EUROPE

EUROPEAN UNION

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

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

[1] Estimates.

1. General Policy Framework

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

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

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

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

2. Exchange Rate Policy

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

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

3. Structural Policies

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

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

4. Debt Management Policies

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

5. Significant Barriers to U.S. Exports

Import Policies

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

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

Services Barriers

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

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

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

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

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

Standards, Testing, Labeling and Certification

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Barriers

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

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

Reciprocity Provisions: The "reciprocal" national treatment clause found in EU banking, insurance and investment services directives allows the EU to deny a third-country financial services firm the right to establish a new business in the EU if it determines that the investor's home country denies national treatment to EU firms. U.S. firms' right to national treatment in this area was reinforced by the EU's GATS commitments. The notion of reciprocity may have been taken further in the Hydrocarbons Directive, which requires "mirror-image" reciprocal treatment where an investor is denied a license if its home country does not permit EU investors to engage in activities under circumstances "comparable" to those in the EU. It should be noted, however, that thus far no U.S.-owned firms have been affected by these reciprocity provisions.

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

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

Government Procurement

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

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

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

6. Export Subsidies Policies

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

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

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

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

7. Protection of U.S. Intellectual Property

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

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

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

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

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

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

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

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

8. Worker Rights

Labor legislation still remains largely the domain of individual member states. Recent decisions taken at the Lisbon, Luxembourg, Cardiff, and Cologne EU Summit Meetings of the EU have, however, significantly increased cooperation on employment issues. Specifically, the Luxembourg Process created a system of goals on employment and annual reviews of each country's progress toward meeting them. The Cardiff Process sought to liberalize further the movements of goods, services, and capital as a means of increasing employment in EU countries. And the Cologne Process, in the European Employment Strategy signed at the Summit, brought the EU's coordination in employment and macroeconomic policies closer together. The Lisbon Summit stressed the need for appropriate lifelong learning and training to meet the needs of a growing information society. It also set out a goal of raising the EU's employment rate from 60 percent to 70 percent by 2010.

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

[Millions of U.S. Dollars]

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

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

AUSTRIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	210,897.7	208,264.9	192,618.0 [2]
Real GDP Growth (pct)	2.9	2.1	3.5
GDP by Sector:			
Agriculture	4,584.3	4,176.8	N/A
Manufacturing	62,263.6	61,528.7	N/A
Services	118,315.2	117,264.4	N/A
Government	13,247.7	13,026.1	N/A
Per Capita GDP (US$)	26,107	25,948	23,782 [2]
Labor Force (1,000s)	3,684	3,700	3,716
Unemployment Rate (pct)	4.5	3.7	3.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	3.3	3.9	N/A
Consumer Price Inflation	0.9	0.6	2.3
Exchange Rate (AS/US$ annual average) [3]	12.38	12.91	14.63
Balance of Payments and Trade:			
Total Exports FOB	62,579.8	64,235.2	65,390.0
Exports to United States	2,533.5	2,931.5	3,000.0
Total imports CIF	68,023.3	69,617.4	69,660.0
Imports from United States	3,283.0	3,719.9	3,485.0
Trade Balance	–5,443.5	–5,382.2	–4,270.0
Balance with United States	–749.5	–788.4	–485.0

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
External Public Debt[4]	31,980.8	17,925.8	13,260.4
Fiscal Deficit/GDP (pct)	2.3	2.1	1.6
Current Account Deficit/GDP (pct)	2.3	2.8	3.0
Debt Service Payments/GDP (pct)[5]	1.4	0.5	1.4
Gold and Foreign Exchange Reserves (year-end)[6]	24,089.0	20,100.0	N/A
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2000 figures are all estimates based on latest available data and economic forecasts in October 2000.
[2] The apparent decline in 1999 and 2000 figures is a result of exchange rate fluctuationsbetween the Austrian Schilling (AS) and the U.S. dollar. In local AS currency, figures show an increase in both 1999 and 2000.
[3] There is only an official rate, no parallel rates.
[4] Since the start of the Economic and Monetary Union (EMU) on January 1,1999, external debt is defined as debt denominated in other currencies than the Euro.
[5] Debt service payments on external public debt.
[6] Since the start of the EMU, the Austrian National Bank's foreign exchange reserves are part of the Eurosystem.

Sources: Austrian Institute for Economic Research (WIFO), Austrian Central Statistical Office, Austrian Federal Finance Ministry, and Austrian National Bank.

1. General Policy Framework

Based on per capita GDP, Austria is the third richest EU country. Austria has a skilled labor force and a record of excellent industrial relations. Its economy is dominated by services, accounting for two thirds of employment, followed by the manufacturing sectors. Small and medium-sized companies are predominant. After previous governments had privatized most of the formerly state-owned manufacturing industries, the new government decided to go ahead with further privatization, including in the banking, telecommunications and energy sectors and will also review full privatization of its shareholdings in already partly privatized companies, including Austrian Airlines and OMV petroleum company.

Exports of Austrian goods and services account for more than 45 percent of GDP. Austria's major goods export market is the EU, accounting for 63 percent of Austrian exports (35 percent to Germany, 8 percent to Italy). However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 15 percent of Austrian exports by 1999. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets.

The new Conservative (OVP)-Freedom Party (FPO) government seems to be prepared to break with the Austrian tradition of setting economic policy in consultation with the so-called "Social Partnership," consisting of the representative bodies of business, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms. The new government broke precedent by not consulting with the social partner institutions on important economic policy decisions such as social reform and balancing the budget. Success in implementing key reforms, particularly on budget deficit reduction, is necessary to bring Austria into closer alignment with its European partners.

As a member of the EU's Economic and Monetary Union (EMU), Austria is required to keep its budget deficit in line with the Maastricht convergence criteria. After successful reduction of the federal budget deficit since 1996, the budget consolidation process slowed in 1999 as a result of income tax reductions and increases in so-called family allowances. In 1999, the federal budget deficit was 2.4 percent of GDP and the total public deficit (which is the EMU criterion) 2.1 percent of GDP. Strong economic growth and swift implementation of tax increases and pension reform should help the new government to limit the total public sector deficit to 1.6 percent of GDP in 2000. The new government has announced its intent to balance the budget by 2002.

Other focuses of economic policy are introducing the single euro currency, reforming the social and pension systems, implementing an ambitious privatization program, and creating a more competitive business environment. Although Austria's economy has become considerably more liberal and open, foreign investors as well as local businesses still must cope with rigidities, barriers to market entry, and an elaborate regulatory environment in some sectors.

2. Exchange Rate Policies

As one of the eleven EU member states participating in EMU, Austria on January 1, 1999 surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB). The government successfully met all EMU convergence criteria due to austerity measures implemented in 1996–97, and is pursuing a policy of further reducing the fiscal deficit and the public debt. The Austrian National Bank (ANB) is a member of the European System of Central Banks (ESCB) and supports the ESCB's focus on maintaining price stability in formulating exchange rate and monetary policies. On December 31, 1998, the exchange rate for the euro was irrevocably fixed at Austrian schillings (AS) 13.7603.

In 1999, the euro, and with it the Austrian schilling, lost little ground against the dollar. In 2000, the dollar continued to rise steadily against the schilling parallel to its rise against the single euro currency.

3. Structural Policies

Austria's 1995 accession to the EU forced the government to accelerate structural reforms and to liberalize its economy. Most nontariff barriers to merchandise trade have been removed and cross-border capital movements have been fully liberalized.

While the government continues to be a major player in the economy, the scope of government involvement, a traditional feature of the Austrian economy, has been significantly reduced in recent years. The amount of total government spending (federal, provincial and local governments as well as social security institutions, but not including government holdings) as a percentage of GDP declined to 54.1 percent in 1999 from 57.4 percent in 1995. (Note: the figure for the government contribution to GDP, as shown in the table, reflects only narrow public administration functions and does not include social and other expenditures). The government's plans for a balanced budget and privatization should reduce this share further. In May 2000, Parliament passed a law establishing legal framework for privatization of remaining government shareholdings. Over the next three years, the government plans to sell the Vienna airport company, Austria tobacco company, Telekom Austria, Dorotheum auction house and bank, and others. It will also review full privatization of its shareholdings in already partly privatized companies, including Austrian Airlines, OMV petroleum company and Voest-Alpine steel. In August 2000, the government sold the Postal Savings Bank. A stated policy of "maintaining the Austrian interest" in banks and basic industries has so far not had any real effect. Foreign investors have been successful in obtaining shares in important Austrian industry sectors, for example the banking, telecom and energy sectors.

As a result of EU liberalization directives, the government has also moved ahead with liberalization legislation in the telecom and energy sectors. The opening of the market for conventional telephones on January 1, 1998 represented the final phase of Austria's telecom liberalization. The Austrian telecom services sector now exhibits some degree of liberalization. The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. The electricity market is now supposed to be opened by 2001, and the gas market by 2002. However, the government is likely to keep its 51-percent majority in the federal power company "Verbund," because selling these shares requires a two-thirds majority in Parliament and the Social Democratic Party (SPO) refuses to approve such a move. Preparations are also under way to liberalize the natural gas market.

In past years, the government has successfully cut red tape to make Austria more attractive for investors. Procedures for investors to obtain necessary permits and other approvals have been streamlined and the time for approvals cut considerably; however, plans for implementing "one-stop-shopping" for all necessary permits have not yet been realized due to jurisdictional problems. Approval for larger projects could still be burdensome and lengthy. The "one-stop-shop" for business permits is again on the agenda of the new government. Other measures planned to improve the business climate and stimulate entrepreneurial activity include the reduction of non-wage costs for labor, strengthening the equity market for small and medium-sized enterprises, reducing the number of laws and regulations for business, drafting a new company law, amending the bankruptcy law, reforming the Business Code to liberalize establishing new businesses, allowing more flexible work hours and more liberal shopping hours.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1999, the Austrian federal government's external debt amounted to $17.9 billion (14 percent of the government's overall debt) and consisted of 93 percent bonds and 7 percent credits and loans. Debt service on the federal government's external debt amounted to $1.1 billion in 1999, or 0.5 percent of GDP and 1.2 percent of total exports of goods and services. The total public sector external debt in 1999 was not significantly higher than the federal government's external debt. Total gross public debt was 64.9 percent of GDP at the end of 1999 and, thus, still beyond the 60 percent ceiling set under the Maastricht convergence criteria. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

The United States is Austria's largest non-European trading partner, contributing 5.8 percent of Austria's total 1999 imports. The United States was Austria's third largest supplier worldwide after Germany and Italy. The Austrian government thus has a clear interest in maintaining close and smooth trade ties. However, there are a number of obstacles hindering further increases of U.S. exports to Austria.

Import License Requirements: The EU, and therefore Austria, requires import licenses for a number of products, first and foremost for agricultural and health products due to health grounds. Access of U.S. pharmaceuticals to the Austrian market has been particularly restricted by the Austrian social insurance company ("Hauptverband der Sozialversicherungstraeger") that approves drugs for reimbursement under Austrian health insurance regulations and favors domestic suppliers. Pharmaceuticals not approved by that company have higher out-of-pocket costs for patients. In general, an Austrian importer must possess an export license from the supplier country and then obtain permission to import from the Austrian authorities.

Various agricultural products are banned from the Austrian market for the same reasons. The EU ban on beef imports from cattle treated with hormones severely restricts U.S. exports of beef to Austria. Despite a WTO decision that the ban is inconsistent with the rules of international trade, the EU has not lifted the ban. The Austrian government, moreover, has ruled out a lifting of the ban in the foreseeable future. Further, the EU has not approved any U.S. poultry plants, ruling out the possibility of importing U.S. poultry, or products containing poultry. Finally, the EU has not approved most genetically modified plants available in the United States; imports of these plants or products containing these plants are not permitted. Austria has gone even further than its EU partners: Novartis corn and Monsanto BT corn, approved by the European Commission, are not permitted in Austria.

Service Barriers: Providers of financial services such as insurance and banking have to meet reciprocity requirements, and at least one manager of each branch or subsidiary must have residence in Austria. Providers of legal services must submit specific proof of their qualifications, such as university education or number of years of practice. Potential health and social services providers are subject to an economic test and must obtain a business permit from the local governments. Travel agencies and tour operators require a proof of qualification and must be listed with the Austrian Ministry of Economics. Under the WTO General Agreement on Trade in Services, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with Austrian firms to circumvent these restrictions.

Labeling requirements: Information is required for most (and all wrapped) foodstuffs identifying the composition of the product, the manufacturer, methods of storage and preparation and the quantity. Other important requirements include washing instructions on textiles, and certification of safety (the CE mark) on machines, toys and baby accessories.

Investment barriers: Austria is in compliance with World Trade Organization Trade Related Investment Measures (TRIMS) agreement notification. There are limited restrictions on foreign investment in Austria with regard to sectors (see next paragraph). However, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria. Although not required in order to gain access to tax incentives, performance requirements may be imposed when foreign investors seek financial or other assistance from the Austrian government. The Residence Law and the Foreign Workers Employment Law exempt skilled U.S. labor (e.g., managers and their dependents) from an increasingly restrictive quota system for residence permits.

