible for, confusion and disproportionate pressure on companies which use sugar, or market sugar, including sugar contained in finished products. For example, the Polish food industry has worked hard to build business, attract investment and adapt to the free market. The industry is now successful and is competitive. Exports have grown significantly in the last couple of years. It is now a setback to go to an unreformed regime with a supply-side management system. Application of the EU sugar regime quota system will increase sugar prices overnight, thus reducing Poland's competitiveness. On top of that, producers will not be allowed to benefit from current EU export refunds before October 2004. This means that they will suffer a further competitive disadvantage compared with their counterparts in the EU15.

Mediterranean agreement increases sugar policy isolation

The recent historic agreement by the European Union's farm ministers to reform the market regimes for olive oil and other Mediterranean crops now leaves only one of the EU's CAP commodity regimes still unreformed - the notorious sugar market organisation. EU observers are now asking the question: 'if the Council can successfully tackle the thorny issues of olive oil and tobacco, having already reformed the equally tricky milk, beef and cereals regimes, why is it taking it so long to face up to the sugar policy issue?'

The reforms of these major commodity policies are designed to reduce taxpayer costs, minimise market distortions and bring about better balance between supply and demand. Prior to these reforms, market manipulation measures maintained excessively high prices to consumers, created massive surpluses which had to be dumped on world markets with huge subsidies from taxpayers and failed to support adequately the incomes of farmers. The EU's sugar market regime has all these shortcomings – probably to the greatest degree – and yet it remains glaringly unreconstructed.

The common market organisation (CMO) for sugar was first established on a 'temporary' basis more than thirty years ago. The European Commission has sought to modify and improve its operation several times during this period, but without any perceptible effect. Currently, EU sugar prices are three times greater than world prices, the sugar industry produces an annual surplus of more than 5 million tonnes which has to be dumped on world markets with the aid of subsidies from taxpayers and sugar consumers and the regime costs the EU budget more than 1 billion a year.

The sugar CMO is now under what would appear to be irresistible pressure to change. The Union has made deals with developing countries which will increase the inflow of low cost imports, a new international trade deal is likely to force reductions in the level of support to farmers, will put further limitations on exports subsidies and reduce import tariffs. In addition, the sugar beet growing industry is now out of kilter with the rest of the farming industry where market and production support is being replaced with decoupled income subsidies. In the face of these pressures it would appear impossible for the sugar regime to remain unreformed any longer.

Spotlight on the EU Sugar Regime: the user perspective

By Brian Gardner

Food export subsidy cuts threaten food industry jobs

Pressure to cut food and farm export subsidies in current international trade negotiations could result in substantial loss of export trade and a serious contraction in the European Union food processing industry. While most food industry interests favour the elimination of food export subsidies, they point out that export subsidies for the processed food industry are not a subsidy to processors, but a compensation for the high prices for sugar, dairy products and cereals maintained within the EU by the CAP's market mechanisms. Unless prices for these commodities are cut on a scale equal to export refund reductions, the food industry cannot deal with removal of export subsidies without serious loss.

Major food exporting countries, including the United States, Brazil, Australia and more than twenty developing countries are pressing the EU in the Doha Round to agree to the elimination of subsidies on food exports. Substantial job losses could however result if reduction in subsidies on processed foods are not matched with reductions in domestic food raw material prices, according to food industry sources. The industry could only cope with a reduction in export aids if the EU authorities are also prepared to cut domestic food raw material prices – particularly those for sugar – on the same scale.

The EU's Chocolate, Biscuit and Confectionery Association (CAOBISCO) points out that "Exporters are forced to use subsidies (export refunds) for processed food exports as a compensation for the high internal price of sugar and their other agricultural raw materials. CAOBISCO could endorse the abolition of export refunds subject to the introduction of policy mechanisms to achieve parallel reductions in the price of sugar and other basic inputs."

"Export refunds"

According to CAOBISCO, export subsidies, or more correctly, 'export refunds', form an average 9 per cent of the export price of most these processed food products. The Association says: "A loss of refund is too large to be absorbed by manufacturers, and too large to be accommodated within the export market without increasing the product price." A 2003 study[1] by CAOBISCO concluded that if export refunds were cut without a matching cut in domestic support prices, the resulting 9 per cent price rise in export prices would reduce export volumes by as much as 36 per cent. Production would have to be reduced by 400,000 tonnes of finished products, with substantial job losses in the EU food processing industries.

CAOBISCO emphasises that it is strongly in favour of the elimination of export subsidies, because they distort trade and place a heavy bureaucratic burden on the food industry. The Association stresses however, that the process of winding them down must be closely linked to the reduction of domestic prices for agricultural raw materials. For EU food processors to remain competitive on world markets the export refund which they receive must match the difference between the price paid for their ingredients - sugar, dairy products and cereals - on the EU market and the much lower price paid by overseas competitors on the world market. If this relation-ship is not maintained their ability to compete is reduced.

Current moves to eliminate export refunds on a broad front, as part of the Doha negotiation, in the absence of concomitant reductions in domestic support prices pose a more serious threat to food industry competivity. This is because internal prices for sugar and dairy products are not being reduced enough to match the planned cuts in export subsidies.

Photo: The European Commission Audio Visual Library

EU taxpayers bear the cost

Price-based competition

Competition in the major developing export markets is fierce and almost wholly based on price. Disposable income is low in many of the new developing country export markets where the purchase of, for example, a single confectionery bar represents a significant commitment. Consumers will not buy a product, however desirable it may be, if an alternative represents better value.

The major problem for biscuit, confectionery and chocolate manufacturers is the continuing reluctance of the EU's Council of Ministers to agree to any restructuring of the support system for sugar – an important ingredient in these foods. Domestic EU sugar market prices, on the other hand, are currently three times the world price and need to be cut by at least a third if food processors are to be able to compete on world markets without export refunds. So far, no concrete recommendations have been made for reform of the sugar regime.

While the average loss for the sugar using processing industries would be 9 per cent, some sectors would be much more seriously affected. Manufacturers of bulk crumb and chocolate, for example, could lose 30 to 40 per cent if sugar prices are not reduced to match the expected reduction in export refunds. The confectionery, biscuit making and chocolate industries of the EU are major users of almost all the agricultural commodities produced within the Union. The percentage of the individual commodities used is primarily influenced by the product recipe and the overall product cost. Generally speaking, the higher the sugar content, the greater the likely loss if the sugar CMO remains unreformed. The biscuit and confectionery industries are also heavy users of dairy products; scheduled reductions in their internal prices are not going to be enough to allow elimination of export refunds without loss to these industries.

Unable to match losses

CAOBISCO says that the food processors would not be able to cut their prices to match the refund loss in order to remain competitive in export markets. This is because the refund is roughly equal to profit margins. "The loss of export refund, without a compensating adjustment of the internal material prices, would mean that the export prices would increase on average by 9 per cent." According to the CAOBISCO study: "The 9 per cent refund value is greater than the industry profit margin of 2 – 8 per cent. Given the size of the refund, its loss would make exports non-viable or even loss-making. Companies cannot tolerate a reduced profit as it jeopardises the very survival of the business. They will be forced to stop exporting, source from outside of the EU, or pass on the loss as a price increase to their domestic or foreign customers."

Vital to farming industry

The viability of the EU chocolate and confectionery industry is vital not only to employment, but also to the farming industry, which needs to retain its customer base in Europe. CAOBISCO companies in the EU15, with a 10.4 million tonnes annual output, directly employ 250,000 people and consume 30 per cent of the sugar and milk powder produced in the EU. Exports worth €3.4 billion, represent 10 per cent of this production.

(Footnotes) 1 *Impact of the loss of export refunds for CAOBISCO companies. CAOBISCO Brussels 2003*

CAOBISCO

CAOBISCO and CIUS (the Sugar Users of Europe) support:

- the creation of a competitive sugar market in the EU
- the abolition of National Quotas for sugar which prevent competition and are an abuse of the EU Single Market
- the demand for competition between sugar processors now and an ending of institutionalised monopolies at Member State level in the sugar processing market

The EU Sugar Market must be allowed to deliver:

- adherenceto the principles of sustainable development in the global sugar economy
- recognitionof the key role of high value-added food products in the EU economy and their contribution as a major export sector
- specialisation in the EU beet growing and sugar processing sectors for competitive operators

Major stakeholders in the sugar economy (including efficient EU sugar growers and processors) recognise that reform of the EU Sugar Regime must proceed quickly.

EU Member State Governments, the European Parliament and the European Commission must demonstrate the vision to meet this challenge.

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Spotlight on the EU Sugar Regime: the user perspective

By Brian Gardner

Sugar policy reform is vital to EU food industries

The forthcoming reform of the European Union's sugar market regime must include the removal of production quotas and the reduction of support prices and import tariffs. Consumers and sugar users must be allowed greater choice of sweeteners and more reasonable prices. For food industry sugar users reform of the EU's common market organisation (CMO) for sugar is essential to the future competitiveness of their operations. Most importantly, the Confederation of Industrial Users of Sugar (CIUS), wants to see the EU's internal market de-regulated to allow competition between sugar refining companies and to allow production capacity to move from inefficient areas to the most advantaged producing regions. This, the Confederation argues, is the only way to ensure optimum prices for sugar users and consumers.

Balanced Interests

"Proper competitive market pressures exist at all points of the value chain for sugar-containing consumer products except at the sugar processing stage." says CIUS "We believe that any authority which operates a regime which interferes with the interests of private stakeholders has a duty carefully to balance the interests of those stakeholders. It is clear that in respect of the Sugar Regime the EU is failing in this duty."

Under the EU's sugar CMO, quotas and high tariffs maintain Europe's sugar prices at almost three times world market levels. High guaranteed prices result in huge surpluses of 5-6 million tonnes annually which are dumped on world markets with hefty subsidies. Despite the existence of these surpluses, there is no benefit to EU consumers or sugar users because they are always exported with subsidies extracted from EU taxpayers and consumers.