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of television, railroads, some utilities, and state monopolies. As the government continues to pursue privatization, some of these industries are gradually being opened up to private investment as well. Austria was required to open its fixed-line telecommunication market January 1, 1998 in line with EU directives. Several competitors now offer fixed-line service over Telekom Austria lines, which, however, still dominates fixed-line service over the "last mile."

The telecommunications control authority issued an order for unbundling of the local loop in September 2000. Competitors are supposed to negotiate with Telekom Austria regarding conditions of local loop access, and will have recourse to the telecoms control authority if they cannot reach agreement with the dominant carrier. Concerning third generation mobile telephony, the invitation for bids was issued and the auction of up to six licenses was planned for November 2000.

The Austrian electricity market will be fully liberalized for consumers in October 2001, but the majority shares of the Austrian suppliers remain in the hands of various levels of governments. The ambitious privatization program of Austria's new government, approved by Parliament in May 2000, foresees full or partial privatization of many important Austrian companies. Overall costs in Austria are similar to those in France and Italy, lower than in Germany and Japan, but higher than in the United States, Canada and the U.K.

Government Procurement: Austria is a party to the WTO Government Procurement Agreement; Austria's Federal Procurement Law was amended in January 1997 to bring its procurement legislation in line with EU guidelines, particularly on services. In defense contracts, offset agreements are common practice. U.S. firms have reported experiencing a strong pro-EU bias in government contract awards, and a similar pro-EU bias (in some instances an even more narrow call for "Austrian solutions") has also appeared to play a role in some privatization decisions. In a recent procurement case, however, the U.S. firm Sikorsky was able to secure a major contract for "Blackhawk" helicopters over European competitors, in a hard-fought competition in which offsets were a major factor.

Customs Procedures: There are no particularly burdensome procedures. However, in order with the EU Generalized System of Preferences, a customs declaration must be made in order to bring goods from a third country to Austria. Depending on the product and the country of origin, specific evidence must be included.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. The Austrian Kontrollbank (AKB), Austria's export financing agency, administers the government's export guarantees. Credits under the AKB's export financing scheme are provided in conformity with the rules of the OECD Arrangement on Guidelines for Officially Supported Export Credits ("Consensus"). The AKB operates a transparent export guarantee system by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

The legal system protects secured interests in intellectual property rights, including patents, trademarks and copyrights. Austria is a party to the World Intellectual Property Organization and several international intellectual property conventions, such as the European Patent Convention, the Paris Industrial Property Convention, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels Convention Relating to the Distribution of Program-carrying Signals transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In the World Trade Organization Treaty on Intellectual Property (WTO TRIPS) negotiations Austria prefers the "first-to-file," and not the U.S.-favored "first-to-invent" principle; further, initiatives should be encouraged to promote trade of property protected by copyright, according to Austrian negotiators.

Patents: In compliance with the WTO TRIPS agreement obligations, Austria extended patent terms on inventions to 20 years after application. However, the Parliament has delayed the decision on a patent law amendment that would have implemented the 1998 EU guideline on the protection of biotechnological inventions. This amendment would strengthen regulations on patent offences and compensation, and the obligations to give information.

Copyrights: The copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. A special problem under Austrian copyright law is that "tourist establishments" (hotels, inns, bed and breakfast establishments, etc.) may show cinematographic works or other audiovisual works, including videos, to their guests without prior authorization from the copyright holder. The United States holds this provision to be inconsistent with Austria's obligations under the Bern Convention and TRIPS. Following bilateral U.S.-Austrian talks in 1997, the Austrian Arbitration Commission determined the rates to be paid for such public showings. Austria considers this step sufficient compensation for the interests of the copyright holders and in compliance with both the Bern Convention and the TRIPS agreement. The United States has expressed reservations to this position. Austrian copyright law also requires that a license fee be paid on imports of home video cassettes and broadcasting transmissions. Of these fees, 51 percent are paid into a fund dedicated to social and cultural projects. In the view of the United States, the copyright owners should receive the revenues generated from these fees and any deductions for cultural purposes should be held to a minimum.

New Technologies: Due to the alleged possibility of patenting genes, plants and animals, Austria is reluctant to implement the EU directive 98/44/EG on the protection of biotechnological inventions. The delay may infringe U.S. investments. Content piracy on the Internet is another growing problem although the copyright law is fully applicable in this regard. However the Austrian courts are hesitant to enforce the law against the pirates.

American investors are entitled to the same kind of protection under Austrian patent and copyright legislation as are Austrian nationals. Intellectual property problems do not specifically affect U.S. trade. Austria was not mentioned in the U.S. government's "Special 301" review in 2000.

8. Worker Rights

a. *The Right of Association:* Workers have the constitutional right to form and join unions without prior authorization. All 13 national unions belong to the Austrian Trade Union Federation (OGB), which has a highly centralized leadership structure that does, de facto, not allow the formation of other independent unions. Although the right to strike is not provided explicitly in the Constitution, it is universally recognized. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions jointly try to influence legislation on social and economic issues. Under the current government their impact is decreasing.

b. *The Right to Organize and Bargain Collectively:* Unions have the right to organize and bargain collectively. Almost all large companies, private or state-owned, are organized. Worker councils operate at the enterprise level, and workers are entitled by law to elect one-third of the members of supervisory boards of major companies. Collective agreements covering wages, benefits and working conditions are negotiated exclusively by the OGB with the National Chamber of Commerce and its associations, which represent the employers. All workers except civil servants are required to be members of the Austrian Chamber of Labor, a public body that is enabled to act for workers' rights along with the OGB.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law, and this prohibition is enforced effectively.

d. *Minimum Age for Employment of Children:* The minimum legal working age is 15. The law is enforced effectively.

e. *Acceptable Conditions of Work:* There is no legally mandated minimum wage. Instead, nationwide collective bargaining agreements set minimums by job classification for each industry. Workers as well as the jobless are entitled to a variety of generous social benefits that guarantee a high standard of living on average. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, although the legal workweek has been established at 40 hours. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. *Rights in Sectors with U.S. Investment:* Labor laws tend to be consistently enforced in all sectors, including the automotive sector, in which the majority of U.S. capital is invested.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,115
Food and Kindred Products	31	
Chemicals and Allied Products	53	
Primary and Fabricated Metals	1	
Industrial Machinery and Equipment	67	
Electric and Electronic Equipment	413	
Transportation Equipment	351	

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

[Millions of U.S. Dollars]

Category	Amount	
Other Manufacturing	198	
Wholesale Trade		603
Banking		(1)
Finance/Insurance/Real Estate		140
Services		158
Other Industries		–65
TOTAL ALL INDUSTRIES		3,696

(1) Suppressed to avoid disclosing data of individual companies.

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

BELGIUM

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
GDP (at current prices) [2]	247.6	222	230
Real GDP Growth (pct) [3]	2.8	1.7	3.5
GDP by Sector (pct):			
Agriculture	1.2	N/A	N/A
Construction	6.2	N/A	N/A
Energy	4.4	N/A	N/A
Industry	17.8	N/A	N/A
Services	52.6	N/A	N/A
Nontradable Services	17.7	N/A	N/A
Real Per Capita GDP (US$) [4]	24,274	21,658	22,416
Labor Force (000s)	4,315	4,330	4,341
Unemployment Rate (pct)	9.5	9.0	8.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.5	5.5	N/A
Consumer Price Inflation	1.0	1.1	2.1
Exchange Rate (BF/US$)	36.45	37.73	41
Balance of Payments and Trade:			
Total Exports FOB [5]	173.3	165.4	166.3
Exports to United States [6]	7.1	8.2	9.0
Total Imports CIF [5]	160.7	150.3	140.8
Imports from United States [6]	11.2	11.3	12.3
Trade Balance [5]	12.8	13.8	14.5
Balance with United States [6]	–4.1	–3.1	–3.3
Current Account/GDP (pct)	4.1	4.2	4.1
External Public Debt	10.6	11.2	N/A
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	–1.0	–0.9	–0.5
Aid from United States	0	0	0
Aid for All Other Sources	0	0	0

[1] 2000 figures are all estimates based on monthly data available in October 2000.
[2] GDP at factor cost
[3] Percentage changes calculated in local currency
[4] At 1985 prices
[5] Merchandise trade. Government of Belgium data.

Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

1. General Policy Framework

Major Trends and Outlook

Belgium possesses a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture two percent. Belgium ranked as the eleventh-largest trading country in the world in 1999, with exports and imports each equivalent to about 70 percent of GDP. Eighty percent of Belgium's trade is with other European Union (EU) members. Seven percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970s and the 1980s, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1994, debt was equal to 137 percent of GDP; since then, however, the country has made substantial progress in reducing the debt and balancing its budget. Belgium has largely financed its budget deficits from domestic savings. Foreign debt represents less than 10 percent of the total and Belgium is a net creditor on its external account.

Belgium's macroeconomic policy since 1992 has aimed at reducing the deficit below three percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the EU's Maastricht Treaty. On May 1, 1998 Belgium became a first-tier member of the European Monetary Union. The government's 2000 budget projects a 0.9 percent deficit and continues the debt reduction policies with the aim of achieving a debt/GDP ratio of 110 percent by the end of the year.

Economic growth this year is mainly created through higher exports and increased domestic demand, as well as by increased investments. Wage costs seem to be under control, and unemployment is expected to come down from 9 percent in 1999 to 8.5 percent in 2000. However, the 8.5 percent is an average figure which glosses over significant differences, both between demand and supply as well as between regions.

Belgium's unemployment situation improved slowly last year. Standardized EU data put Belgium's unemployment rate at 8.5 percent in June 2000, 1 percent below the EU's average. However, strong regional differences in unemployment rates persist, with rates in Wallonia and Brussels being two to three times higher than in Flanders. Although wage growth has been very modest since 1994, wage levels remain among the highest in Europe.

In 1993, Belgium completed its process of regionalization and became a federal state consisting of three regions: Brussels, Flanders and Wallonia. Each region was given substantial economic powers, including trade promotion, investment, industrial development, research and environmental regulation.

Principal Growth Sectors

Sectoral growth in the Belgian economy reflects macroeconomic trends. Industry sectors that are oriented towards foreign markets, in particular those in the semi-finished goods sector such as iron and steel, non-ferrous metals and chemicals are very sensitive to foreign business cycle developments. Business investment is expected to increase by 4.7 percent in 2000. The capital goods sector in particular is benefiting from strong investment demand in Belgium. This year, the National Bank of Belgium reported a record level in Belgium's business cycle, caused by a marked improvement in both trade and manufacturing industry. In the construction sector, the economic climate is stable. The fact that both the semi-manufactured goods and the consumer goods sector are still on an upward trend, show that the economy is still on a fairly high growth path.

Government Role in the Economy

On May 1, 1998 Belgium became a first-tier member of the European Monetary Union. Belgium will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. On January 1, 1999 the definitive exchange rate between the euro and the BF was established at BF 40.33.

Since 1993, the Belgian government has privatized BF 280 billion worth of public sector entities; in 1999, the government did not raise any further money through privatization, although it is now actively pursuing public private partnerships (PPPs). Further privatization of the last two enterprises with a strong public sector stake, Sabena and Belgacom, will probably occur before the end of this coalition's term, i.e. 2003.

Balance of Payments Situation

Belgium's current account surplus stagnated in 2000: at 4.1 percent of GDP, it was well above the EU average of 1.5 percent of GDP, and one of the largest in the OECD area. The surplus largely reflects a strong trade balance: exports picked up in response to more buoyant economic conditions in EU countries, and to a significant improvement in cost-price competitiveness. The impact of the East Asian crisis was limited, given that Belgium's exports to these countries, including Japan, represent only five percent of total exports.

Infrastructure Situation

Belgium has an excellent transportation network of ports, railroads and highways, including Europe's second-largest port, Antwerp. Major U.S. cargo carriers have created at Brussels-Zaventem airport one of the first European hub-and-spoke operations.

2. Exchange Rate Policy

On May 1, 1998 Belgium became a first-tier member of the European Monetary Union. Belgium will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. On January 1, 1999 the definitive exchange rate between the euro and the BF was established at BF 40.33.

3. Structural Policies

Belgium is a very open economy, as witnessed by its high levels of exports and imports relative to GDP. Belgium generally discourages protectionism. The federal and some regional governments actively encourage foreign investment on a national treatment basis.

Tax policies: Belgium's tax structure was substantially revised in 1989. The top percent in marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 39 percent. Small companies pay a rate ranging from 29 to 37 percent. Branches and foreign offices pay income tax at a rate of 43 percent, or at a lower rate in accordance with the provisions contained in a double taxation treaty. Under the present bilateral treaty between Belgium and the United States, that rate is 39 percent.

Despite the reforms of the past years, the Belgian tax system is still characterized by relatively high rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes as a share of total government revenues are lower than the EU average, personal income taxation and social security contributions are particularly heavy. This year, the federal government announced several measures aimed at gradually reducing the personal income taxes. However, the impact of these will only be measurable before the next general elections in 2003. Total taxes as a percent of GDP are the third highest among OECD countries. Moreover, pharmaceutical manufacturers are saddled with a unique turnover tax of six percent. Taxes on income from capital are by comparison quite low; since October 1995, the tax rate on interest income is 15 percent, and the tax rate on dividends is 25 percent for residents. There is no tax on capital gains.