In addition, the near monopoly of sugar refining created by the EU sugar market regulation system allows the refiners to charge virtually what they like, despite the output being heavily in surplus. A recent analysis by the EU's Court of Auditors showed that the gap between EU market prices for sugar and the intervention price (the officially guaranteed price) has widened from 2-3 per cent in the 1980s, to 6-7 per cent in the 1990s and is now between 8 and 22 per cent, depending on the EU member state.

Subsidised EU sugar dumping

Each year, consumers and taxpayers foot a bill of around €1.6bn to subsidise the dumping of the EU sugar surplus on world markets. And each year developing countries - many of whom the EU is encouraging to liberalise under IMF-World Bank auspices - suffer the consequences of the resulting depressed prices. While the EU grants preferential access for 1.6 million tonnes of sugar to a minority group of LDCs (ex French and British colonies), it seriously damages the market for others.

The European Commission is currently offering three options for change in the sugar CMO to EU legislators.

• First, is the continuation and extension of the present regime beyond 2006, with quotas, tariffs and price supports being retained, but reduced to fit into both the EU's reform of other CAP market regimes and the realities of WTO commitments. This is effectively merely a modification of the status quo.

• Second, is a gradual staged phasing out of production quotas with the EU internal price being allowed to adjust itself to the price of non-preferential imports resulting from reduced import tariffs

• Thirdly, it is suggested that there could be a complete liberalisation of the sugar market. Under this third alternative EU sugar beet producers would be compensated for loss of income by being paid compensatory subsidies under the Single Farm Payment system already agreed for other sectors, while full liberalisation of the EU sugar market would be achieved by the complete removal of import tariffs and import quotas.

CIUS emphasises that the status quo is not a viable option. It would be unsustainable in almost every way, since it would sustain the current collusive manipulation of the market by the processors and thus do nothing to reduce the price of sugar to users and consumers. It would represent an increasing strain on the EU budget and would not improve the competitive situation in the domestic sugar market. The Confederation accepts that, while complete liberalisation should be a long term objective, it would be currently politically difficult to achieve. The Commission's second choice, downward adjustment of price levels in line with staged reductions in import tariffs and the phasing out of quotas is therefore seen as the option offering a sound basis for negotiation.

Essential commitment

CIUS regards a commitment to the elimination of the EU's national quota system as an essential in any eventually agreed reform programme; only in this way will proper competition between sugar producers be achieved. It argues that due to the rigid division of sugar production into national quotas, sugar beet is currently grown in geographical areas that are climatically and geographically not fitted for this type of agriculture, while the national quota system maintains a strict national partitioning of the markets. Removing quotas would allow for regional specialisation, which would increase efficiency in growing and producing sugar within the EU, increase the competitiveness of EU produced sugar versus imports from outside the EU and increase competition between EU sugar producers, who would have to tender for contracts within an EU-wide framework.

Compete for demand

CIUS says that quotas need to be abolished so that efficient sugar producers would have to compete for EU demand, rather than, as under the present arrangements, be paid subsidies to export that proportion of their output which allows artificially high prices to be maintained. The sugar users also want to see relaxation of present excessively restrictive controls on the production of non-sugar sweeteners so as to bring the EU sweeteners market into line with those of other developed countries by increasing choice for users and consumers. Isoglucose and inulin syrup are natural sweeteners that because of official prohibition, at present represent a very small percentage of EU sweetener use.

They offer real competitive alternatives to sugar and could capture between 10 and 30 per cent of total industrial sugar consumption, taking account of the specific European market and farming conditions.

It is now widely recognised that the EU sugar policy has to change, in response to powerful pressures - both internal and external. The expected flood of levy-free sugar into the EU market after 2009 under the 'everything but arms' (EBA) trade agreement with 48 least developed countries, the anti-EU sugar export subsidy Panel action by Australia, Brazil and Thailand in the WTO and new limitations on market subsidies, import tariffs and export subsidies likely to emerge from a new trade agreement emerging from the Doha Round will force the EU to abandon the present market regime. In these circumstances continuing with the present policy, is definitely not an option.

A sector out of balance with the market, say users

Mediterranean agreement increases sugar policy isolation

The historic agreement by the European Union's farm ministers to reform the market regimes for olive oil and other Mediterranean crops leave only one of the EU's CAP regimes still unreformed - the notorious sugar market organisation. EU observers are now asking the question: ' if the Council can successfully tackle the thorny issues of olive oil and tobacco, having already reformed the equally tricky milk beef and cereals regime, why is it tacking it so long to face up to the sugar issue?'

Spotlight on the EU Sugar Regime: the user perspective

By Brian Gardner

Integrated approach to trade negotiation needed

The current European Union approach to the international trade negotiations on agriculture does not go far enough to make the European food industry competitive on world markets.

European food processors, who look to sell their value-added products on international markets, believe that there is currently a lack of 'joined-up' thinking in the official position in the Doha Round of trade talks. Recent reforms of European agriculture policy will not do enough to reduce domestic food raw material prices, to allow greater liberalisation of imports or to reduce the need for subsidies on exports of food products. Until domestic policy is further adjusted, particularly in the sugar sector, the EU will not be able to present an internationally acceptable agricultural trade policy.

The EU's Chocolate, Biscuit and Confectionery Association (CAOBISCO) says: "It is crucial for food processors that domestic support, export competition and market access are treated in a global, indivisible package. Negotiations on the reduction and eventual phasing out of export subsidies cannot be completed without considering reduction and reform of domestic support measures first, and without considering a corresponding reduction of tariff and non-tariff barriers to trade."

Severe limitations

In particular, the EU position in the Doha Round needs to take account of the problems created for the food industry by the 1994 WTO liberalisation agreement. While putting severe limitations on the support and protection of processed foods, it did not make adequate commensurate reductions in the protection for agricultural raw materials. "This led to serious distortions to the disadvantage of the high-value added food products sector," CAOBISCO says. "Equal treatment between the two sectors has to be restored in the current Doha Round negotiations in order to avoid distortions in competition."

Photo: Courtesy of Malayan sugar manufacturers

The EU's subsidised sugar is dumped on the world market

It emphasises, however that the root of the EU's anomalous position in the trade round is created by inadequate reduction of the levels of support for the sugar, dairy and to a lesser extent cereals sector. The only partial conversion of the EU's market support into direct subsidies to farmers continues to affect production and to maintain high prices for raw materials, which demands protection by high import barriers and export subsidies.

While the European Commission is offering to cut the overall support to agriculture by 60 per cent in the Doha Round negotiations, it is only offering to do this on the basis of an average global figure for the entire agricultural sector. This aggregation of support levels (into the so-called 'aggregate measure of support' - AMS) means that it can make this apparently generous offer without making significant reductions in support to sectors which are of key importance to the food industry – most notably to the sugar and dairy sectors. Under the aggregation approach, large reductions in some sectors can be set off against sectors, such as dairy products and sugar, where little or no reductions in support have been made.

Modest reductions are now scheduled for the dairy sector over an extended period. In the sugar sector however, the lack of change makes any significant reduction in protection impossible. "This raises serious concerns due to the uncertainty of the direct link with commitments on tariff reductions and on export subsidies in each sector," says CAOBISCO. "The absence of a coherent approach between the three chapters of the negotiations risks creating a problem of competitiveness, notably for CAOBISCO products. CAOBISCO fears that once again, sectors such as sugar could escape any requirements for price cuts." The Association emphasises that there must be a specific reduction in support for each product, with at least a minimum reduction figure for each commodity.

Higher cost for consumers

Effective reduction of domestic support would allow the EU to reduce import tariffs, which currently raise food production costs and prices to EU consumers. While CAOBISCO welcomes the EU offer to negotiate tariff reductions, it believes that it does not go far enough to have any major effect on raw material and food prices. The major problem is that many EU tariffs on food are so high that the 15 per cent cut offered by Brussels would neither reduce prices nor result in any increase in import access. These 'tariff peaks' need to be eliminated before the effective reduction process can begin.

Improved market access

"Substantial improvements in market access are necessary both for processed food products and raw materials," CAOBISCO stresses. "The Uruguay Round formula as proposed by the EU, which would reduce tariff rates by an average percentage (and keeping a minimum percentage), is insufficient to stop CAOBISCO industries from facing unreasonable barriers to trade."

High tariffs applied at present need to be reduced rapidly, with the objective of an eventual elimination of all tariffs in the long-term. It is stressed however that this cannot be done unless there is a substantial reduction of the current wide gap between prices paid to EU farmers and the much lower world prices. The support price for sugar in the EU, for example, is currently three times the world price and therefore carries an import charge of over 100 per cent – thus preventing sugar users and consumer from benefiting from imports of lower priced sugar from lower cost producers.

CAOBISCO argues that the 15 per cent minimum reduction in tariffs proposed by the EU will not affect high 'tariff peaks' and will thus allow heavily protected products to emerge from any new trade agreement largely unchanged. The Association says that: "The reduction figures proposed need to be higher, and the minimum must not be less than two thirds of the average. It is essential that tariff lines for which a minimum reduction applied in the Uruguay Round, should undergo an important reduction during the Doha Round."

Export subsidies

On export subsidies, the Association maintains there is even less co-ordinated thinking on the relationship between raw material prices and export prices. Existing commitments on export subsidies - export *refunds* to the food processing industries - were agreed independently of cuts in domestic support. The moderation of domestic support for agricultural commodities agreed by the EU in 1992 did not lead to price reductions for sugar and dairy products, the key raw materials for the CAOBISCO industries. Consequently, export refunds calculated on a raw materials basis did not meet the gap between the high price paid for raw materials and the much lower world price for processed foods.

Equivalent reductions

"It is crucial that any further commitments on export refunds regarding processed goods are conditional on equivalent reductions in the domestic prices of agricultural raw materials or greater access to raw materials from the world market available to the industry at a very competitive price."

The EU's proposed average cut of 45 per cent in export refund expenditure is based on actual expenditure which is already significantly lower than the limits set by the previous Round. Without further reduction of agricultural commodity price levels, the competitive position of EU processed foods on world markets will be worsened.

While CAOBISCO accepts the EU's approach to the reduction of export subsidies, it stresses that there has to be a balanced relationship between reduction in processed product refunds and those for unprocessed commodities. This will only be achieved if the three pillars of agriculture policy, domestic price support, import tariffs and export subsidies, are adjusted in unison.

The development of a world market for processed agricultural products is only possible if food-processing industries have access world-wide to raw materials at competitive prices.

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The Cyprus referendum: what does it mean for business?

BY JAMES WILSON

The divided result in the popular referendum last month on the Kofi Annan plan to reunify Cyprus, has meant that only the Greek Cypriot southern part of Cyprus has joined the EU, leaving the island of Aphrodite's birthplace still politically divided. What does the result mean for business? James Wilson interviewed Mr. Demetris Syllouris, Parliamentary Leader of the Democratic Rally of Cyprus, (Member of the EPP Group), to ask his views on the probable impact of the referendum result on business.

Photo: Courtesy of Mr. Demetris Syllouris

Mr. Demetris Syllouris, Parliamentary Leader of the Democratic Rally, Cyprus

Question: *"What does the result of the referendum mean for business in Cyprus?"*

Answer: The negative result of the referendum is not expected to have a negative impact on the business activity in Cyprus. The expansion of business activity in Cyprus over the years, following the Turkish invasion of 1974, already accounted for the negative parameters associated with the division of the island. However, the accession of Cyprus to the European Union on 1st May 2004 and the full implementation of the acquis communautaire in business related areas (e.g. free movement of persons, goods and capital), is expected to improve the business climate in Cyprus leading to domestic and foreign investment.

But I should stress that should the plan of the Secretary General of the United Nations for the solution of the Cyprus problem have been approved by the referendum, it would not have provided for the integration of the economies in the Greek-Cypriot southern part and the Turkish-Cypriot northern part of the island and would not have allowed for the adoption of a common economic and fiscal policy by the federal government. Having in mind the great disparities in the standard of living and the level of business activity between the two communities, the existence of restrictions, such as capital restrictions, will create many problems and will not be conducive towards improving the business activity in the island and integrating the economy.

Question: *"Do you think there are any prospects now for integrating the economy and transport links with the north of Cyprus?"*

Answer: The prospects for integrating the economy and establishing transport links with the north of Cyprus following the referendum are positive. It should be emphasised that the "NO" vote of the Greek Cypriot community in the referendum was the result of an objection to certain negative aspects embodied in the Annan Plan and should not be interpreted as a "NO" to the reunification of the island. This, in combination with the strong willingness of the Turkish Cypriot community for a United Cyprus, strengthens the prospects for establishing stronger economic links with the north.

Following its declared policy on helping the Turkish Cypriot enjoy as much as possible the benefits of Cyprus' EU accession, the government of the Republic of Cyprus has already put forward a series of measures to this end. Additional measures were announced at the EU General Affairs Council meeting that took place on 26th April 2004 in Luxembourg. These measures are expected to promote inter-community economic cooperation thus assisting the economy of the north to improve and be integrated as much as possible with the economy in the south. As far as transport links are concerned, it should be mentioned that the small size of Cyprus and its excellent infrastructure allow for very good transport links throughout the island, subject, of course, to the obstacles posed by the presence of the Turkish military troops.

Question: *"Will this impact on Cyprus' standing in the EU's institutions?"*

Answer: The entire international community (except Turkey) and the EU recognize the Republic of Cyprus as the only legal state whose territory covers the whole island. The Accession Treaty was signed by the EU and the government of the Republic of Cyprus, representing all Cypriots, with the provision that the acquis communautaire will not be implemented in the area that is not controlled by the government (the north) until a solution to the Cyprus problem is reached. It is therefore evident that, legally speaking, the present situation will not have any impact on Cyprus' standing in the EU's institutions. It is understood that the EU very much hoped for a positive outcome in the referendum and the climate that Cyprus will face for some time within the EU's institutions will not be the most favourable one. However, once European political circles understood the facts – namely that the Annan Plan did not respect the human rights of all Cypriots and was also contrary to the European acquis provisions and that it is the true and fervent wish of the Greek-Cypriot people to reunify their country, then I am hopeful that the right climate will be developed which will help to reach a viable and functional solution to the Cyprus problem as soon as possible for the benefit of all Cypriots, Greek-Cypriots and Turkish-Cypriots alike.

Photo: Courtesy of Mr. Demetris Syllouris

What does the future hold for the next generation in Cyprus?

Question: *"What will be the greatest impact of enlargement for you?"*

Answer: The greatest impact of enlargement for Cyprus will be the improvement of the sense of security of its people and the improved possibilities of reaching a solution to the Cyprus problem. Being members of the great European family which is based on the rule of law and the respect of human rights and fundamental freedoms, the people of Cyprus will feel more secure, remembering that their sense of security was and still is greatly weakened by the Turkish invasion of 1974 and the continuing military occupation of the island's northern part. Moreover, Cyprus has always believed that its accession to the EU would act as a catalyst towards solving the Cyprus problem. It is very much hoped that the accession of Cyprus to the EU and the pro-European orientation of Turkey will sustain the efforts to reach a fair solution to the Cyprus problem in the near future.

In addition to the obvious political and security benefits, which are of paramount importance, economic benefits should also be realised. The economy of Cyprus will become a part of the large and competitive European market, consisting of 25 countries and 453 million consumers. Being an equal partner of this market opens up vast economic opportunities. The exploitation of these opportunities certainly sets the stage for cementing the prospects of sustainable of economic growth and development.

Question: *"There has been dramatic growth in real estate investment in Cyprus in the run-up to accession. How will the market react to the advent of accession, and the result of the referendum?"*

Answer: It is true that there has been a steady and remarkable growth in the real estate market in Cyprus during the last five years. It is recognized that the growth was also attributed to the country's run-up for accession to the EU, as foreign homebuyers were considering Cyprus properties as a great investment and residential opportunity. Before the referendum, buyers were very sceptical and reserved, however, this did not affect the volume of sales of the main developing and real estate companies. In addition, it is expected that in the near future, sales will follow an upward trend. It is also expected that foreign investors and potential homebuyers will be considering Cyprus as a safe investing opportunity within the EU.

Question: *"And what will be the impact in the north?"*

Answer: The greatest part of the available property in the north belongs to Greek-Cypriot refugees. Many foreigners bought (illegally or in good-will without knowing the exact situation) such property in the north. The decision of the European Court of Human Rights on the Titina Loizidou case (the Court ruled against Turkey for the loss of use of Mrs. Loizidou's property in Kyrenia, while Mrs. Loizidou remains the rightful owner of her property) and the tangible possibility for reaching a solution to the Cyprus problem (which is expected to allow the refugees to recover at least part of their properties) have complicated the situation making the specific market unsafe and risky to invest in. Moreover, it should be taken into consideration that many potential clients who are interested in buying property in the north, are not in good terms with the fact that many settlers from Anatolia are blended within the residential areas of the north.The negative result of the referendum will perpetuate the existing negative situation in the real estate sector in the north.

Question: *"In previous rounds of enlargement, the new accession states have experienced an increase in net immigration. Do you see the same thing happening in the labour market for Cyprus?"*

Answer: It should first be noted that Cyprus has completed the harmonization of its national legislation with the acquis communautaire in the areas of:

(a) the free movement of persons, and

(b) justice and home affairs which includes

continued on page 18

Large and small businesses welcome EU enlargement

"AmCham EU congratulates the new Member States on their accession to the European Union. We are looking forward to continuing the fruitful collaboration between business and European policy makers driving towards the European Union becoming the most competitive economy in the world."

The British Chamber of Commerce in Belgium warmly welcomes all the newly joined Members of the European Union. With committees engaging in EU Policy, Business Development and The Information and Communication Technologies the British Chamber looks forward to working with you and your business communities to ensure Europe is a better place in which to do business.

Ed Cutting
President

BRITISH CHAMBER OF COMMERCE IN BELGIUM

The SME UNION welcomes the new member states!
We look forward to a great future for SMEs in an united Europe!

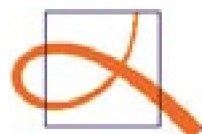
A Challenge in economic and social terms

EUROCHAMBRES heartily welcomes the new EU Member States which have been members of EUROCHAMBRES already for a long time. Enlargement is a process of historic importance and an opportunity in economic and social terms for both the current as well as the new Member States.

Chambers have always promoted accession and will continue to support this process as expressed in the Enlargement Declaration signed by the Chambers of Commerce of the 25 Member States on 23 April 2004 in Vienna.

Christoph Leitl,
President of EUROCHAMBRES

"The Forum of Private Business welcomes the 10 new Member States to the European Community and looks forward to the opportunities that expansion will bring for small businesses and cross-border trade in both existing and accession countries."



The Forum of Private Business

"The Pan European Genesis Initiative welcomes the small business owners of the New Member States."

the Genesis Initiative

the Business Senate for Enterprise

"UEAPME, the European association for Crafts and SMEs, wishes to express a warm welcome to the SMEs from the ten new Member States to he EU. We believe that together we can build a better and prosperous enlarged Europe."

Commission appears lukewarm on SME interests

BY CHRIS WHITE

The European Commission must give higher priority to the impact of Basel II on small businesses and is not showing sufficient commitment to helping them says a leading MEP.

Paul Rubig wants to see early publication of an extended impact assessment on Basel II to complement that study published last week.

"We were angry that the consultants report was so long coming and we still want to see the extended assessment which has the possibility of influencing instruments for SME capital," the budget committee member and President of SME Global said.

He is concerned about comments reportedly made by Commissioner Fritz Bolkestein that under capitalised SMEs should be allowed to go bankrupt in order to leave a bigger market for those with adequate equity.

"This idea that those without equity should die in order that 'the good ones' may have more profit is astonishing. What is needed is better access to capital for SMEs.