Belgium has instituted special corporate tax regimes for coordination centers, distribution centers and business service centers (including call centers) in recent years in order to attract foreign investment. These tax regimes provide for a "cost-plus" definition of income for intragroup activities and have proven very attractive to U.S. firms, but are now being targeted by the European Commission as constituting unfair competition with other EU member states.

Regulatory policies: The only areas where price controls are effectively in place are energy, household leases and pharmaceuticals. Only in pharmaceuticals does this regime have a serious impact on U.S. business in Belgium. American pharmaceutical companies present in Belgium have repeatedly expressed their serious concerns about delays in product approvals and pricing, as well as social security reimbursement. Discussions on this subject are now ongoing between industry representatives and the Belgian government.

4. Debt Management Policies

Belgium is a member of the G–10 group of leading financial nations, and participates actively in the IMF, the World Bank, the EBRD and the Paris Club. Belgium is also a significant donor of development assistance. It closely follows development and debt issues, particularly in Central Africa and some other African nations.

Belgium is a net external creditor, thanks to the household sector's foreign assets, which exceed the external debts of the public and corporate sectors. Only about 10 percent of the Belgian government's overall debt is owed to foreign creditors. Moody's top Aa1 rating for the country's bond issues in foreign currency reflects Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse Luxembourg, and the reduction of its foreign currency debt. The Belgian government has no problems obtaining new loans on the local credit market.

5. Significant Barriers to U.S. Exports

From the inception of the EU's single market, Belgium has implemented most, but not all, trade and investment rules necessary to harmonize with the rules of the other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly. However, some barriers to services and commodity trade still exist.

Telecommunications: Although Belgium fully liberalized its telecommunications services in accordance with the EU directive on January 1, 1998, some barriers to entry still persist. New entrants to the Belgian market complain that current legislation is not transparent, that the interconnect charges they pay to Belgacom (the former monopolist, 51 percent government-owned) remain high and that BIPT, the Belgian telecoms regulator, is not truly independent. Further privatization of Belgacom, expected in 2001, may enhance the increasingly competitive environment and lend more independence to the regulator.

Ecotaxes: The Belgian government has adopted a series of ecotaxes in order to redirect consumer buying patterns towards materials seen as environmentally less damaging. These taxes may raise costs for some U.S. exporters, since U.S. companies selling into the Belgian market must adapt worldwide products to various EU member states' environmental standards.

Retail Service Sector: Some U.S. retailers, including Toys'R' Us and McDonalds, have experienced considerable difficulties in obtaining permits for outlets in Belgium. Current zoning legislation is designed to protect small shopkeepers, and its application is not transparent. Belgian retailers suffer from the same restrictions, but their existing sites give them strong market share and power in local markets.

Pharmaceutical Pricing: Pharmaceutical products are under strict price controls in Belgium. Furthermore, since 1993, procedures to approve new life-saving medicines for reimbursement by the national health care system have slowed down steadily, to an average of 410 days, according to the local manufacturers group of pharmaceutical companies. The EU's legal maximum for issuance of such approvals remains 180 days. A six percent turnover tax is charged on all sales of pharmaceutical products. There is a price freeze on reimbursable products and a required price reduction on drugs on the market for 15 years. Discussions on this subject are now ongoing between industry representatives and the Belgian Government.

Public Procurement: In January 1996 the Belgian government implemented a new law on government procurement to bring Belgian legislation into conformity with EU directives. The revision has incorporated some of the onerous provisions of EU legislation, while improving certain aspects of government procurement at the various governmental levels in Belgium. Belgian public procurement still manifests instances of poor public notification and procedural enforcement, requirements for offsets in military procurement and nontransparency in all stages of the procurement process.

Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage of European programs "where practical") because its provisions were not, in the country's view, strong enough to protect the fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and the francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, which have a majority interest in the British-based TV 4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Belgian government to industrial and commercial entities in the country, but the government (both at the federal and the regional level) does conduct an active program of trade promotion, including subsidies for participation in foreign trade fairs and the compilation of market research reports. All of these programs are offered to both domestic and foreign-owned exporters. Also, the United States has raised with the Belgian government and the EU Commission concerns over subsidies via an exchange rate program to Belgian firms producing components for Airbus.

7. Protection of U.S. Intellectual Property

Belgium is party to the major intellectual property agreements, including the Paris, Bern and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, according to industry sources, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products, causing a $200 million loss to the producers. For software, the share of pirated copies has dropped from 48 to 39 percent in one year, still representing a loss of $570 million to the industry.

Copyright: On June 30, 1994 the Belgian Senate gave its final approval to the revised Belgian copyright law. National treatment standards were introduced in the blank tape levy provisions of the new law. Problems regarding first fixation and nonassignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient maneuverability in neighboring rights. However, if Belgian right holders benefit from less generous protection in a foreign country, the principle of reciprocity applies to the citizens of that country. This is the case for the United States, which does not grant protection of neighboring rights to Belgian artists and performers, nor to Belgian producers of records and movies. As a consequence, U.S. citizens in Belgium are subject to the same restrictions.

Patents: A Belgian patent can be obtained for a maximum period of twenty years and is issued only after the performance of a novelty examination.

Trademarks: The Benelux Convention on Trademarks established a joint process for the registration of trademarks for Belgium, Luxembourg and the Netherlands. Product trademarks are available from the Benelux Trademark Office in The Hague. This trademark protection is valid for ten years, renewable for successive ten-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years of protection. International deposit of industrial designs under the auspices of the World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. *The Right of Association:* Under the Belgian constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities and Belgian workers in fact fully and freely exercise their right of association. About 63 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and workers on early pension. Unions are independent of the government, but have important links with major political parties. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Truckers, railway workers, air controllers, ground handling and Sabena personnel have conducted strikes in recent years without government intimidation. Despite government protests over wildcat strikes by air traffic controllers, no strikers were prosecuted. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies.

b. *The Right to organize and Bargain Collectively:* The right to organize and bargain collectively is recognized, protected and exercised freely. Every other year, the Belgian business federation and unions negotiate a nationwide collective bargaining agreement covering 2.4 million private-sector workers, which establishes the framework for negotiations at plants and branches. Public sector workers also negotiate collective bargaining agreements. Collective bargaining agreements apply equally to union and non-union members, and over 90 percent of Belgian workers are covered by collective bargaining agreements. Under legislation in force, wage increases are limited to a nominal 5.9 percent for the 1999–2000 period. The law prohibits discrimination against organizers and members of unions, and protects against termination of contracts of members of workers' councils, members of health and safety committees, and shop stewards. Effective mechanisms such as the labor courts exist for adjudicating disputes between labor and management. There are no export processing zones.

c. *Prohibition of Forced and Compulsory Labor:* Forced or compulsory labor is illegal and does not occur. Domestic workers and all other workers have the same rights as non-domestic workers. The government enforces laws against those who seek to employ undocumented foreign workers.

d. *Minimum Age for Employment of Children:* The minimum age for employment of children is 15, but schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 may participate in part-time work/part-time study programs and may work full-time during school vacations. The labor courts effectively monitor compliance with national laws and standards. There are no industries where any significant child labor exists.

e. *Acceptable Conditions of Work:* the current monthly national minimum wage rate for workers over 21 is BF44,209 ($1,142); 18-year-olds can be paid 82 percent of the minimum, 19-year-olds 88 percent and 20-year-olds 94 percent. The Ministry of Labor effectively enforces laws regarding minimum wages, overtime and worker safety. By law, the standard workweek cannot exceed 40 hours and must include at least one 24-hour rest period. Comprehensive provisions for worker safety are mandated by law. Collective bargaining agreements can supplement these laws.

f. *Rights in Sectors with U.S. Investment:* U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		109
Total Manufacturing		7,176
Food and Kindred Products	1,037	
Chemicals and Allied Products	4,176	
Metals, Primary and Fabricated	132	
Machinery, except Electrical	205	
Electric and Electronic Equipment	328	
Transportation Equipment	331	
Other Manufacturing	966	
Wholesale Trade		3,456
Banking		365
Finance/Insurance/Real Estate		3,728
Services		2,593
Other Industries		–142
TOTAL ALL INDUSTRIES		17,285

Source: U.S. Department of Commerce, Bureau of Economic Analysis, July 2000

BULGARIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	12.3	12.4	12.9
Real GDP Growth (pct)	3.5	2.4	4.5
GDP by Sector: [2]			
Agriculture	2.3	1.9	N/A
Manufacturing	3.1	2.9	N/A
Services	5.5	6.1	N/A
Per Capita GDP (US$)	1,484	1,510	1,600
Labor Force (000s)	3,619	3,598	3,658
Unemployment Rate (pct) [3]	12.2	13.8	18
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.1	5.3	N/A
Consumer Price Inflation	1.0	6.2	6
Exchange Rate (Leva/US$ annual average) [4]			
Official	1,760	1.8	1.8
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	4.2	4.0	4.5
Exports to United States (US$ millions) [5]	219	200	198
Total Imports CIF	5.0	5.5	5.8
Imports from United States (US$ millions) [5]	115	103	114
Trade Balance	–0.8	–1.5	–1.3
Balance with United States (US$ millions) [5]	104	97	84

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
External Public Debt	10.2	10	10.4
Fiscal Deficit/GDP (pct)	–.9	.9	1.5
Current Account Balance/GDP (pct)	–.5	–5.4	–4.5
Debt Service Payments/GDP (pct)	9.7	7.9	9.8
Gold and Foreign Exchange Reserves	3.1	3.2	3.4
Aid from United States (US$ millions) [6]	41.4	39.8	63.4
Aid from All Other Sources (Euro millions) [7]	N/A	50.5	250

[1] 2000 figures are annualized GOB estimates based on 6 to 9 months of data, unless otherwise stated.
[2] Sectoral GDP data is unavailable, but gross value added by sector is provided for 1998 and 1999.
[3] Annual average.
[4] In July July 1999, the currency was redenominated replacing 1000 old leva with one new lev. Although the average lev/dollar exchange rate has been 2.04 during the first half of 2000, the government has not revised its projected 2000 exchange rate.
[5] For January to June 2000, exports (free alongside ship basis) to the United States were $ 99 million; imports (customs value) amounted to $ 57 million. Source: U.S. Department of Commerce.
[6] Both USAID and DOD provided assistance. For Fiscal 2000, USAID assistance includes $32 million in seed money, primarily for economic restructuring, democracy building, support for the social sector, and improving laws and law enforcement. For Fiscal 2000, total DOD assistance is projected at $6.8 million. For Fiscal 1999, total DOD assistance totaled $10.4 million ($5.7 million in Fiscal 1998).
[7] Assistance provided by the European Union. The Phare program extended 865.5 million Euro between 1989–1999. EU assistance in 2000 includes two new programs: Instrument for Structural Policies for Pre-Accession (ISPA) providing 100 million Euro and Special Accession Program for Agriculture and Rural Development (SAPARD) providing 52 million Euro.

1. General Policy Framework

Since April 1997 Bulgaria has been led by a reform-minded government, the Union of Democratic Forces (UDF). The UDF has enjoyed a solid majority in Parliament, which has facilitated implementation of a far-reaching program of economic reform. Following a severe economic crisis in 1996 and early 1997, the Bulgarian government and the International Monetary Fund (IMF) devised a stabilization program centered on a currency board arrangement.

The program has succeeded in stabilizing the economy. Inflation was cut from nearly 600 percent in 1997 to only 6.2 percent in 1999. Official reserves rebounded from $400 million in January 1997 to $3.2 billion at the end of 1999. Prudent fiscal policy has limited budget and current deficits. In 1999, the government ran a budget deficit of 1 percent of GDP, a figure expected to rise slightly to 1.5 percent of GDP in 2000. Rating agencies have upgraded Bulgaria's credit rating in recent years (Moody's Investors Service to B2 and Standard and Poors to B+). Foreign investment inflows rose to a record $783 million in 1999.

The economy as a whole grew by 2.4 percent in 1999, despite the negative impact of the Kosovo crisis. Economic growth, particularly in Bulgaria's private sector, has not been rapid enough to prevent a rise in unemployment, which reached 18 percent in 2000. However, the Bulgarian government projects sustained economic growth of four to five percent annually over the next few years. In addition, the true size of the economy is as much as 20 to 30 percent larger than that reported by official statistics, which do not include the informal or shadow economy.

With two-way trade in goods and services accounting for over 90 percent of GDP, Bulgaria is very sensitive to changes in the world economy and global prices. Over half of Bulgaria's trade is directed toward Western and Central Europe.

Bulgaria's currency board arrangement (CBA) provides that the Bulgarian National Bank (BNB) must hold sufficient foreign currency reserves to cover all domestic currency (leva) in circulation, including the leva reserves of the banking system. BNB can only refinance commercial banks in the event of systemic risk to the banking system.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria began EU accession negotiations in 2000. A bilateral investment treaty with the United States took effect in July 1994.

2. Exchange Rate Policy

Bulgaria redenominated the currency on July July 5, 1999, replacing 1000 old leva (BGL) with one new lev (BGN). Until January 1, 1999, the CBA fixed the exchange rate at 1000 old leva to one German mark. Since then, the lev has been pegged to the euro at the rate of 1,955.83 old leva (now 1.95583 new leva) per euro. The Bulgarian National Bank (BNB) sets an indicative daily Dollar rate (based on the dollar/euro exchange rate) for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates.