"SMEs have high levels of social responsibility, they interact not only with their workforces but also with their customers and their communities. We need more not less

"Big companies can kick out 5000 workers at a time. They just make decision and that is that while small firms have concern for the welfare of their people. The classic case was Belgium's Sabena which when it closed put 10,000 of 30,000 out of work."

The Austrian MEP was appointed Rapporteur on the multi-annual programme for enterprise and entrepreneurship, which includes amendments improving access to risk capital for SMEs and improved access to European Investment Bank and European Investment Fund finance.

He warns that the German economy "is doing the opposite of enlargement countries like Slovakia." We need to put European enterprises on a new international platform. We have three priorities for Europe and they are to promote start-ups, joint ventures and set up guarantee systems for equity. We want to show that SMEs can do everything if the proper structures are in place".

Photo: Courtesy of SME-GLOBAL

Paul Rübig MEP (right) accepting a European Enterprise award for his work supporting SMEs

What next for the ports sector?

BY DAVID WHITEHEAD

The rejection of the "Access to Port Services" Directive by the European Parliament last November was a surprise. The Directive now numbers amongst a small and select group which fell at the very last hurdle.

As a freight based industry, sea ports have tended not to be high on the agenda of EU or national politicians. The general public uses road and rail all the time. They do not need reports to tell them whether they are working or not – they can see for themselves. Sea ports are more remote from the public eye. And although their function seems on the surface to be simple, they are complicated places. Many are also the location of connected industries, ranging from oil refining to warehouse distribution. They are difficult to define, making it more difficult to fit them into neat legislative packages.

Substantial growth

Ports have shown substantial growth since the early 1990s with container throughput more than doubling. The trend continues and forecasts up to 2015 show a continued rise in container throughput in the region of 5% per annum. As container terminals require deep water and extensive coastal sites, often in environmentally sensitive areas, the needs of the sector are becoming more apparent and, increasingly, difficult to deliver.

So how important was the Directive to the port sector and did it fit in with any "masterplan"? The Directive was always hugely controversial. It introduced rules for awarding service providers contracts in ports using basic Treaty Rules on rights of establishment. The Directive required a port to make open decisions on how many service providers it could support for each type of service – these covered stevedoring, pilotage, towage and mooring. It also set down eligibility criteria for service providers, maximum contract lengths and transitional arrangements. In other words, it produced a rule book for the industry.

Until the Directive appeared the ports sector had been left untouched by any form of centralised, Brussels directed policy. The industry has grown up in an organic way with ports using a mix of management systems – from the fully privatised ports to quasi government organisations and a number of variations in between. There are various reasons for this. Ports have long traditions and history and have adapted well to changing markets. Most importantly, port users were not demanding changes.

But the rise over the past decade of a small number of very powerful terminal operators dealing in the critically important container market had set some alarm bells ringing. Huge investments by these operators with concessions sometimes awarded using non-transparent procedures was, certainly in the Commission's view, not in the public interest and could lead to some difficult monopoly issues.

Barriers to trade

Another motivation behind the Directive was to stimulate a more broadly based service provider sector. Again, actual evidence has been hazy but the perception was that a mature port sector did not have a mature service provider market. There were clearly barriers to companies in one member state wishing to ply their trade in another member state and having a fair chance of gaining a contract.

During the Directive's Brussels stages, the European Parliament made some useful additions. These related to financial transparency and state aid, issues which the ports sector believes are more pressing than the rather narrower service provider issue. Parliament proposed – and this was subsequently accepted – that the Directive should provide greater financial transparency and that the Commission should produce state aid guidelines and undertake a detailed survey of flows of public money into ports. So these important extras were also lost when the Directive was thrown out.

All of which leaves ports policy in a state of suspended animation. By coincidence, the Directive's demise has coincided with a year when there are Parliamentary elections and the appointment of a new Commission. This has provided a valuable breathing space. At the time of writing, we do not know what steps the Commission will take by way of follow-up, although they have decided to undertake a port financing study during 2004. As to an "Access Directive 2", we will probably have to wait until the end of the year for a decision.

As to the industry itself, the European Sea Ports Organisation (ESPO) is using 2004 to redefine its policy and to make new proposals for the future. This will be a challenging task. Although there is general agreement that the private sector is expanding and needs to be encouraged, the means of doing this are not so apparent. The great debate will centre on whether new legislation is needed, possibly along the lines of the original Directive, or whether the market is sufficient to bring about change.

There is no doubt that ports are changing in response to the market. This has taken a number of forms. Port privatisation began in the UK in the early 1990s. Since then Greece has seen market flotations of their two main ports and in many other countries – Spain is a prime example – financial and strategic links between the government and ports have been severed. In the Le Havre to Hamburg group of ports – certainly the most influential grouping in the EU – change is more mixed. But the recent corporatisation of the Port of Rotterdam, the independence of the port of Antwerp and changes afoot in Hamburg show that major advances can be made without a ports "blueprint".

Ultimately, all ports crave strategic and financial independence; getting there can be painful. Some have already achieved it. The health and vitality of the industry depends on going even further.

Photo: Courtesy of David Whitehead

David Whitehead, Chairman, European Sea Ports Organisation

David Whitehead, Chairman, European Sea Ports Organisation

A European Agenda by Chris Scott-Wilson

Consumer Policy

Strictly speaking it is still debatable whether the EU actually needs a Consumer Policy independent from internal market policy. Article 153 of the Treaty envisages measures in the field of consumer protection in order to preserve the integrity of the single market; and this is the legal basis for the *acquis communautaire* with regard to consumer protection.

True: the Treaty also permits measures which *'support supplement and monitor the [consumer protection] policy pursued by the Member states'* which has lead to calls for Legislation to be based on Article 153; but to date it is unclear what supplemen-tary EU measures, if any, could be adopted independently of the need to harmonise national Legislation. At the EU level, the debate turns on the implications National 'consumer protection' measures may have for the internal market.

In this regard, the advent of the single market has not led Member States to abandon protectionism. It does, however, require barriers to trade to be plausibly justified. Technical standards can be very effective barriers to trade; and they are generally adopted and justified on the basis of consumer protection. Indeed, justification on these grounds is becoming increasingly common as more blatantly protectionist motives can too easily be challenged.

Faced with an increasing volume of national Regulation purporting to protect 'national' consumers (often a euphemism for the national market) the Commission may seek to harmonise the relevant national Regulations. However, since the need to harmonise arises because Member States have different regimes – the question immediately arises, 'which regime should be followed?'

The Treaty offers some guidance on this. It states that these measures should *'promote the interests of consumers and ensure a high level of consumer protection'* and this phrase has led to a presumption that national measures purporting to be for the protection of consumers should always be maintained; because otherwise the result would be a lower level of consumer protection.

However, if no national measures can be rescinded the process of harmonisation becomes one in which the single market requires all national measures (from every Member State) to be extended to the rest of the EU. This 'one-way' process is fundamentally flawed:

- In the first place it tends to prevent any objective analysis as to whether a measure is actually providing any effective protection to consumers' interests. As often as not this is either assumed or accepted on the basis of partisan submissions from NGOs.
- Secondly, it ignores the possibility that consumers may have different, and sometimes conflicting, interests which require a balance to be struck. Thus, as consumers, we would like lower prices and higher quality and better service; but it is equally true that we cannot 'have our cake and eat it too!' Everything must be paid for.

"Consumer protection" has become, to all intents and purposes, a political imperative. No-one could seriously argue that consumers ought not to be protected; and calls for greater consumer protection cannot be contradicted. But, this being so, such calls are little more than a claim to the moral high ground. It is not the motive of particular proposals that is open to question but their practical implications.

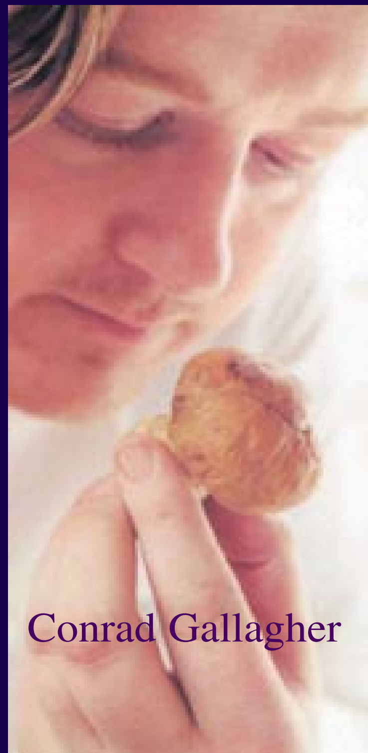
In this regard, the purpose of EU Legislation is NOT to achieve a particular level of consumer protection but to iron out regulatory differences that would otherwise amount to barriers to free movement. The *'minimum harmonisation'* approach in which Member states remain free to adopt additional measures cannot achieve this. However, maximum harmonisation requires a more critical assessment of the regulations to be harmonised.

In particular, it would not be unreasonable to question the balance between the consumers' interest in being protected and the cost, to the consumer, of that level of protection. This is never done because the operating assumption is that any cost will be borne by business. However, you cannot treat business as if it were an independent economic entity. Business and consumers are simply the two sides of the economic coin; and any businessman will tell you that "costs can always be passed on".

The more regulators add to business costs the more likely this is to happen. *Caveat emptor!*

Consumer protection turns on treaty

Irish Festival
04/05 — 17/05/2004



An IRISH FESTIVAL is set to celebrate the EU Presidency of Ireland and is organised by Dorint Brussels with support of the Irish Embassy in Belgium and the Irish Club of Belgium

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The Irish Festival is an array of cultural events including:

Irish Photo Exhibition
featuring the Irish Photo Press Award 2003, open daily

Irish Chef
inspired by the famous Conrad Gallagher, at lunch and dinner from May 4 till May 17, 2004

Irish Folklore Music
performed by true "Irish Nationals", both weeks on Tuesday, Wednesday and Thursday evenings

Irish Literacy
lecture presented by Frank Ronan, Keith Ridgway and Lara Harte on Wednesday May 12, 2004, at 7 pm

Irish Products
featuring fine Irish products and the famous Irish beverages...

Focus on Tourism by James Wilson

Photo: Courtesy of Hill & Knowlton Brussels

Madrid fights back: strong prospects for Spanish tourism

The city of Madrid has announced a programme of new investments to make the city more attractive to tourists in support of its bid for the 2012 Olympics.

Travel & Tourism in Spain is one of the most important sectors of the economy that represents 12% of GDP and 1.5 million direct jobs. Speaking at the 4th Global Travel and Tourism Summit in Doha, Qatar, Miguel Angel Villamoura Head of Economy and Tourism Development for the city of Madrid and José Luis Zoreda, the CEO of EXCELTUR also unveiled the findings of a detailed business opinion survey of some 1,500 Spanish business leaders analysing the economic impact of March 11 on tourism to Spain. The findings reveal that the sector is resilient and already showing strong recovery. The Spanish public and private sectors are responding unbowed to the fallout from the terrorist outrage in Madrid with a strong package of collaborative proposals designed to build on the resilient demand for Travel and Tourism to Spain

Driving change

The 4th Global Travel & Tourism Summit is the highest-level meeting in the annual Travel & Tourism calendar and it attracted the attendance of the Chairmen and CEOs of the world's top Travel & Tourism companies and numerous government officials. The summit is a focal point for the work of the World Travel and Tourism Council WTTC, a membership organisation representing the leaders of the global travel and tourism industry. It is the only body representing the private sector in all parts of the Travel & Tourism industry worldwide. Under the theme 'Driving Change', the Summit discussions focussed on priorities for change and how best to make it happen.

Grand plan for tourism in Qatar

A major feature of the summit was the launch of a Grand Plan for Tourism in Qatar, presented by Akbar Al Baker who is both CEO of Qatar Airways and Chairman of the Qatar Tourism Authority. There is huge investment in infrastructure going on in addition to the airport - hotels and more, which is creating a rival stopping off point to Dubai between Europe and South East Asia and redefining the transportation route maps for global tourism.

Dramatic growth in India

The summit also analysed the underlying drivers to the very dramatic Travel & Tourism growth in India. Growth of the Travel & Tourism sector in India is now faster than in any other major economy. The World Travel & Tourism Council's India Initiative commenced in February 2000. Since then, it has formulated a coherent and cohesive strategic policy for the region, it has helped identify key weaknesses in India's tourism product and has begun to find workable solutions to address these issues.

Speaking about the initiative, Jean-Claude Baumgarten, WTTC President said: "Travel & Tourism is a vital economic sector, responsible for over 10% of world GDP and more than 200 million jobs. We need to understand how it can best be harnessed to make a positive contribution to national economies everywhere. At the same time, we must understand what to do when events conspire to damage it. The WTTC India Initiative has successfully stimulated government action to increase investment in the sector, remove barriers to growth and consequently raise the economic contribution of Travel & Tourism to the Indian economy.

Potential of travel & tourism in the EU's new member states

The WTTC also published a groundbreaking examination of Travel & Tourism's latent economic potential in the EU's new Member States in Eastern Europe that have not yet achieved their full development promise. The findings of the new research build on the WTTC's exclusive Tourism Satellite Accounting research, produced by Oxford Economic Forecasting, quantifies the potential contribution of Travel & Tourism to jobs, GDP, capital investment and other key economic indicators.

The results cover the new EU Member States of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, as well as Bulgaria, Romania and Turkey that are candidates to join the EU at a later date. The reports are intended to help policy makers to be more targeted in their approach to job creation in the sector.

Introducing the report, Jean-Claude Baumgarten, said: "Travel & Tourism merits the serious attention of governments, as it is unique in the way it is consistently growing and has the power to shift wealth from the haves to the have-nots. This new research will help policy makers in those countries that have not fully exploited the opportunities offered by Travel & Tourism, to quantify the benefits the sector could have on their national economies."

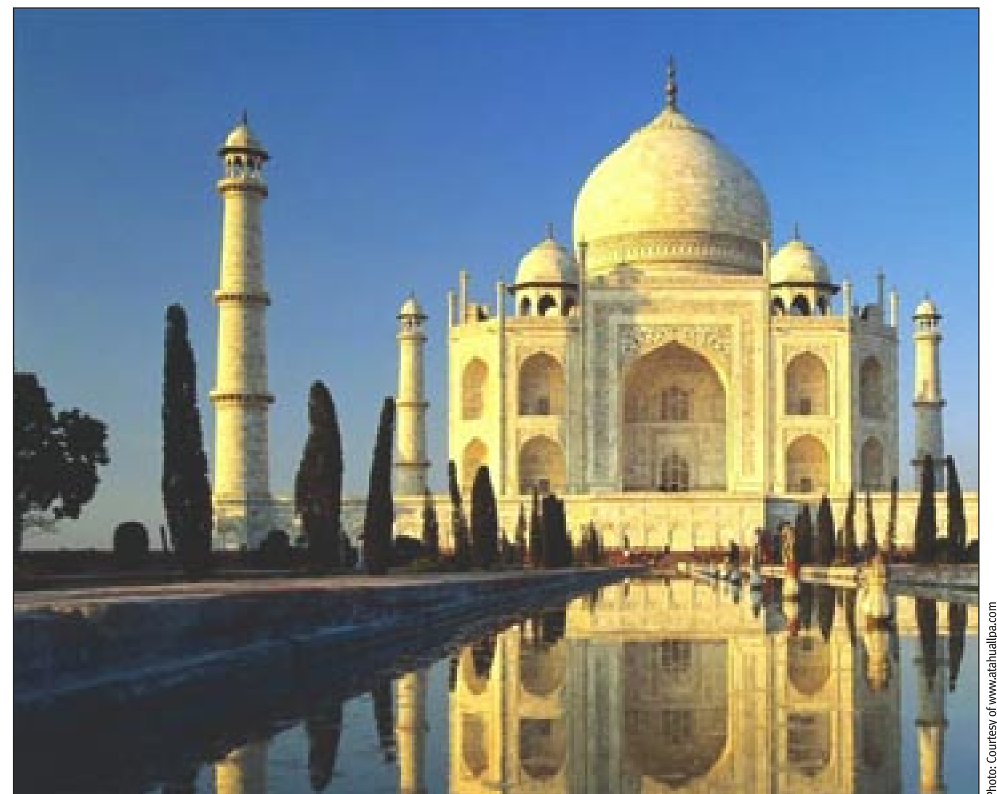


Photo: Courtesy of www.atahualpa.com

Growth of Tourism in India is now faster than any other major economy in the world

Green shoots of recovery

The global travel and tourism summit brings together the movers and shakers in this great industry, that has been battered by a series of external events successively over the last 3 years, starting with the terrorist atrocities in the USA on September 11, further terrorist attacks in Bali, Mombasa and Madrid, war in Iraq and public health scares in the Far East with SARS.

The summit has been tremendously successful in helping CEOs to share experience on the best business strategies for dealing with the changing environment and facing the many challenges that have confront the sector. The clear message that emerged from this weekend's conference is that the resilience of Travel and Tourism is winning through; the green shoots of recovery are there to be seen. People want to travel and there has been pent up demand that is now being released; the focus now is on which markets will show the best growth potential, and how best to harness new technologies to improve the delivery of customer services.

For more information about WTTC and the conclusions of the Doha Global Summit on Travel and Tourism, please visit www.wttc.org

James Wilson is a Brussels based expert on EU Affairs. Email: james@eureporter.co.uk

The heart of the bear

The first week of May marks the first full week of Enlargement of the EU to 25 members, and the European Commission has been organizing a week of events for Estonia to mark the occasion. As part of these festivities, the Scottish Executive in partnership with the Estonian Embassy are hosting a reception on Wednesday 5th May with Estonian Jazz, an exhibition of Estonian posters and Estonian delicacies served with fine malt whiskies. The evening of festivities will be rounded off with the screening of the Estonian film "The Heart of the Bear" at the Brussels Film Museum, with a second screening planned for Place Flagey on 10th May.

The Estonian film is the seventh in the series of a programme of films from the new Member States that has been organized by the Scottish Executive with help from the Edinburgh International Film Festival. "The programme has been a great team effort," said Stephen Fox of the Scottish Executive's EU Office in Brussels. "I'm pleasantly surprised at how successful the programme has been so far," he went on to say. "We've had to put on a second screening for all of the films from the start of the series to cope with the level of interest. This has opened up a whole new audience for us, and many people who were unfamiliar with the role of Scotland House have welcomed the programme."

A hallmark of the year long programme of films has been partnership with all of the embassies and missions involved, and there has been careful attention to cultural and linguistic detail. For the 13 films in the series, programme materials have been produced in 14 languages, and each film has been screened in their original languages with English subtitles. "This was very popular," says Stephen, "We even had requests for the short Scottish feature film accompanying the screenings to have English subtitles as well – to help translate the richer nuances of the Clydebank dialect."

The programme has been all about welcoming the new countries joining the EU; a secondary objective has been to use the arts as a medium for raising awareness about the work of the Scottish Executive and cementing ties between the regions and their representations. In focusing on artistic talent, the project has also linked in with the new talent initiative of the Scottish First Minister Jack McConnell to attract fresh talent to come and live and work in Scotland to meet the challenge of growth.

"We've attracted interest from creative and talented people in cinema and the arts, and the events have helped to bring movers and shakers in Europe's film industry together." Stephen went on to say, "It has helped to give good exposure to some of the great opportunities that Scotland can offer."

Stephen Fox is already looking ahead to 2005 and how to follow up the success of the "New Europe" series. "We will harness the creative energy of the staff at Scotland House to come up with something novel and interesting," he predicts. But we still have plenty to look forward to in the current programme, with films from Latvia, Hungary, Malta, Turkey, Romania and Bulgaria to follow in the Autumn.

Photo: Courtesy of the "New Europe" series

A scene from the film "Heart of the Bear"

Photo: Christopher White

EU Law Reporter - EU Law Reporter - EU Law Reporter - EU Law Reporter

Chris Scott-Wilson is a Barrister at Law (UK) and Managing Director of The Scott-Wilson Partnership based in Brussels. He is Vice-Chairman of the Kangaroo Group (A European Parliament body which campaigns for the completion of the European Home Market). e-mail Chris Scott-Wilson at chrissw@tswp.com.