Most commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Bulgarian citizens and foreign persons may also open foreign currency accounts with commercial banks. Foreign investors may repatriate 100 percent of profits and other earnings; however, profits and dividends derived from privatization transactions in which Brady bonds were used for half the purchase price may not be repatriated for four years. Capital gains transfers appear to be protected under the revised Foreign Investment Law; free and prompt transfers of capital gains are guaranteed in the Bilateral Investment Treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services.

Bulgaria liberalized its foreign currency laws effective January 1, 2000. Bulgarian and foreign citizens may take up to BGN 5,000 ($2,200) or an equivalent amount of foreign currency out of the country without declaration. Regulations allow foreign currency up to BGN 20,000 ($8,700) to be exported upon written declaration. Transfers exceeding BGN 20,000 must have the prior approval of the BNB. Foreigners are permitted to export as much currency over the foreign currency equivalent of BGN 20,000 as they have imported into Bulgaria without prior approval.

3. Structural Policies

The government has implemented legal reforms designed to strengthen the country's business climate. Bulgaria has adopted legislation on foreign investment and secured lending, and is also making significant strides in regulation of the banking sector and the securities market. However, many businesspersons contend that unnecessary licensing, administrative inefficiency and corruption continue to hinder private business development. The government has completed a review of licensing regimes and eliminated about 100 of these requirements in 2000.

In 1998, Bulgaria reached agreement with the IMF on a three-year program of far-reaching structural reforms, particularly the privatization of state-owned enterprises (SOEs). In June 1999, the government satisfied its commitment to privatize or commence liquidation of a group of 41 of the largest loss-making SOEs, including the national airline. The privatization process has commenced for a number of large enterprises, including the Bulgarian Telecommunications Company, the state insurance company (DZI), the regional state-owned airline (Hemus Air), a tobacco manufacturer (Bulgartabak), and others. As of June 2000, the GOB had sold approximately 82 percent of state assets destined for privatization. All banks except the State Savings Bank have either been sold or are in the privatization process.

Bulgaria taxes value added, profits and income, and maintains excise and customs duties. In 1999 government reduced the Value Added Tax by two percentage points to 20 percent and the profits tax for large businesses by 3 percentage points to 27 percent. In 2000 the profits tax for large businesses was further reduced by two percentage points, the amount of non-taxable income for individuals was increased and voluntary VAT registration for businesses with turnover from BGN 50,000 to BGN 75,000 was introduced. The government intends to further reduce taxes on profits and personal incomes and social security insurance contributions beginning in 2001.

4. Debt Management Policies

Bulgaria's democratically-elected governments inherited an external debt burden of over $10 billion from the Communist era. In 1994, Bulgaria concluded agreements rescheduling official ("Paris Club") debt for 1993 and 1994, and $8.1 billion of its commercial ("London Club") debt. As of July 2000, gross external debt amounted to $10.22 billion and the Bulgarian government projects that debt will reach $10.4 billion by the end of 2000. While debt to commercial creditors accounted for 55 percent of the total external debt, debt to official multilateral and bilateral creditors stood at 39 percent. Debt service in 2000 will total approximately 7 9.8 percent of GDP and 20 percent of exports, but will rise after 2000. The Bulgarian government has asked Paris Club creditors to swap official debt for infrastructure and environment projects.

Under the Extended Fund Facility (EFF), the IMF is providing credits of about $814 million through 2001. In September 2000, the Fund approved the release of $68 million, bringing total disbursements to Bulgaria to about $610 million. The government has sought additional external financing from the World Bank, the European Union, and other donors. By September 2000, World Bank lending to date comprises 23 projects for a total value of $1.4 billion. In 1999, the World Bank disbursed a second FESAL of $100 million and approved an Agricultural Structural Adjustment Loan worth $75 million. In 2000, the World Bank approved an Environment and Privatization Support Adjustment Loan of $50 million, Health Sector Reform Loan of $63 million and an Education Modernization Loan of $14 million.

5. Significant Barriers to U.S. Exports

Bulgaria acceded to the World Trade Organization in 1996. Bulgaria acceded to the WTO Plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement, though it has not yet done so. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional Most Favored Nation treatment by the United States in October 1996.

Bulgaria's association agreement with the European Union phases out industrial tariffs between Bulgaria and the EU while U.S. exporters still face duties. This has created a competitive disadvantage for some U.S. companies, such as soda ash exporters. In July 2000 a bilateral agreement between the EU and Bulgaria came into force, reducing duties on some EU farm products to zero. In July 1998 Bulgaria joined the Central European Free Trade Area (CEFTA). Over the following three years, tariffs on 80 percent of industrial goods traded between CEFTA countries will be eliminated. A free trade agreement with Turkey took effect in January 1999. A free trade agreement with Macedonia entered into force in January 2000.

In 1999 and 2000 average Bulgarian import tariffs were reduced significantly, and the government has committed to a further round of reductions in average most-favored-nation tariff rates in January 2001. However, tariffs in areas of concern to U.S. exporters, including poultry legs and other agricultural goods and distilled spirits, are still relatively high. Overall, tariffs on industrial products range from zero to 35 percent and from about zero to 74 percent for agricultural goods. In December 1998 Parliament revoked exemption from value-added tax (VAT) and customs duties for capital contributions in kind valued at over $100,000. In the past, some investors have reported that high import tariffs on products needed for the operation of their establishments in Bulgaria were a significant barrier to investment.

The U.S. Embassy has no complaints on record that the import license regime has negatively affected U.S. exports. Licenses are required for a specific, limited list of goods including radioactive elements, rare and precious metals and stones, certain pharmaceutical products and pesticides. Armaments and military-production technology and components also require import licenses and can only be imported by companies licensed by the government to trade in such goods. Trade in dual-use items is also controlled.

Customs regulations and policies are sometimes reported to be cumbersome, arbitrary and inconsistent. Problems cited by U.S. companies include excessive documentation requirements, slow processing of shipments and corruption. Bulgaria uses the single customs administrative document used by European Community members.

The State Agency on Standardization & Metrology is the competent authority for testing and certification of all products except pharmaceuticals, food and telecommunications equipment. The testing and certification process requires at least one month. This agency shares responsibilities for food products with the Ministries of Agriculture and Health. The responsible authority for pharmaceuticals is the National Institute for Pharmaceutical Products in the Ministry of Health, which establishes standards and performs testing and certification and is also responsible for drug registration. Approval for any equipment interconnected to Bulgaria's telecommunications network must be obtained from the State Telecommunications Commission. The 1999 Law on Protection of Consumers and Rules of Trade regulates labeling and marking requirements. Labels must contain the following information in Bulgarian: quality, quantity, ingredients, certification authorization number (if any), and manner of storage, transport, use or maintenance.

Bulgaria is making an effort to harmonize its national standards with international standards. Bulgaria is a participant in the International Organization for Standardization and the International Electrotechnical Commission. Bulgaria is in the process of harmonizing 1,757 of its standards to European standards, in anticipation of joining the European Union. As of September 18, 2000, all domestic standards on safety, on protection of human life and health and on consumer and environmental protection will no longer be mandatory. The major requirements for the safety of products will be regulated in ordinances to be issued by the separate ministries and will comply with the respective EU directives. By 2001 all current standards are expected to be replaced by adoption of all applicable European Union standards.

All imports of goods of plant or animal origin are subject to European Union phytosanitary and veterinary control standards , and relevant certificates should accompany such goods. However, Bulgarian authorities have modified their national regulations to accept U.S. Department of Agriculture certificates.

As in other countries aspiring to membership in the European Union, Bulgaria's 1998 Radio and Television Law requires a "predominant portion" of certain programming to be drawn from European-produced works and sets quotas for Bulgarian works within that portion. However, this requirement will only be applied to the extent "practicable." Foreign broadcasters transmitting into Bulgaria must have a local representative, and broadcasters are prohibited from entering into barter agreements with television program suppliers.

Foreign persons cannot own land in Bulgaria because of a constitutional prohibition, but foreign-owned companies registered in Bulgaria are considered to be Bulgarian persons. Foreign persons may acquire ownership of buildings and limited property rights, and may lease land. Local companies where foreign partners have controlling interests must obtain prior approval (licenses) to engage in certain activities: production and export of arms/ammunition; banking and insurance; exploration, development and exploitation of natural resources; and acquisition of property in certain geographic areas.

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel, but residence permits are often difficult to obtain. In its Bilateral Investment Treaty with the United States, Bulgaria committed itself to international arbitration in the event of expropriation, investment, or compensation disputes.

Foreign investors complain that tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially precarious, state-owned enterprises places the foreign investor at a real disadvantage.

In June 1999 Parliament adopted a new law on procurement replacing the 1997 Law on Assignment of Government and Municipal Contracts. This legislation defines terms and conditions for public orders and aims for increased transparency and efficiency in public procurement. However, bidders still complain that tendering processes are frequently unclear and/or subject to irregularities, fueling speculation on corruption in government tenders. U.S. investors have also found that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria. However, tenders organized under projects financed by international donors have tended to be open and transparent.

6. Export Subsidies Policies

The government currently applies no export subsidies. However, a 1995 law gave the State Fund for Agriculture the authority to stimulate the export of agricultural and food products through export subsidies or guarantees. The government does provide concessionary finance to agricultural producers for purchase of equipment and farming inputs.

7. Protection of U.S. Intellectual Property

Bulgarian intellectual property rights (IPR) legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement. Bulgarian legislation in this area is considered to be among the most modern in Central and Eastern Europe. In March 2000 amendments to the Law on Copyright and Neighboring Rights extended copyright protection to 70 years, and introduced a new neighboring right for film producers, provisional measures to preserve evidence of IPR infringement and special border measures. In September 1999 Parliament passed a series of laws on trademarks and geographical indications, industrial designs and integrated circuits.

Until recently, Bulgaria was the largest source of compact-disk and CD–ROM piracy in Europe and was one of the world's leading exporters of pirated goods. For this reason, Bulgaria was placed on the U.S. Trade Representative's Special 301 Priority Watch List in January 1998. In 1998 enforcement improved considerably with the introduction of a CD-production licensing system. In recognition of the significant progress made by the Bulgarian government in this area, the U.S. Trade Representative removed Bulgaria from all Watch Lists in April 1999.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the following agreements: the Paris Convention for the Protection of Intellectual Property; the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations; the Geneva Phonograms Convention; the Madrid Agreement for the Repression of False or Deceptive Indications of Source of Goods; the Madrid Agreement on the International Classification and Registration of Trademarks; the Patent Cooperation Treaty; the Universal Copyright Convention; the Bern Convention for the Protection of Literary and Artistic Works; the Lisbon Agreement for the Protection of Appellations of Origin and their

International Registration; the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Protection; the Nairobi Treaty on the Protection of the Olympic Symbol, the International Convention for the Protection of New Varieties of Plants; the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks; the Strasbourg Agreement Concerning the International Patent Classification; and the Locarno Agreement Establishing an International Classification for Industrial Designs. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) without a transitional period.

Pharmaceuticals manufacturers note that Bulgaria has not introduced data exclusivity or supplementary patent protection in line with the Agreement on TRIPS and the EU Association Agreement. The industry further claims that drug pricing and reimbursement procedures are not transparent. These companies also report that enforcement of patent rights for their products is ineffective. The Bulgarian government has also proposed amendments strengthening protection for pharmaceutical tests.

Software piracy continues to be a problem, although an industry legalization campaign which began in 1999 has made dramatic gains against unauthorized software. Local software industry representatives report that, with good cooperation from Bulgarian law enforcement authorities, the campaign has brought the piracy rate down to approximately 80 percent of the market. Thanks to improvements in enforcement and the legal regime, audiovisual piracy has decreased dramatically since 1998.

U.S. industries report that lack of effective judicial remedies for infringement of intellectual property rights is a barrier to investment. U.S. companies have also cited illegal use of trademarks as a barrier to the Bulgarian market.

8. Worker Rights

a. *The Right of Association:* The 1991 Constitution provides for the right of all workers to form or join trade unions of their choice. This right has apparently been freely exercised. Estimates of the unionized share of the work force range from 30 to 50 percent. There are two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria and Podkrepa, which between them represent the overwhelming majority of unionized workers.