I was born in a welfare state – ruled by bureaucracy.....

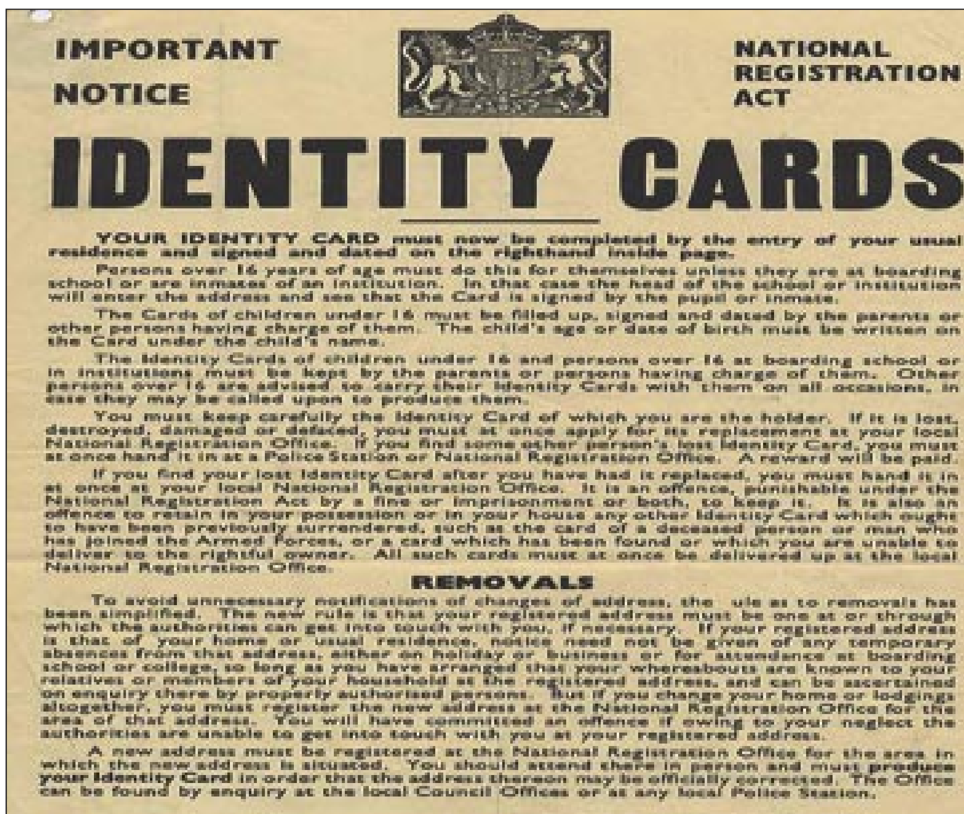
We have been cursed to live in interesting times.

The aftershocks of the UK's seismic decision to hold a referendum on the EU Constitution rumbles on and it seems that the "No!" campaign is already underway. Today we have been presented with a somewhat disingenuous survey claiming that two third of businesses oppose the draft Constitution. Since this figure is based on (oxy)moronic questions like "*would you favour more powers to the EU and protectionism or less powers to the EU, free trade and educational reform*" it is hardly reliable. However, the fact that support for the EU is at a low ebb is hardly in doubt; and were a referendum to be held today it would almost certainly be lost.

How have things come to such a pretty pass?

Consider, for a moment, the following explanation which appeared in the British press, "*there is a real cultural clash between the [Franco-German] concept of a centralised and regulated, bureaucratic and anti-american Union under their leadership – and an independent co-operative Europe of the Nations that the British want.*"

This reasoning is tendentious; and something



IMPORTANT NOTICE

NATIONAL REGISTRATION ACT

IDENTITY CARDS

YOUR IDENTITY CARD must now be completed by the entry of your usual residence and signed and dated on the righthand inside page.

Persons over 16 years of age must do this for themselves unless they are at boarding school or are inmates of an institution. In that case the head of the school or institution will enter the address and see that the Card is signed by the pupil or inmate.

The Cards of children under 16 must be filled up, signed and dated by the parents or other persons having charge of them. The child's age or date of birth must be written on the Card under the child's name.

The Identity Cards of children under 16 and persons over 16 at boarding school or in institutions must be kept by the parents or persons having charge of them. Other persons over 16 are advised to carry their Identity Cards with them on all occasions, in case they may be called upon to produce them.

You must keep carefully the Identity Card of which you are the holder. If it is lost, destroyed, damaged or defaced, you must at once apply for its replacement at your local National Registration Office. If you find some other person's lost Identity Card, you must at once hand it in at a Police Station or National Registration Office. A reward will be paid.

If you find your lost Identity Card after you have had it replaced, you must hand it in at once at your local National Registration Office. It is an offence, punishable under the National Registration Act by a fine or imprisonment or both, to keep it. It is also an offence to retain in your possession or in your house any other Identity Card which ought to have been previously surrendered, such as the card of a deceased person or man who has joined the Armed Forces, or a card which has been found or which you are unable to deliver to the rightful owner. All such cards must at once be delivered up at the local National Registration Office.

REMOVALS

To avoid unnecessary notifications of changes of address, the ule as to removals has been simplified. The new rule is that your registered address must be one at or through which the authorities can get into touch with you, if necessary. If your registered address is that of your home or usual residence, notice need not be given of any temporary absences from that address, either on holiday or business or for attendance at boarding school or college, so long as you have arranged that your whereabouts are known to your relatives or members of your household at the registered address, and can be ascertained on enquiry there by properly authorised persons. But if you change your home or lodgings altogether, you must register the new address at the National Registration Office for the area of that address. You will have committed an offence if owing to your neglect the authorities are unable to get into touch with you at your registered address.

A new address must be registered at the National Registration Office for the area in which the new address is situated. You should attend there in person and must produce **your Identity Card** in order that the address thereon may be officially corrected. The Office can be found by enquiry at the local Council Offices or at any local Police Station.

Photo: Courtesy of www.pro.gov.uk

Identity cards are not new in Britain - computers are!

of a parody. However, I would concede that there is a culture clash between the systems of mainland Europe based on the Napoleonic Code and the Common Law system of the UK and Ireland; and it lies at the heart of many of the UK's difficulties with the EU. A proper understanding of this clash would go some way to resolving them.

Contrary to the popular perception, and much of the rhetoric, the Member States are in broad agreement that there should be no further centralisation of power within the EU. True, Germany is given to talking about a federal structure, But this is because Germany is a Federal State with clear demarcation lines between the roles of the Lander and the Federal Government; and clear procedures for establishing the powers of the different levels of Government. It is entirely reasonable, on this model to describe the EU as a further level of Government empowered to act where action at EU level is required.

It is also true that France is given to using the F-word from time to time; but I sometimes think that this is a deliberate strategy to wind up the Brits. Unlike Germany, France is both a unified state and hierarchical. Like Britain, it sees the EU as Treaty based and a means of expressing, rather than submerging, its national sovereignty. There is no prospect of a French Government accepting that it is in some way a form of local Government within a sovereign EU. It is simply not on the agenda.

En passant, one might also observe that for many other Member States the EU is just a crock of gold; and without the gold it would just be a crock.

Thus, if we consider the issues raised in the British press, the clash is not between a centralising Franco-German EU and an independently minded UK. This language strikes an emotional chord with those of us brought up on stories of Dunkirk and 'Britain standing alone'; but looked at dispassionately it is a nonsense. The Member States, in the draft Constitution, are being called on to agree those policy areas where they will work together; and most importantly how they will work together in those areas.

Nor, I would add, is the passage correct in suggesting that the EU inherently anti-American. It is true that some Member States, notably France, see the EU as a means joining forces to build an economic power capable of matching, and inevitably therefore of rivaling, the USA. But, if the alternative is to retain individual national economies that are doomed to a gradual loss of competitiveness in World markets, then this is not necessarily a bad thing – nor is it necessarily anti-American.

The above passage is nearer the mark, however, when it complains that the EU is over regulated and bureaucratic. It is. But, people who live in glass houses should not throw stones; and the UK is not a bureaucracy-free zone. There is a clash of cultures but it lies not in the amount of bureaucracy but in its approach. There are two aspects to this:

Firstly, the Napoleonic

continued on page 19

Businesses not ready for enlargement

continued from page 1

sectors of financial services, agriculture and manufacturing. Information-communication technologies, business activities, real estate and construction lag well behind.

They expect to face tougher competition on their home markets as a result of enlargement together with easier access to EU markets, more transparent business practices and a bigger inflow of foreign direct investment.

The main pre-occupation of companies is a lack of finance...

However the main pre-occupation of companies is a lack of finance with 15% of those polled saying this will pose a serious difficulty for them while an increasing number – from 18% last year to 21% this year – are seeking a strategic partner.

Despite their misgivings however 59% of companies remain optimistic – down from 69% two years ago – while a growing number, 20%, believe accession will have no impact on their business.

Skehan said some companies will struggle and fold but generally enlargement will be good for Europe's economy overall with these companies having lower wage rates competing with those in the EU 15. It will introduce competition too at state level with taxes being lowered as has already happened in Estonia and Slovakia.

"The tax policy in Ireland over the past few years has been significant in what has happened with its economy. The effects of that kind of action flow through and if the accession adds downward pressure in terms of wages and taxes, it will be very positive", said Skehan.

Enlargement could give the Lisbon agenda to increase competitiveness of Europe's economy the boost it needs said Abruzzini.

The fact that some of the new countries have not yet complied with the requirements in some areas, such as in chemicals, could be an advantage making manufacture cheaper than in current member states, he said.

The most important thing now for business in the new member states was that they be effectively represented in Brussels, and the Commission should fund this.

"Organisations like EUROCHAMBRES will continue to help but we never take purely national positions, track legislation with particular national interests, and identify programmes of particular relevance to national business community.

In this regard we strongly believe that Community funding should be made available to create Brussels-based national business representations from the Central European countries, said Abruzzini.

EUROCHAMBRES is Brussels-based and has member organisations in 41 countries representing network of 2,000 regional and local Chambers with over 17 million member companies.

Ann Cahill is Europe Correspondent for the Irish Examiner.

Photo: Courtesy of EUROCHAMBRES

Delegates at the Enlargement Meeting in Vienna, during which Chambers from old and new Member States signed the "Enlargement Declaration"

American spelling and style applies to our US sourced articles

Claims of Improper U.S. Lobbying Quite a REACH

Lobbying Consistent with WTO Rules

BY LAWRENCE KOGAN

U.S. government and industry representatives have recently been panned for supposed improper efforts to influence a proposed EU chemicals regulation known as REACH ('Registration, Evaluation and Authorization of Chemicals'). Hyperbolic reporting aside, these efforts were both proper and fully consistent with international trade law.

A Financial Times article noted "the European Commission has criticized U.S. efforts to influence European Union chemical regulations". It then referred findings of an April 1, 2004 report issued by the Minority Staff, Special Investigations Division of the U.S. House Committee on Government Reform, otherwise known as the 'Waxman Report'. Prepared for Democratic U.S. Representative Henry Waxman (Calif.), it accused the administration of working too closely with U.S. industry to coordinate a position on the EU rules.

Waxman Report

The FT and other reportage should have more thoroughly investigated the Waxman Report's findings. Far from being a specimen of objectivity, its conclusions are based primarily on the findings of an earlier paper by the Environmental Health Fund, a U.S. environmental group unsuccessfully lobbying the Bush Administration to accept EHF's agenda. Its report, "EU Intervention in EU Chemical Policy", alleged that the Bush Administration's activities were "improper" largely for reversing an earlier Clinton Administration position not to intervene in the development of EU chemicals policy.

That Clinton position represented to a much greater extent the opposing views of environmentalist groups supporting REACH. As that earlier report reveals, the Environmental Health Fund received assistance in securing publicly available government documents from other environmental groups, such as Clean Production Action and Greenpeace. It also obtained privileged government information from U.S. government employees, with access to confidential documents and apparently sympathetic to both the prior Clinton position and the Commission's global environmental agenda.

Absent from most coverage was that Rep. Waxman, himself, was instrumental in shaping that prior Clinton position. Back in 1998, the U.S. chemical and toy industries appealed to the Clinton State and Commerce Departments to prevent the EU from enacting stringent regulations intended to preclude the use of certain chemical substances (phthalates) in the manufacture of products, including toys. They argued that the EU failed to conduct an objective science-based risk assessment and thus lacked the necessary empirical evidence showing actual risk of harm caused by exposure to those substances. At the request of environmental groups, Waxman responded by sending a critical letter to the Clinton White House. This prompted then-Vice President Gore to instruct those agencies to cease their lobbying efforts against the sweeping EU proposal.

Distilled, Rep. Waxman's "conclusions", parroted in much of the European media, were simply that the Bush Administration disagreed with him and his NGO allies.

Consistent with WTO Law

Most notable about the slanted coverage this issue received, however, was the failure to mention that involvement of interested foreign stakeholders such as the U.S. chemical industry and the U.S. government in the EU's REACH regulatory review process is actually *consistent with* World Trade Organization ('WTO') law. Article 2.9.4 of the Technical Barriers to Trade Agreement expressly permits WTO members whose trade will be significantly affected by regulations proposed by other WTO members "*to make and submit comments in writing*" reflecting their objections to and concerns about such legislation (emphasis added). It also requires the WTO member proposing the regulations to "*discuss these comments upon request*, and *to [actually] take these written comments and the results of these discussions into account*" (emphasis added).

Burdensome Obligations

REACH, even in its revised form, imposes a disproportionately expensive and burdensome set of affirmative obligations on global industry based on principles other than sound science. Shifting the onus of a burden of proof, as well as downgrading it to a burden of alleged suspicion, will hamper the economic competitiveness of a number of U.S. industrial sectors for years to come. Many other WTO member governments and their industries have drawn a similar conclusion and have likewise expressed their strong objections about REACH to the EU Commission. Developing countries, in particular, are gravely concerned about how REACH would adversely impact their prospects for social and economic advancement.

Global in Scope

REACH is not based on international standards or upon any nationally equivalent standard of another WTO member. Although developed as a regional regime, REACH is *global in scope*. It will have the effect of protecting and even enhancing the global competitiveness of

EU industry by requiring all non-EU industry, no matter where they operate, to share higher costs of regulatory compliance and product standardization associated with an 'enlightened' level of EU environmental protection. As a result, those countries that would be significantly affected by REACH have actively participated in the REACH regulatory review process.

The stakes surrounding REACH are much greater than the Commission lets on. REACH is largely premised on the *Precautionary Principle* a broad, European values-oriented, 'better safe than sorry' regulatory philosophy. That philosophy focuses mainly on empirical uncertainties rather than upon any hard evidence of probable or actual harm posed to a particular group by exposure to a specific product. The Commission has unilaterally endeavored to export the Precautionary Principle as an international standard over other governments' objections in order to change WTO law. For this reason, REACH, like other *precaution-based* extraterritorial legislation increasingly enacted by Brussels, is at the center of an ongoing transatlantic political debate the outcome of which will have significant economic and social ramifications for all WTO members, especially those least developed.

Had the U.S. not raised strong objections and had the EU adopted the REACH legislation in its original form, global industry would have severely suffered. Since the REACH regime is intended to serve as a *global* template for chemicals management and is believed to seriously impair U.S. economic interests, it was neither illegal nor improper for U.S. government and U.S. industry to vigorously lobby against it.

Lawrence Kogan, is with the U.S.'s National Foreign Trade Council.

The Cyprus referendum

continued from page 12

immigration issues.

The labour market in Cyprus is characterised by full employment conditions and low unemployment despite the fact that it already accommodates thousands of low skilled workers from both eastern European countries and Asia. These workers fill the gap that exists between the available supply of local low skilled workers and the demand for low skilled labour. EU membership is not expected to have a significant impact on the labour market as it has already adjusted to accommodate foreign workers.

What might probably change is the origin of foreign workers, as many Asian low skilled workers might be replaced by others from the new member states. A possibility also exists for high skilled Cypriot unemployed workers to seek employment somewhere else in the Union. At the same time however, the establishment of new European businesses on the island might create additional job opportunities but the net immigration impact is not expected to be significant.

I would however like to stress that the government of the Republic of Cyprus fully encourages the employment of Turkish-Cypriots workers in the labour market.

Question: *How do you see Cyprus' future in the EU? Will membership help to realize the potential to develop as a finance and business services centre serving the Middle East?*

Answer : Cyprus is situated at the crossroads of three

Photo: Courtesy of Mr. Demetris Syllouris

Speaking at a supporters' rally in Nicosia

continents, Europe, Africa and Asia. Its advantageous position, its very close relations with the Arab countries and Israel, its excellent infrastructure, its highly educated and reliable human capital and its great and existing experience in the services sectors constitute a safe and attractive business environment that will allow it to build up its full potential in these sectors and develop as a finance and business services centre serving, among others, the Middle East.

Cyprus is very much looking forward to playing this role and becoming, at the same time, a financial bridge between the European Union and the Middle East.

Brian Gardner's Food Policy Column

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Agricultural subsidies: a potent plague

The Australian Government is to pay its sugar growers subsidies of more than €300 millions. In world terms this news is unexceptional. As is too obvious, too many governments of too many rich countries subsidise their farmers too widely and too much. What is exceptional about the Australian Government decision to aid its struggling sugar cane growing and refining industries is that this action is being taken by a country which is not in the habit of subsidising farmers. Next to New Zealand, Australia is the lowest subsidiser of farmers among the world's developed countries; both these countries' meagre handouts to their farmers are, pro rata, less than a tenth of the massive amounts shovelled into farmers' bank accounts on a regular basis by Brussels and Washington.

Why then this break with traditional policy and sudden lurch by Canberra into the bad habits of the Europeans and Americans? It is a political reaction to a crisis in the Australian cane sugar industry created almost exclusively by the protectionist activities of Australia's 'trading partners', the United States and the European Union. The fact that Australian cane growers and sugar mills are among the most efficient in the world and, even without Brazil's cheap labour, can produce sugar at a third of the price charged to European shoppers and food processors cannot save them from the destruction of their principal markets by the activities of European and America. While the Europeans depress world markets by dumping 5 million tonnes or more – equivalent to Australia's entire production - of surplus sugar in the world market, the Americans protect their relatively inefficient cane and beet sugar growers by the erection of increasingly punitive import restrictions on Australian sugar deliveries. Only 87,000 tonnes of Australian sugar is now allowed into the United States market a year – little more than a tenth of the amount delivered there fifteen years ago, before the US Government imposed quotas.

Australia's sugar industry package includes a A$146 (€80 million) million grant to help growers and millers through immediate difficulties, subsidies for farmers and mill workers to move out of the industry and A$75 million (€41 million) for development projects. While Australia is the world's third-largest raw sugar exporter the impact of the industry's run of less than average crops has been worsened by low world prices caused by the dumping of surpluses on world markets. "This is an incredibly important industry that has suffered immensely because of a corrupted world market taking the world price to below the cost of production," said Deputy Prime Minister John Anderson announcing the four-year package.

There are two issues of high international importance arising from this development – particularly in the context of the ongoing Doha Round of trade talks. The first is that too often the understandable reaction of governments to excessive subsidisation and protection is to introduce subsidies and protection of their own, thus making the situation worse for everybody, but particularly for the weaker developing countries. The second is that the Australian measures have a large content of diversion and restructuring measures built into them. In dealing with an impossible international situation Canberra is facing up to reality by encouraging movement out of the sugar industry – the sort of measures that neither the EU nor the US have the courage to take . In other words, the Australian taxpayer is being forced to subsidise the contraction of what was one of the world's most efficient sugar industries in response to the over-subsidisation of the much less efficient industries by the Europeans and the Americans.