The 1986 Labor Code recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Workers in essential services (military, police, energy, health-care, post services, and judiciary) are also subject to a blanket prohibition from striking. However, Podkrepa has complained that a 1998 law denying workers the right to appeal government decisions on the legality of strikes is unconstitutional and violates an ILO convention. The Labor Code's prohibitions against antiunion discrimination include a 6-month period of protection against dismissal as a form of retribution. There are no restrictions on affiliation or contact with international labor organizations, and unions actively exercise this right.

b. *The Right to Organize and Bargain Collectively:* The Labor Code institutes collective bargaining on the national and local levels. The legal prohibition against striking by key public sector employees weakens their bargaining position; however, these groups have been able to influence negotiations by staging protests and engaging in other pressure activities without going on strike. Labor unions have complained that while the legal structure for collective bargaining was adequate, many employers failed to bargain in good faith or to adhere to concluded agreements. Labor observers viewed the government's enforcement of labor contracts as inadequate. The backlog of cases in the legal system delayed redress of workers' grievances. The same obligation of collective bargaining and adherence to labor standards prevails in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. As of September 2000 construction battalions in the armed forces have been terminated.

d. *Minimum Age of Employment of Children:* The Labor Code sets the minimum age for employment at 16, and 18 for dangerous work. The Ministry of Labor and Social Welfare (MLSW) is responsible for enforcing these provisions. Child labor laws are enforced well in the formal sector, but some observers believe that children are increasingly exploited in certain industries and by organized crime. Observers estimate that between 50,000 and 100,000 children under 16 are illegally employed in Bulgaria. Underage employment in the informal and agricultural sectors is believed to be increasing as collective farms are broken up and the private sector continues to grow.

e. *Acceptable Conditions of Work:* The national monthly minimum wage equates to approximately $40. Delayed payment of wages continues to be a problem with certain employers in Bulgaria. The constitution stipulates the right to social security and welfare aid assistance for the temporarily unemployed, although in practice such assistance is often late. The Labor Code provides for a standard workweek of 40 hours with at least one 24-hour rest period per week. The MLSW is responsible for enforcing both the minimum wage and the standard workweek. Enforcement has been generally effective in the state sector (although there are reports that state-run enterprises fall into arrears on salary payments to their employees if the firms incur losses), but is weaker in the emerging private sector. The MLSW is responsible for enforcing the national labor safety program, with standards established by the Labor Code. The constitution states that employees are entitled to healthy and non-hazardous working conditions. Under the Labor Code, employees have the right to remove themselves from work situations that present a serious or immediate danger to life or health without jeopardizing their continued employment. In practice, refusal to work in such situations would result in loss of employment for many workers. A 1999 law mandated that employers establish joint employer/labor committees to monitor health and safety issues.

f. *Rights in Sectors with U.S. Investment:* Conditions do not significantly differ in the few sectors with a U.S. presence.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1
Total Manufacturing		21
Food and Kindred Products	(1)	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		22

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

CZECH REPUBLIC

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP (US$ billion) [2]	55.0	53.06	51.04
Real GDP Growth (pct)	–2.3	–0.2	2.7
GDP by Sector (pct): [2]			
Agriculture	5.0	5.3	5.0
Manufacturing	31.3	30.5	31.0
Services	51.6	53.3	53.3
Government [3]	31.2	32.5	32.8
Per Capita GDP (US$) [2]	5,500	5,405	5,004
Labor Force (000s)	5,170	5,203	5,213
Unemployment (pct)	7.5	9.4	9.2

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.2	8.1	7.7
Consumer Price Inflation	10.7	2.1	4.0
Exchange Rate (CKR/US$)			
Official	32.27	34.60	40.00
Balance of Payments and Trade:[4]			
Total Exports FOB (US$ bill)	26.3	26.8	18.3
Exports to United States	441	650	507
Total imports CIF (US$ bill)	28.9	28.9	20.8
Imports from United States	786	1,180	918
Trade Balance (US$ bill)	–2.6	–2.06	–1.9
Balance with United States	–345	–530	–412
Current Account Deficit/GDP (pct)	–1.9	–1.5	–3.5
External Debt[5]	24.3	24.3	22.0
Debt Service Payments/GDP (pct)	10.0	7.5	10.0
Fiscal Deficit (Central)/GDP (pct)	1.6	1.6	1.8
Gold and Foreign Exchange Reserves	15.9	13.2	12.3
Aid from United States[6]	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Unless stated otherwise, 2000 figures are based on the latest estimates of the Czech Statistical Office (CSO) dated October 3, 2000, of the Ministry of Finance and/or unofficial estimates from the Czech National Bank.
[2] GDP at factor cost; percentage changes calculated in local currency.
[3] Central government spending as pct of GDP.
[4] January through August 2000 data. Czech imports do not include re-exports of U.S. goods through other countries.
[5] In absolute numbers, the figure for external debt does not change, the growth reflects shifts in DEM vs. US$ exchange rates.
[6] U.S. assistance was phased out by September 30, 1997.

1. General Policy Framework

The Czech Republic is a small and generally open economy. Having largely created a free and competitive market, it is currently struggling with problems stemming from unfinished structural reforms mainly in the field of bank privatization, industrial restructuring, legal reform and financial market transparency. The Czech Republic is currently emerging from a deep recession, which can be attributed largely to these unfinished structural reforms. Record levels of foreign investment and stronger growth in the Czech Republic's principal export markets have led the way to the recent recovery, with the economy expected to grow by over two percent this year.

Until 1998 the Czech Republic pursued balanced budgets, incurring only small deficits on the way. Economic recession, inadequate tax collection and the Social Democratic government's pledge to support a wide range of social welfare and investment programs led to a 1999 government budget deficit of 1.6 percent of GDP. The 2000 budget deficit is targeted at 1.8 percent of GDP. The 2001 budget, under discussion now, will also be in deficit. These figures represent only the state budget deficit as a percentage of GDP, not the wider government deficit, which includes local government budgets and several off-budget institutions. The broader figures have ranged between 1.5 and 0.6 percent of GDP. While local government surpluses in the past two years moderated this broader statistic, in 2000 the general government deficit is expected to reach 5.1 percent of GDP. Budget deficits incurred have traditionally been financed through the issuance of government bonds.

The Czech Republic saw strong inflows of foreign direct investment in 1999 ($4.9 billion), a trend expected to continue in 2000 (as of June 30, FDI measured $1.9 billion). While helping to fuel the current economic turnaround, the strong foreign investment flows have also placed upward pressure on the Czech crown, leading the Czech National Bank (CNB) to voice concerns about a loss of overall economic competitiveness. To minimize this possibility, the CNB introduced a new account for foreign investment inflows, hoping to ease upward pressure on the Czech crown.

One of the reasons for the strong inflows of FDI is the package of incentives the Czech government offers to attract investments. The incentives are available to foreign and domestic firms that invest $10 million in a new manufacturing facility. The package also includes tax breaks of up to 10 years offered in two five-year periods; duty-free imports of high-tech equipment and a 90-day deferral of value-added tax payments (VAT); potential for creation of special customs zones; job creation benefits; training grants; opportunities to obtain low-cost land; and the possibility of additional incentives for secondary investment and production expansion. The threshold is $5 million in regions where unemployment measures at least 25 percent more than the national average.

The CNB is responsible for monetary policy. The primary instrument used by the bank to influence monetary policy is the two-week repo rate. Following growing current account imbalances in 1997, the CNB sharply restricted monetary policy, a pattern which held until 1999. Then, a deepening recession combined with lower than anticipated price levels, improved current account and a relatively strong crown, led the CNB to cut interest rates several times. The CNB has kept the repo rate stable for the last 12 months but is maintaining a careful eye on the recently expanding current account deficit.

2. Exchange Rate Policy

The Czech crown is a freely floating currency. The crown is fully convertible for most business transactions. The Foreign Exchange Act provides a legislative framework for full current account convertibility. As of January 1999 all capital account restrictions have been lifted with two exceptions. First, until the end of 2000 Czech citizens may not open bank accounts abroad without a permit from the central bank. As of 2001, citizens will no longer need a permit, but will still need to notify the CNB. Secondly, foreigners are still barred from the purchase of real estate in the Czech Republic. Foreign company branches will be permitted to own real estate as of 2002, in accordance with the Czech Republic's commitments in the Organization for Economic Cooperation and Development (OECD).

3. Structural Policies

The government sees full membership in the European Union (EU) as one of its highest foreign policy priorities. An EU association agreement signed in 1991 currently governs relations between the Czech Republic and the EU. Detailed accession negotiations began in November 1998. The Czech government has set itself a target date of 2003 to be prepared for EU accession. By then also the gradual deregulation of government controlled prices of energies, rents, some pharmaceuticals, telecommunications, passenger train and coach transportation, postal services and water rate and sewage charges should be complete (liberalization of all other prices took place in 1991). The actual date of accession will depend on the outcome of current negotiations with the EU. As part of the EU accession process, many of the Czech Republic's regulatory policies and practices are evolving toward EU norms. Through membership in OECD, the Czech Republic agreed to meet, with relatively few exceptions, OECD standards for equal treatment of foreign and domestic investors and restrictions on special investment incentives. The United States has succeeded in using the OECD membership process to encourage the Czech Republic to make several improvements to the business climate for U.S. firms.

Czech tax codes are generally in line with European Union tax policies. In 2000 the government reduced taxes on corporate profits from 35 to 31 percent. The tax rate for the highest tax bracket for personal income tax was lowered to 32 percent. Employer and employees social insurance contributions are respectively 35 percent and 12.5 percent. The government permits tax write-offs of bad debts, although with less generous treatment of pre-1995 debts. Firms are allowed to write-off the first year's share of a bad debt without filing suit against the debtor, though subsequent write-offs must document unsuccessful efforts to collect past due amounts. U.S. firms have complained that Czech tax legislation effectively penalizes use of holding company structures by leveling both corporate tax and dividends withholding tax on profit flows between group companies, thus creating double taxation on such profits. Czech law does not permit intra-group use of losses (i.e., offsetting losses in one group entity against profits in another), and imposes corporate tax on dividends received from foreign holding without allowing use of a foreign tax credit for the underlying tax suffered in the subsidiary's home jurisdiction.

The need for an improved bankruptcy law remains an important structural impediment. Most observers believe the slow and uneven courts and weakness of creditors' legal standing has hampered the current bankruptcy law from acting as an effective vehicle for corporate restructuring. Members of Parliament and others have called for a bankruptcy law closer to the U. S. Chapter Eleven provisions or "London Rules" for out-of-court settlements to encourage resuscitation of troubled firms. Several amendments, the latest in force as of May 1, 2000, have sought to address these concerns. Presently, there is a three to four-year backlog in the bankruptcy courts and only a small secondary market for the liquidation of seized assets.

4. Debt Management Policies

The Czech Republic maintains a moderate foreign debt and has received investment grade ratings from the major international credit agencies. In 1999 gross foreign debt measured $24.3 billion. To June 30, 2000 gross foreign debt measured $20.9 billion, most of the amount being the debt of companies ($11.5 billion) and commercial banks ($8 billion). Debt service as a percentage of GDP and debt service to exports stand at 9 percent and 9.6 percent, respectively. The Czech Republic repaid its entire debt with the International Monetary Fund (IMF) ahead of schedule.

5. Aid

The Czech Republic graduated from USAID assistance on September 30, 1997. The Czech Republic continues to receive assistance from the European Union's PHARE program and individual EU member states to assist its transformation during the accession period for EU membership. According to the European Commission Delegation in Prague, since 1990 the Czech Republic has received 660 million ECU in PHARE assistance.

6. Significant Barriers to U.S. Exports

The Czech Republic is committed to a free market and maintains a generally open economy with few barriers to trade and investment. It is a founding member of the World Trade Organization (WTO). The Czech Republic maintains relatively low tariff rates, with a trade-weighted average tariff of 4.5 percent, which is gradually reduced to 3.5 percent in accordance its Uruguay Round commitments. The Czech Republic is a signatory to the WTO Information Technology Agreement and has announced its intention to join the General Agreement on Tariffs and Trade (GATT) Agreement on Trade in Civil Aircraft.

The Czech Republic's EU association agreement established preferential tariffs for EU-origin products to the Czech markets, while maintaining higher most-favorednation rates for U.S. and other non-EU products. The preferential tariffs for EU goods are declining on an annual basis and by 2001 most EU industrial products will enjoy duty-free status. Since 1992, when the trade-related provisions of the EU association agreement first came into force, a number of U.S. companies within many industry sectors have complained that tariff preferences given the EU under the agreement have diminished their business prospects and ability to compete against EU-origin products. Products most affected include aircraft and automobiles, among others. In July 2000 the Czech Republic signed the Protocol to the Europe Agreement on Conformity Assessment and Acceptance of Products (PECA) with the EU which as of January 1, 2001 will enable imports of EU industrial products without any additional testing. European companies have sought on occasion to use the Czech Republic's interest in EU membership to gain advantage in commercial competition.

Trade in agricultural/food products is generally free of major trade barriers, although technical barriers continue to hamper imports of certain products. In 2000 the EU and the Czech Republic have agreed to eliminate most tariffs on the other's agriculture products as a part of so-called "Zero-for-Zero Agreements." In anticipation of EU membership, the Czech Republic is rewriting much of its legislation related to standards and trade in agricultural/food products. During this transition phase, it is not always clear which rules apply, a situation which has led to some delays in approval. The harmonization of standards with the EU should ease the paperwork burden for those exporters already exporting to the EU. However, the alignment of Czech food legislation with the EU also means that certain products currently prohibited in the EU will also be prohibited in the Czech Republic in the future.

A law implementing EU directives to regulate Genetically Modified Organisms (GMOs) will enter into force on January 1, 2001. The government is in the process of drafting decrees regulating new, approved GMO varieties for field-testing. U.S. exporters of beef, poultry, pork and horse meat are not yet able to ship to the Czech Republic due to problems with export certification. USDA's Food Safety Inspection Service (FSIS) is currently reviewing certification documents proposed by the Czech State Veterinary Administration.

The government is required by law to hold tenders for major procurement. The law, introduced in 1994, proved unsatisfactory, and attempts at its revision have failed. A new procurement law will be introduced to Parliament in 2001 to fully harmonize Czech practice with EU legislation. It will also remove the current ten percent price advantage for domestic firms. The Czech Republic is not a member of the WTO Government Procurement Agreement.