At the end of it all, let it be noted, we are all worse off. [here endeth the sermon!]

Australian sugar cane is to get millions in subsidies

I was born in a welfare state – ruled by bureaucracy.....

continued from page 17

system is founded on Regulation rather than Law. It sets out to provide that every activity is regulated and if something does not conform with the regulations it is prohibited. In contrast the common Law system starts with the proposition that any activity is permitted unless it is specifically prohibited by Law.

This distinction has been blurred, to some extent, by the tendency for the Common Law in the UK to be superceded by Statute and subordinate Regulations. This being so, complaints from UK business that the EU is imposing an unbearable regulatory burden should be taken with a pinch of salt. The EU is not a spontaneous legislative body. Its role is to ensure that National Regulations do not create barriers to free movement between Member States. To do this, it seeks to align the different national regimes in any given area.

Before blaming the EU for Regulatory excesses, it would be interesting to see whether the EU has ever proposed Regulations in an area that was not already covered by UK Regulations.

Secondly, the Napoleonic system is hopelessly bureaucratic. It was developed in a literate age and is, therefore, based on papers and the bureaucracy tends to focus exclusively on whether the papers are in order. In this way they have created a primitive form of virtual reality; a World within the paperwork which exists independently of, and bears no particular relationship to, reality.

This is the fundamental difference between the two systems. The common Law system directs its energies towards enforcing a limited number of prohibitions against transgressors. The Napoleonic system directs its energies towards ensuring that everything is in order in the 'virtual reality' of the paperwork.

Here too, however, the distinction is increasingly blurred. Not because the EU is influencing the UK; but because the UK is becoming more bureaucratic of is own volition. The announcement, this week, of plans to introduce identity cards is a case in point.

There was a time when I would have objected strongly to the idea of identity cards as being an infringement of civil liberties. However, having carried an identity card in Belgium for more than ten years, this is no longer the case. In fact, I have never been asked to produce my card except when I am trying to get into Commission buildings – and, at times, it has been useful when I have needed to prove who I am.

The worrying thing about ID cards is the way they act as the hub around which the rest of the bureaucratic paper chase spins. Every piece of paper in the public administration appears to be linked to, and through, the ID card; and if one piece changes then all the other administrative departments are notified and review their own paperwork to ensure consistency. It is a masterpiece of administration. We have reason to be grateful, however, that it is operating on nineteenth century technology. It is irritating that the Belgian system makes no allowance for the fact that people may not be able to spend half a day waiting to be given, or to renew, their cards. This inefficiency is, however, also its saving grace.

Belgium has all the regulations necessary for a police state but, thankfully, it doesn't have the wherewithal to use them. The UK, on the other hand, is setting out to adopt the same instruments and, should it do so, it is likely to apply them with all the enthusiasm of the convert and all the advantages of modern technology. The prospect should give pause for thought. Like fire, administrations make good servants but poor masters.

There is a strange irony in the fact that the UK government is introducing the European system of identity cards and backtracking on its commitment to the draft Constitution in the same week.

There is a similar irony in the fact that opinion polls suggest a large majority of people oppose the Constitution; while similar majority are in favour of identity cards. In fact, if we consider any of the issues of most concern to the British electorate, especially increased spending on public services, the British people want Britain to move closer to the European 'social market' model – they just don't want it to be European.

Opposition to a European Constitution is driven by our prejudices rather than our desires. We do not like the word *'constitution'* because we all have a folk memory of the fact that the UK does not have a written constitution. We do not want European regulations and bureaucracy; but we appear to be willing to accept similar, and even more restrictive, measures of our own making.

I hope that we can yet come to distinguish these issues. On the one hand we should see Europe for what it is; and try to get the best out of it. On the other, we should see the changes that are taking place in the UK for what they are; and try to retain the best of what we have been. It would be a remarkable, but not unprecedented, achievement if by pandering to our prejudices we manage to get the worst of both Worlds.

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The view from Berlin by Michelle Schmitz

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Rare harmony over Schröder's tax plans, but Germany's tax regime needs simplifying

"We have the best tax policy in the European Union: a simple tax system and low rates." Estonia's former finance minister Tonis Palts makes it plain why a lot of politicians fear the eastward enlargement of the European Union. The corporate and income tax rates of the new eastern European neighbours are often less than half those of the old member states and act as magnets for corporate investment.

Berlin poured cold water on the issue last week by telling the newcomers that low tax rates to attract foreign investors were unacceptable. Chancellor Gerhard Schroeder and Finance Minister Hans Eichel questioned why western member states suffering from huge budget deficits and high unemployment should subsidise such low tax rates in the new member states - a new attempt to give the tax debate a fresh boost.

"In central and eastern European countries there is a certain expectation from enlargement - 'we have low tax rates, but infrastructure projects which we cannot finance ourselves, will be financed by the EU'. That is not the way to go forward. We need a sensible balance," Schroeder said. It was out of the question that Germany as the biggest net payer had to finance tax competition against itself, he added.

Finance Minister Hans Eichel backed Schroeder's view saying that "there is an urgent need for discussion" in an enlarged Europe on whether lower corporate taxes in the new member states should be financed by EU subsidies. Eichel sharply criticized the countries for tax "dumping" and unfair tax competition. Even if tax harmony is unlikely in the foreseeable future, Eichel and Schroeder stressed that this was an important goal.

Even Edmund Stoiber, the conservative opponent of Schroeder, shared the chancellor's view – a rare moment of harmony in Germany's capital. " What we do not accept is the relocation of jobs mainly financed by German taxpayers' money," Stoiber said. The regional aid from the EU could not be used to help newcomers to "sponsor" their taxes, he added.

The comments come amid mounting fear in Germany that regional aid from the EU would help the new

Photo: Courtesy of www.lonbersyl.com

"The Rich Visit The Poor" by Jules Pascin, 1909

members states to maintain artificially low tax rates to attract foreign investors.

However, Germany's economic institutes and a lot of business federations criticised Berlin's stance on the issue, saying that in the long term Germany would benefit from the EU enlargement and tax competition should not be feared. They also defended the relocation of production facilities saying that "foreign investors (in the new member states) substantially contributed to the increase in economic growth in the accession countries, which also prompted German exports to rise."

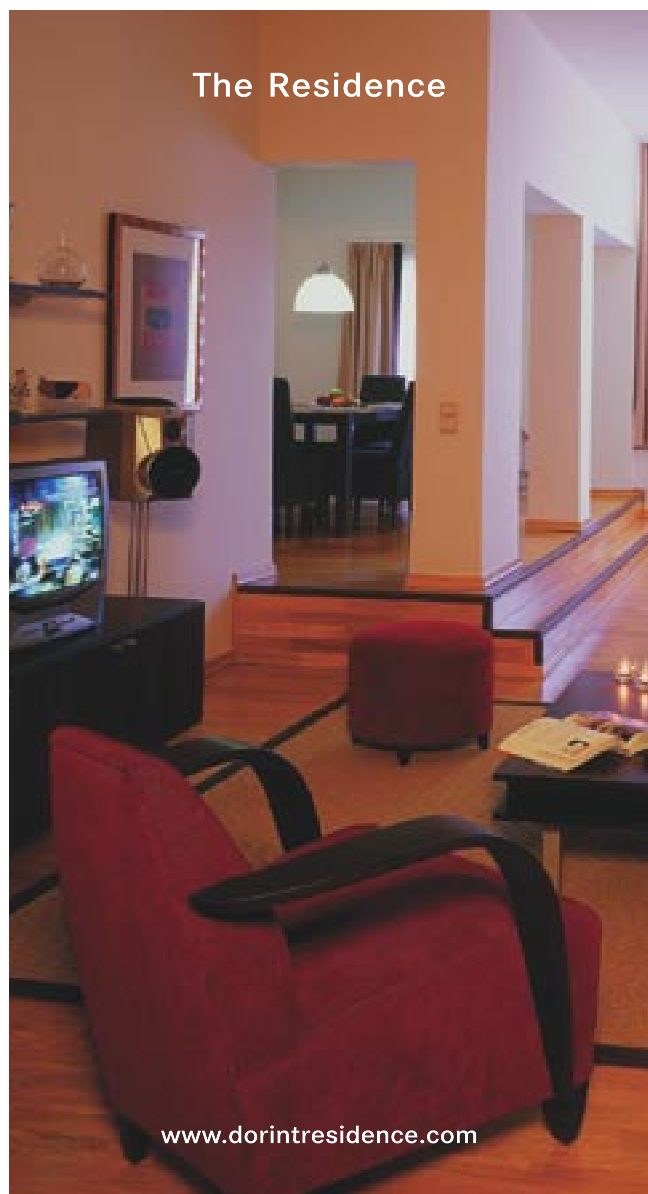
"People in specific regions will lose their jobs and entire sectors of the economy may disappear," said Gustav Adolf Horn, chief economist of the Berlin-based German Economic Research Institute. "But rising exports to eastern Europe will create jobs and, on balance, the effect will be positive." According to the head of Germany's Wholesale and Foreign Trade group (BGA), Anton Börner, the EU enlargement process may help to create 500,000 new jobs in Germany until 2010.

The institutes even warned in their spring economic outlook that forcing the ten new member states to harmonize their tax rates would have a negative impact on the convergence process in the European Union.

Nevertheless, they called for a review of the EU's subsidy system saying that the EU Commission had to consider the fact that new members would receive much of the amount earmarked by the EU for regional aid between 2007 and 2016. That was problematic, the institutes said. Hence, the Commission should closely monitor subsidy arrangements.

Tax competition within the EU should not be prevented by harmonizing tax rates or implementing minimum rates, Horn said. Rather, it is a legal instrument to attract investors. It does not make sense to complain that tax rates in the new member states are lower. "Germany's tax system should be simplified quickly", the institutes said in their report. This would certainly be a step in the right direction to create a more business-friendly environment in Europe's largest economy.

See Tax Competition, Page 4



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