The Czech Ministry of Industry and Trade issues import licenses to those seeking to import selected goods into the Czech Republic. While most products and services are exempt from licensing, oil, natural gas, pyrotechnical products, sporting guns and ammunition require an import license.

Legally, foreign and domestic investors are treated identically and both are subject to the same tax codes and other laws. The government does not screen foreign investment projects other than for a few sensitive industries, e.g., in the defense sector. The government evaluates all investment offers for the few state enterprises still undergoing privatization. As part of OECD membership, the Czech Republic committed not to discriminate against foreign investors in privatization sales, with only a few excepted sectors. The government has overcome political resistance to foreign investment in certain sensitive sectors, such as petrochemical, telecommunications and breweries. The ban on foreign ownership of real estate remains another important exception, although foreign-owned Czech firms may purchase real estate freely.

U.S. investors interested in starting joint ventures with or acquiring Czech firms have experienced problems with unclear ownership and lack of information on company finances. Investors have complained about the difficulty of protecting their rights through legal means such as a secured interest. In particular, investors have been frustrated by the lack of effective recourse to the court system. The slow pace of court procedures is often compounded by judges' limited understanding of complex commercial cases. The Czech Republic also imposes a Czech language requirement for trade licenses for most forms of business. This requirement can be fulfilled by a Czech partner, but this can be burdensome and involves additional risks. Moreover, some businessmen cite a convoluted, or in some cases corrupt, bureaucratic system, both at national and local levels, which can act as an impediment to market access. Often considerable time is spent by a potential investor to finalize a deal, or enforce the terms of a contract.

The opaque nature of the stock market puts U.S. investors and financial services providers at a competitive disadvantage. While stock market reforms were enacted in 1996 to help protect small shareholders and increase transparency of transactions, enforcement has been uneven. A Czech Securities Commission opened in 1998 with a mission of improving the regulatory framework of the capital market, increasing capital market transparency, and restoring investor confidence. To date, the Commission has issued some 3,284 authorized rulings, and in the re-licensing process, which is complete, has revoked 240 licenses. It has been hampered, however, by budgetary constraints and a lack of rule-making authority. A new law on the Securities Commission is being prepared to strengthen its status.

U.S. firms also complain about the lack of consistency in the application of customs norms. These problems are primarily due to the newness of recent regulatory changes and rapid expansion of customs personnel. Training efforts are underway to correct the situation and address these concerns.

7. Export Subsidies Policy

The Czech Export Bank provides export guarantees and credits to Czech exporters. The bank follows OECD consensus on export credits. Additionally, the government maintains a fund through which it purchases domestic agricultural surpluses for resale on international markets. For some commodities, pricing is established at a level that includes a subsidy to local producers.

8. Protection of U.S. Intellectual Property

The Czech Republic is a member of the Bern and Universal Copyright Conventions and the Paris Convention on Industrial Property. Czech laws for the protection of intellectual property rights (IPR) are generally good, but enforcement has lagged. Existing legislation guarantees protection of all forms of property rights, including patents, copyrights, trademarks and semiconductor chip layout design. The Czech Republic met most of its outstanding obligations under the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement with the passage of an amendment to the copyright law providing 70 years of copyright protection for literary works, up from the present 50 years, which will enter into force on December 1, 2000. Czech law does not clearly provide for civil ex parte search procedures as required by the WTO Agreement on Trade-related Aspects of Intellectual Property Rights, which would enable right holders to better protect their interests. The ability of rights holders to make use of existing ex parte search and seizure provisions remains an area of concern.

As a result of enforcement weaknesses and delays in indictments and prosecutions, the U.S. government retained the Czech Republic on the Watch List during the 2000 Special 301 cycle. The U.S. Embassy continues to work with U.S. industry and Czech government officials to improve enforcement of IPR norms. Two recent legislative amendments should expand tools of enforcement of IPR. One, entered into force as of December 1, 1999, boosts the powers of the customs service to seize counterfeit goods, and the other, in effect as of September 1, 2000, allows the Czech Commercial Inspection (CCI) to act directly in IPR cases.

9. Worker Rights

a. *The Right of Association:* The law provides workers with the right to form and join unions of their own choice without prior authorization, and the government respects this right in practice. Most workers are members of unions affiliated with the Czech-Moravian Chamber of Trade Unions (CMKOS), a democratically oriented, republic-wide umbrella organization for branch unions. The unions are not affiliated with political parties and exercise independence. Workers have the right to strike, except for those whose role in public order or public safety is deemed crucial. By law, strikes may take place only after mediation efforts fail. Unions are free to form or join federations and confederations and affiliate with and participate in international bodies. Union membership is on the decline.

b. *The Right to Organize and Bargain Collectively:* The law provides for collective bargaining, which is generally carried out by unions and employers on a company basis. The scope for collective bargaining is more limited in the government sector, where wages depend on the budget.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including that performed by children, and it is not practiced.

d. *Minimum Age for Employment of Children:* The Labor Code stipulates a minimum working age of 15 years, although children who have completed courses at special schools (schools for the mentally disabled and socially maladjusted) may work at age 14. These prohibitions are enforced in practice.

e. *Acceptable Conditions of Work:* The government sets minimum wage standards. The minimum wage is 4,500 Czech Crowns per month (approximately $113), although the monthly average is 13,473 Czech Crowns (approximately $337) per month. Average net wages are 2.8 times as high as official sustenance costs. The minimum wage provides a sparse standard of living for an individual worker or family, although allowances are available to families with children. The law mandates a standard workweek of 40 hours. It also requires paid rest of at least 30 minutes during the standard 8-hour workday, as well as annual leave from four weeks up to eight weeks depending on the profession. Overtime ordered by the employer may not exceed 150 hours per year or 8 hours per week as a standard practice. Industrial accident rates are not unusually high. Workers have the right to refuse work endangering their life or health without risk of loss of employment.

f. *Rights in Sectors with U.S. Investment:* All of the above observations on worker rights apply to firms with foreign investment. Rights in these sectors do not differ from those in other sectors of the economy. Conditions in sectors with U.S. investment do not differ from those outlined above.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		71
Food and Kindred Products	5	
Chemicals and Allied Products	35	
Primary and Fabricated Metals	5	
Industrial Machinery and Equipment	21	
Electric and Electronic Equipment	–86	
Transportation Equipment	79	
Other Manufacturing	13	
Wholesale Trade		58
Banking		(1)
Finance/Insurance/Real Estate		81
Services		33
Other Industries		61
TOTAL ALL INDUSTRIES		501

(1) Suppressed to avoid disclosing data of individual companies.

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

DENMARK

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	173,701	174,183	161,700
Real GDP Growth (pct) [2 3]	2.5	1.7	2.4
GDP by Sector: [2]			
Agriculture	4,366	4,220	3,900
Manufacturing	25,322	24,501	22,700
Services	69,249	70,965	65,700
Government	34,379	34,188	31,700
Per Capita GDP (US$) [2]	32,766	32,747	30,320
Labor Force (000s)	2,841	2,839	2,851
Unemployment Rate (pct)	6.4	5.6	5.3
Money and Prices (annual percentage growth):			
Money Supply Growth (pct)	3.0	4.0	3.4
Consumer Price Inflation (pct)	1.9	2.5	3.0
Exchange Rate (DKK/US$ annual average)			
Official	6.70	6.98	7.92
Balance of Payments and Trade:			
Total Exports FOB [4]	48,179	49,698	48,600
Exports to United States [4]	2,398	2,774	2,600
Total Imports CIF [4]	46,092	44,874	43,500
Imports from United States [4]	2,283	2,127	1,600
Trade Balance [4]	2,087	4,824	5,100
Balance with United States [4]	115	647	1,000
External Public Debt	47,776	25,072	20,000
Fiscal Deficit/GDP (pct) [5]	–1.2	–2.8	–2.5
Current Account Surplus/GDP (pct) [5]	–1.2	1.2	1.4
Debt Service Payments/GDP (pct) [5]	2.0	2.1	1.9
Gold and Foreign Exchange Reserves	15,139	23,682	16,000
Aid from United States	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

Dollar figures are based on mean exchange rate for calendar year.
[1] 2000 figures are all estimates based on available data as of November.
[2] Gross Domestic Product in Market Prices.
[3] Percentage changes calculated in local currency.
[4] GDP measured as "Gross Value Added by Industry."
[5] Merchandise trade (excluding European Union agricultural export subsidies).

Sources: Danish Bureau of Statistics, Danish Ministry of Economics, Danmarks Nationalbank (the Central Bank), and Embassy calculations/projections.

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of extensive foreign trade, free capital movement, and political stability. It also has an efficient and well-educated labor force, and a modern infrastructure that effectively links Denmark with the rest of Europe. With the opening on July 1, 2000 of the Oeresund bridge connecting Denmark and Sweden, the Danish government hopes that the Oeresund region will become a center and a gateway that will attract significant foreign investment in hi-tech industries, including biotechnology, pharmaceutical research, and information technology. Denmark's natural resources are concentrated in oil and gas fields in the North Sea which have, together with renewable energy, made Denmark a net exporter of energy.

The Danish economy is strong, with a public budget surplus and a surplus on the balance of payments. The government pursues a carefully monitored economic policy including a fiscal policy of small public expenditure increases and a tight monetary and exchange rate policy linked closely to the EU's common currency, the euro.

Developments during the first half of 2000 in some key economic indicators—limited growth in private consumption and a surplus on the current account—suggest that the Government's austerity measures, the "Whitsun Package" introduced in the summer of 1998, remain efficient. The Whitsun package, which aimed at curbing private consumption and restoring a balance of payments surplus, includes reduction of tax credits for debt interest payments in order to discourage new loan taking. The measures also aimed at increasing the incentive to work for low income earners by reducing taxation in the middle bracket of the progressive income tax system. The government projects that the surplus in the public budget in 2000 and 2001 will remain stable at close to three percent of GDP, mostly as a result of increased revenues and reduced expenditures due to increased employment and reduced unemployment. Focus is now on the inflation rate which, although running at less than three percent, has shifted from being one of the lowest in the European Union (EU) to one of the highest rates. Furthermore, it is mostly fueled domestically with wage inflation running above four percent.

Denmark welcomes foreign investment, and is home to roughly 250 subsidiaries of U.S. companies. Denmark also welcomes foreign firms focused on doing business in the former East Bloc countries. In that respect, Denmark has a number of preferential joint venture investment and investment guarantee programs and also makes available Danish and EU grants for improving the environment in those countries. The American Chamber of Commerce in Denmark was established in 1999 and a number of leading Danish and American firms are members of the Danish-American Business Forum, which aims at promoting direct investment and exchanges of know-how.

Denmark's opt-out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy) was maintained in a referendum on September 28, 2000, when 53.2 percent of the voters rejected Danish participation. Several years are likely to pass before a Danish government will test this opt-out again, although Denmark's economic performance is likely to continue to meet the established convergence criteria for participating in the EMU's third phase.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). From the early 1980s until 1999, the government linked the krone closely to the German mark through the ERM, and beginning January 1, 1999 (through the ERM2) to the euro. In August 2000 the trade-weighted value of the krone was 4.3 percent lower than in August 1999, due mostly to the krone's depreciation against the dollar, the yen, and the pound. From September 1999 to September 2000, the krone depreciated some 17 percent against the dollar (from DKK 7.08 to DKK 8.57 to $1.00). The increase in the dollar rate is a major factor behind the 15 percent drop in the krone-value of U.S. exports to Denmark (as measured by the Danish Bureau of Statistics) in the first half of 2000. Some dollar-priced goods were priced out of the market by imports from European countries whose currencies had also depreciated against the dollar. Danish exports to the United States in the same period benefited from the high dollar and increased more than eight percent in krone-value.

3. Structural Policies

Danish price policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by the government's Competition Agency. Denmark during 1997 changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle. The law was expanded in late summer 2000 to include "merger control."

The highest marginal individual income tax rate, including the gross labor market contribution "tax," is about 65 percent, and applies to all taxpayers with earnings exceeding some $33,800 (2000). Foreign executives (earning more than $75,000 annually) and foreign researchers working in Denmark on a contract may for a period of up to three years benefit from more lenient income taxation (a flat 33 percent tax on gross income). Danish employers are almost alone in the EU in paying virtually no non-wage compensation. Most sick leave and unemployment insurance costs are paid by the government. Employees pay their contribution to unemployment insurance out of their wages, while a major part of unemployment benefits is financed from general revenues.

The Danish value-added-tax (VAT), at 25 percent, is the highest in the EU. As VAT revenues constitute more than one-quarter of total central government revenues, a reduction would have severe budgetary consequences. The government therefore has no plans to reduce the VAT, and hopes that EU VAT rate harmonization will raise the VAT rates of other EU countries. Environmental taxes are increasingly being imposed on industry (with some roll-back for anti-pollution efforts) and on consumers. The corporate tax rate is at present 32 percent, but the government plans to reduce it to 30 percent in 2001. Favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Except for one year (1998), Denmark has had a balance of payments surplus since 1990. Consequently, foreign debt gradually fell from over 40 percent of GDP in 1990 to some 14 percent at the end of 1999. With a projected surplus of more than $2 billion on the balance of payments in 2000, the foreign debt's share of GDP is projected to fall to some 12 percent. Net interest payments on the foreign debt in 1999 cost Denmark some four percent of its goods and services export earnings. Moody's Investors Service in August 1999 upgraded its rating of Denmark's foreign debt to Aaa, the highest rating. Standard and Poors' rating remains AA+ with the comment "positive outlook."

Denmark's public sector is a net external debtor, while the private sector is largely in balance. From 1998 to 1999, the net foreign debt dropped by some $19 billion to $25 billion, mostly due to a very strong increase in the value of foreign shares held by Danes. At the end of 1999, the public sector foreign debt, including foreign exchange reserves and krone-denominated bonds held by foreigners, totaled $23.5 billion and the private sector foreign debt $1.5 billion.

During 1999, central government debt denominated in foreign currencies increased two percent to $13 billion. Of the total debt, about 43 percent was denominated in euros, 43 percent in dollars, and some 10 percent in pounds sterling. However, most of the loans are tied to swaps so that after swaps, about 92 percent of the debt was denominated in euro-area currencies. The Danish central government foreign debt has an average term of less than two years.

Denmark's central government budget deficits are not monetized, and the Danish monetary policy is aimed at maintaining a fixed krone in relation to the euro. Monetary policy is pursued through the Danish Central Bank (Danmarks Nationalbank) which sets the day-to-day interest rate on financial sector entities' current account deposits in the Central Bank and/or offer 14-day transactions where the entities either borrow in the Central Bank against collateral in securities or buy government deposit certificates. Under normal circumstances, there are no limitations on the liquidity. The Central Bank closely follows and adjusts Danish interest rates in response to European Central Bank interest rate adjustments. However, immediately following the Danish rejection of the euro on September 28, 2000, the Central Bank raised key interest rates by 0.5 percentage point to combat possible foreign runs against the krone. Since that time the krone has appreciated slightly in relation to the euro and the 10-year bond interest rate spread to the euro also narrowed. The Danish discount rate as of mid-October stood at 4.75 percent.

5. Significant Barriers to U.S. Exports

Denmark imposes few restrictions on import of goods and services or on investment. Denmark generally adheres to GATT/WTO codes and EU legislation that impact on trade and investment. U.S. industrial product exporters face no special Danish import restrictions or licensing requirements. Agricultural goods must compete with domestic production, protected under the EU's Common Agricultural Policy.

Denmark provides national and, in most cases, nondiscriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration (which usually requires limited government participation, but not on a "carried-interest" basis); arms production (non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights); aircraft (non-EU citizens or airlines may not directly own or exercise control over aircraft registered in Denmark); and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share, about 20 percent, and exercise significant control over the ship, or the ship must be on bareboat charter to a Danish firm).

Danish law provides a reciprocity test for foreign direct investment in the financial sector, but that has not been an obstacle to U.S. investment. While no U.S. banks are directly represented in Denmark, a number of U.S. financial entities operate in Denmark through subsidiaries in other European countries, including Citicorp (through its UK subsidiary), GE Capital Equipment Finance (through Sweden), and Ford Credit Europe (through the UK).

The government liberalized Danish telecommunications services in 1997; however, the network, i.e. the raw copper, remained controlled by the former government-owned Tele Danmark A/S. The large U.S. company SBC (formerly Ameritech) holds a controlling interest (42 percent) of Tele Danmark A/S. Access for other telecom operators to the raw copper opened in 1999. A number of foreign operators, including Sweden's Telia and France's Mobilix, are making strong inroads into the Danish market, which increases competition. Sonofon, a private cellular mobile telephone network with U.S. Bell South participation, competes with Tele Danmark A/S in that area.

Danish government procurement practices meet the requirements of the WTO Agreement on Government Procurement (GPA) and EU public procurement legislation. Denmark has implemented all EU government procurement directives. A 1993 administrative note advised the Danish central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement.

In compliance with EU rules, the government and its entities apply environmental and energy criteria on an equal basis with other terms—price, quality and delivery—in procurement of goods and services. This may eventually restrict U.S. companies' ability to compete in the Danish public procurement market. For example, the EU "Ecolabel", the EU "Ecoaudit" and the Nordic "Swan Label" requirements may be difficult for some U.S. companies to meet. Offsets are used by the Danish government only in connection with military purchases not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

There is no record of any U.S. firm complaining about Danish customs procedures. Denmark has an effective, modern and swift customs administration.

U.S. firms resident in Denmark generally receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company. There is no record of any complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export subsidies to Denmark totaled $505 million (about 17 percent of the value of Danish agricultural exports including export subsides to non-EU countries) in 1999. Danish government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its non-agricultural exports except for shipbuilding. Denmark welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally, but believes the agreement has become outdated. Denmark would like the agreement to be updated and the United States to ratify such an improved agreement.

The government does not directly subsidize exports by small and medium size companies. Denmark does, however, have support programs that indirectly assist exports through promotions abroad, establishment of export networks for small and medium-sized companies, research and development, and regional development. Denmark has one of the EU's lowest rates of state aid to industry (about two percent of GDP). Danish subsidization of its shipbuilding industry is within the ceiling set in the EU Shipbuilding Directive (nine percent of the contract value) and accounts for about one-third of total Danish state aid to industry. The shipbuilding subsidies have not prevented the closure of many of Denmark's shipbuilders in the face of increased and (allegedly unfairly) low-priced production in the Republic of Korea and elsewhere.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark requires that 50 percent of all bilateral assistance be used for Danish-produced goods and services. These programs apply equally to foreign firms that produce in and export from Denmark.

7. Protection of U.S. Intellectual Property

Denmark is a party to and enforces a large number of international conventions and treaties concerning protection of intellectual property rights, including the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).

Patents: Denmark is a member of the World Intellectual Property Organization, and adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. Denmark has ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. Denmark has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation. Denmark strongly supports efforts to establish an EU-wide trademark system. Following a European Court decision in 1998 that "regional trademark consumption" applies within the EU, Denmark stopped use the "global consumption principle." Denmark has enacted legislation implementing EU regulations for the protection of the topography of semiconductor products, which also extends protection to legal U.S. persons.

Copyrights: Denmark is a party to the 1886 Bern Convention and its subsequent revisions, the 1952 Universal Copyright Convention and its 1971 revision, the 1961 International Convention for the Protection of Performers, and the 1971 Convention for the Producers of Phonograms. There is little piracy in Denmark of music CDs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over $100 million annually. Piracy of other intellectual property, including books, appears limited. There is no evidence of Danish import or export of pirated products.

Until mid-2000, U.S. authors and publishers did not receive royalties for photocopying of their copyrighted works used in Danish educational institutions. In June 2000, however, four years of informal U.S. Embassy discussions with the quasi-official Danish copyright collecting agency Copydan concluded with the signing of an agreement between Copydan and the private U.S. Copyright Clearance Center. The agreement establishes a system for reimbursement of an annual million dollar amount of royalty payments to U.S. authors and publishers collected in Denmark for photocopying of their copyrighted works. Similarly, the agreement provides for reimbursement of royalty payments to Danish authors and publishers collected in the United States.

New Technologies: There are no reports of possible infringement of new technologies.

Impact on U.S. Trade with Denmark: Denmark is named on the "Special 301" Watch List because of its failure to meet its TRIPS obligations to provide unannounced searches and provisional relief as required by TRIPS Article 50. In response, the Danish government on October 4, 2000 submitted new legislation for parliamentary approval which, when adopted, is expected to resolve this issue.

8. Worker Rights

a. *The Right of Association:* Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. Trade unions are an essential factor in political life and represent their members effectively. During 1999, only 91,800 workdays were lost due to labor conflicts compared with 3.2 million in 1998 (in connection with the spring 1998 labor contract negotiations (see 8.b below). Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *The Right to Organize and Bargain Collectively:* Workers and employers acknowledge each other's right to organize. Collective bargaining is widespread. Danish law prohibits antiunion discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial or triennial negotiations between the various employers' associations and their union counterparts. If negotiations fail, a National Conciliation Board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In 1998, for example, failure to reach agreement resulted in a conflict in the industry sector, which lasted 11 days before the government intervened with legislation. In 2000 the mediator's proposal for new four-year contracts in the industrial area won broad approval. In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts that result from collective bargaining are, as a general rule, also used as guidelines in the non-union sector.

Labor relations in the non-EU parts of Denmark (Greenland and the Faroe Islands) are generally conducted in the same manner as in Denmark.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited and does not exist in Denmark.

d. *Minimum Age for Employment of Children:* The minimum age for full-time employment is 15 years. Denmark has implemented EU Council Directive 94/33/EU, which tightened Danish employment rules for those under 18 years of age, and set a minimum of 13 years of age for any type of work. The law is enforced by the Danish Working Environment Service (DWES), an autonomous arm of the Ministry of Labor. Danish export industries do not use child labor.

e. *Acceptable Conditions of Work:* There is no legally mandated work week or national minimum wage. The work week set by labor contracts is 37 hours. The lowest wage in any national labor agreement at present is equal to about $10 per hour. Danish law provides for five weeks of paid vacation each year. However, the most recent private and public sector contract agreements provide for five extra holidays to be phased in not later than by 2003. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. Danish law provides for government-funded parental and educational leave programs.

Similar conditions, except for leave programs, are found in Greenland and the Faroe Islands, but in these areas the workweek is 40 hours. Unemployment benefits in Greenland are either contained in labor contract agreements or come from the general social security system. A general unemployment insurance system in the Faroe Islands has been in force since 1992. Sick pay and maternity pay, as in Denmark, fall under the social security system.

f. *Rights in Sectors with U.S. Investment:* Worker rights in those goods-producing sectors in which U.S. capital is invested do not differ from the conditions in other sectors.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		762
Total Manufacturing		1,449
Food and Kindred Products	148	
Chemicals and Allied Products	78	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	260	
Transportation Equipment	–11	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		(2)
Finance/Insurance/Real Estate		869
Services		99
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,887

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/–).

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

FINLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP (at factor cost) [9]	129.4	129.6	123.8 [1]
Real GDP Growth (pct)	5.5	4.0	5.2 [1]
GDP by Sector:			
Agriculture, Forestry and Logging	4.1	4	3.3 [1]
Manufacturing, Construction, Mining and Quarrying	34.6	34	31.2 [1]
Electricity, Gas and Water Supply	2.6	2.3	1.9 [1]
Services	71.2	71.3	64.3 [1]
Taxes on products less subsidies	16.9	18	23.1 [1]
Per Capita GDP (US$) [9]	25,307	25,018	23,040 [1]
Labor Force (000s)	2,507	2,548	2,646 [2]
Unemployment Rate (pct)	11.4	10.2	9.6 [1]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	4.4	6.7	6.7 [3]
Consumer Price Inflation	1.4	1.2	3.0 [1]
Exchange Rate (FIM/US$ annual average)	5.3	5.6	6.5 [1]
Balance of Payments and Trade:			
Total Exports FOB	42.9	41.7	25.4 [4]
Exports to United States	3.0	3.3	1.5 [4]
Total Imports CIF	32.3	31.5	19.2 [4]
Imports from United States	2.4	2.5	1.3 [4]
Trade Balance	10.6	10.2	6.2 [4]

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Balance with United States	0.6	0.8	0.2 [4]
External Public Debt	–20.3	–20.9	–17.5 [5]
Fiscal Deficit-Surplus/GDP (pct) [6]	1.3	1.9	4.5 [1]
Current Account Surplus/GDP (pct)	5.6	5.2	6.2 [1]
Debt Service Payments/GDP (pct) [7]	4.8	4.0	3.8 [1]
Gold and Foreign Exchange Reserves	9.7	9.2	9.1 [8]
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Estimate, Ministry of Finance.
[2] Statistics Finland, August 2000.
[3] Bank of Finland, August 1999-August 2000.
[4] Board of Customs, January-July 2000.
[5] Bank of Finland, January-June 2000.
[6] Public sector's budget deficit (EMU).
[7] General government interest expenditures.
[8] Bank of Finland, September 2000.
[9] Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Mark.

1. General Policy Framework

The Finnish economy has sustained a six-year period of strong economic growth since recovering from a severe recession triggered by the collapse of the Soviet market in the early 1990's. With an export-led recovery, the GDP has grown at an annual average rate of 4.7 percent since 1994. While unemployment has decreased significantly since 1994, the current 10.1 percent remains above the European Union (EU) average. EU membership, which began on January 1, 1995, helped spur structural changes in key economic sectors which have contributed to Finland's recent strong economic performance.

A key factor in Finland's recovery has been the 10-percent growth in output in the manufacturing industry deriving largely from the success of telecommunications equipment exports. Nevertheless, most other industry sectors are also expected to increase their production in 2000. In 2000 the volume of total output is anticipated to grow by 5.2 percent, year-on-year. In 1999 GDP grew by four percent.

The current account surplus reached 37.4 billion FIM in 1999, which is 5.2 percent of GDP. The surplus is expected to increase to 47.7 billion FIM in 2000 and to 51.6 billion FIM in 2001. As a percentage of GDP, the current account surplus is forecast to increase to a record six percent of GDP in 2000.

The central government's finances in 2000 will reach a surplus for the first time in a decade, and this surplus is set to rise to 4.5 percent of GDP in 2000. The exception to an overall favorable outlook is the inflation rate, which is higher than in the past few years. This is explained mainly by higher oil prices, but price increases in housing and the depreciation of the euro have also played a role. Inflation reached a rate of 4.2 percent in September 2000, becoming one of the highest in the euro zone.

The sizeable state debt and heavy tax burden constitute the most serious problems in public finances. State debt is still at a high level, although it is expected to drop from FIM 404.6 billion in 1999 to FIM 388.6 billion in 2000. The debt-to-GDP ratio is expected to continue to decrease as the financial position improves and GDP grows. The overall government debt ratio (ratio of EMU debt to GDP) is predicted to fall from 46.6 percent in 1999 to 42.4 percent by the end of 2000.

In 1999 Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was up to 46.1 percent from 45.9 percent in 1998. A decrease is expected in 2000 (45.9 percent) and in 2001 (45 percent) due to scheduled tax cuts.

The number of employed is set to grow by almost 40,000 people in 2000, and the employment rate to rise to about 67 percent. New jobs are being created particularly in the service sector, but also in expanding industrial sectors and in construction. In 2000 the unemployment rate is forecast to drop from 10.2 percent to 9.6 percent. Nevertheless, unemployment is still above the EU average and labor productivity remains below the EU average.

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has resulted in new competition legislation that has helped reduce the cartelized nature of many Finnish industries. Legislation that took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. Direct foreign investment, however remains modest due to high production costs. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the newly independent states of the former Soviet Union and the Baltic states. This effort had scored only limited success with relatively few foreign firms establishing production and warehousing facilities in eastern Finland, close to the major Russian markets. The Russian financial crisis in 1998 caused a significant slowdown in gateway activity, although there are now signs of recovery.

EU membership and Finland's budget constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The compromise outcome of Agenda 2000 negotiated by the European Ministers of Agriculture in March 1999 contained some favorable elements with respect to Finland. Of special importance for Finland was drying aid for grains and oilseeds, and aid for grass silage. The EU delay (until 2003) in cutting the price of milk reduced any current hardship for Finnish farmers, although there may be difficulties down the road if the compensation does not cover losses caused by the price cuts. Overall agricultural production is forecast to grow by eight percent in 2000 and by three percent in 2001.

2. Exchange Rate Policy

The European Commission reported on March 25, 1998 that 11 EU member countries, one of them Finland, were ready for the economic and monetary union (EMU) and met the conditions to adopt the single currency (euro). The bank notes and coins of the single currency will be put into circulation in 2002. Banknotes and coins denominated both in Finnish Marks and euros will be in dual circulation for a period of two months at the beginning of 2002.

As of January 1, 1999 Finland joined the third stage of the EMU. This third and final stage of EMU commenced with the irrevocable locking of the exchange rates of the eleven currencies participating in the euro area and with the conduct of a single monetary policy under the responsibility of the ECB. The Finnish mark was pegged to the euro at 5.9457.

3. Structural Policies

Finland replaced its turnover tax with a Value-Added Tax (VAT) in June 1994. While the change has had little effect on overall revenues, several sectors not previously taxed or taxed at a lower rate, including corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Legislation on VAT was harmonized with the European Union. Foodstuffs are taxed at a 17 percent rate. Services, including health care, education, insurance, newspaper and periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. A uniform tax rate of 28 percent on capital gains took effect in 1996, which includes dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, on which the tax rate was increased from 20 to 25 percent at the beginning of 1994. The corporate and capital income tax rate was increased from 28 per cent to 29 per cent in January 2000.

In March 1997 European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the EFTA tariff area.

Organizations representing employers and employees began talks in October 2000, aimed at achieving a two-year Comprehensive Incomes Policy Agreement. In fall 1997 the organizations signed a two-year agreement. In 1999 the government tried for a third successive long-term incomes agreement but the attempt ran aground. Pay agreements were not signed until the beginning of 2000, when a broad income policy line had been formulated under the leadership of the Metalworkers Union. Eventually 95 percent of organized labor adopted that line.

Reaching agreement in the fall of 2000 could be difficult. The Finnish economy has grown strongly, inflation has simultaneously gathered momentum and wage earners hopes are considerably different from employers offers. The round of negotiations is likely to last two months and the government has pledged to help talks along with promised tax cuts, provided pay demands remain moderate.

Liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland's leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous Center-Conservative government initiated a program aimed at privatizing as much of the state-owned companies as the Finnish Parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing, energy production and telecommunications operations. The basic strategy has been to reduce the government's stake through the issuance of stock, rather than by selling off companies to individual investors and to treat each company as an individual case.

Recent examples include Sonera (former Telecom Finland) and Elisa (former HPY, Helsinki Telephone Company) and the merger of the Finnish partly state owned forest company Enso to the Swedish forest company Stora. In virtually every case, however, the Finnish government has retained significant minority stakes in privatized companies. In June 2000, however, the government was granted authority by Parliament to sell the government's remaining stake of slightly over one-half of the Sonera equity stock.

In May 2000 the government reached a decision-in-principle on the use of state sales proceeds between 2000 and 2003. The government will boost basic funding for universities and will commit to certain projects aimed at bolstering long-term growth prospects. The rest of privatization proceeds already realized or forthcoming will be allocated to debt redemption.

State aid to industry was at a relatively high level in Finland in the first years of the 1990s. This was mainly due to the severe depression that Finland experienced at that time. It should be noted, however, that even in those years Finland was no more generous in subsidizing its manufacturing companies than the EU countries on average. The government has begun to reduce subsidies in line with the need for greater fiscal discipline and it is the government's policy to continue this trend. General horizontal subsidies form the bulk of aid in Finland, including assistance for research and development, environmental protection, energy and investment. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish-owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development. The support consists of cash grants, loans, tax benefits, investments in equity, guarantees and employee training.

The Finnish economy faces two major challenges. First, the competition the Finnish economy is facing is clearly increasing and spreading to new sectors threatening traditionally sheltered sectors of the economy. Second, with the aging of the population, labor supply is set to decline in the next decade, correspondingly weakening the financial base by increasing outlays for social security and pensions. These two challenges highlight the importance of fiscal restraint and structural reforms. There is a growing need in general government finances to concentrate on relieving the expenditure pressure caused by the aging of the population and on reducing the central government debt ratio. The key task in structural policy is to secure prerequisites for employment-oriented stable economic growth.

4. Debt Management Policies

Under the government's EMU convergence program, the gross government debt is projected to drop from 46.6 percent of GDP in 1999 to 42.4 percent by the end of 2000.

In October 2000 Standards & Poor's announced that it would keep its rating of Finnish long term government bonds at their second-best rating, AA+. In August 1999 Moody's rated Finnish long-term government bonds at their best rating, AAA. In November 1999 Fitch IBCA confirmed the rating of Finnish long-term government bonds as AAA.

Finland is an active participant in the Paris Club, the London Club and the Group of 24, providing assistance to East and Central Europe and the independent states of the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.33 percent of GDP in 1999. The Finnish government estimates foreign assistance will be 0.34 percent of GDP in 2000.

5. Significant Barriers to U.S. Exports

Finland became a member of the EU in 1995, and as a result has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU some U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect resistant corn. The Environmental Ministry appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. The government continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives have gone into effect. Finland has exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. In most cases such restrictions will cover workers' compensation insurance companies as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier, by eliminating a licensing requirement to construct a fixed-telephone network. Only mobile-telephone networks are still subject to license. The number of mobile telephones exceeded the number of fixed-line connections beginning in 1998. Finland's mobile phone penetration is 70 percent, with 3.6 million mobile phones in use.

Finland was the first country to grant licenses for third-generation mobile-phone networks. In March 1999 four telecommunications companies were granted licenses to construct 3G mobile networks in Finland. Contrary to many other European countries, licenses were free of charge and granted to the most qualified applicants, rather than by auction. Licenses were technology-neutral, but all four licensees are expected to use the European UMTS technology. 3G mobile operations are expected to be launched by beginning of 2002.

In the next few years, the telecommunications and information technology sectors will continue to grow rapidly. Finland's telecommunications environment is one of the most advanced in Europe and the growth of international business in telecommunications is of significant importance to the Finnish economy.

The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign-produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remained, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this were abolished in January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carry on trade as private entrepreneur or as partners in a Finnish limited or general partnership must get a trade permit from the Ministry of Trade and Industry (MTI) before starting a business in Finland. Additionally, at least one-half of the founders of a limited company must reside in the EEA unless the MTI grants an exemption.

Normally Finland requires that a labor-market test be conducted before allowing a foreigner to work in Finland. The purpose of the test is to determine whether or not a Finn could undertake the same work. However, foreign intra-corporate transferees who are business executives or managers are not subject to the labor-market test. This standard does not apply to company specialists, who must prove that they possess knowledge at an advanced level of expertise or are otherwise privy to proprietary company business information.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3.35 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005. As of October 2000, $3.18 billion (or 95 percent of the total) worth of offsets have been made.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

6. Export Subsidies Policies

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs as well as for some processed agricultural products. Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement. The EU has decided that payment of shipyard subsidies will end at the end of year 2000. According to Finland's year 2000 supplementary budget, subsidies may be granted on ship orders up to a total value of FIM 6 billion and the industry is granted an appropriation of FIM 140 million, in order to secure the competitiveness of the shipbuilding industry.

7. Protection of U.S. Intellectual Property

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. In 1996 Finland joined the European Patent Convention (EPC).

Finland is a member of WIPO, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the United States, and by some measures (e.g., BSA) is the lowest in the world.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a BSA survey, the rate of software piracy in Finland dropped from 67 percent in 1994 to 30 percent in 1999.

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years. Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. The Copyright Act has covered computer software since 1991.

8. Worker Rights

a. *The Right of Association:* The constitution provides for the rights of trade unions to organize, to assemble peacefully, and to strike, and the government respects these provisions. About 87 percent of the work force is organized. This applies to employers as well. All unions are independent of the government and political parties. The law grants public-sector employees the right to strike, with some exceptions for provision of essential services. In 1999 there were 65 strikes. Trade unions freely affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The law provides for the right to organize and bargain collectively. Collective bargaining agreements are usually based on incomes policy agreements between employee and employer central organizations and the government. The law protects workers against antiunion discrimination. Complaint resolution is governed by collective bargaining agreements as well as labor law, both of which are adequately enforced. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, and this prohibition is honored in practice. The law prohibits forced and bonded labor by children and adults, and such practices do not exist. The government enforces his prohibition effectively.

d. *Minimum Age for Employment of Children:* Youths under 16 years of age cannot work more than 6 hours a day or at night, and education is compulsory for children from 7 to 16 years of age. The Labor Ministry enforces child labor regulations. There are virtually no complaints of exploitation of children in the work force.

e. *Acceptable Conditions of Work:* There is no legislated minimum wage, but the law requires all employers, including non-unionized ones, to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sector. These minimum wages generally provide a decent standard of living for workers and their families. The legal workweek consists of 5 days not exceeding 40 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements. The government sets occupational health and safety standards, and the Labor Ministry effectively enforces them. Workers can refuse dangerous work situations without risk of penalty.

f. *Trafficking in Persons:* Finland is a secondary destination/transit country for trafficking in persons. While Finnish law does not explicitly prohibit "trafficking in persons," existing statutes address a range of trafficking-related crimes. In addition, the Government of Finland and Finnish NGOs are making a considerable effort to counter trafficking, e.g., through Finland's leading role in the European Union anti-trafficking "STOP" project.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		32
Total Manufacturing		486
Food and Kindred Products	7	
Chemicals and Allied Products	357	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	3	
Electric and Electronic Equipment	33	
Transportation Equipment	–2	
Other Manufacturing	(1)	
Wholesale Trade		351
Banking		20
Finance/Insurance/Real Estate		259
Services		64
Other Industries		143
TOTAL ALL INDUSTRIES		1,355

(1) Suppressed to avoid disclosing data of individual companies.

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

FRANCE

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 (est)
Income, Production and Employment:			
Nominal GDP	1,442	1,443	1,331
Real GDP Growth	3.2	2.9	3.4
GDP by Sector (previous year prices): [2]	1,279	1,273	N/A
Agriculture	43	42	N/A
Manufacturing	322	320	N/A
Services	654	654	N/A
Government and Non-Profit Services	261	257	N/A
Per Capita GDP (US$)	24,100	24,038	22,096
Labor Force (thousands)	27,755	25,983	26,155
Unemployment Rate (average)	11.9	11.2	9.2

Key Economic Indicators[1]—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 (est)
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)[3]	1.2	5.8	6.7
Consumer Price Inflation (average)	0.7	0.5	1.5
Exchange Rate (FF/US$ annual average)	5.9	6.1	6.9
Balance of Payments and Trade:			
Total Exports FOB[4]	305	303	300
Exports to United States[4]	22	23	25
Total Imports CIF[4]	281	285	292
Imports from United States[4]	25	26	21
Trade Balance CIF/FOB	24	18	8
Balance with United States[4]	–3	–2	4
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	2.7	1.8	1.4
Current Account[4]	37	37	32
Current Account Surplus/GDP (pct)	2.6	2.6	2.1
Debt Service Payments (pct of GDP)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves[5]	68	71	68
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Embassy estimates based on published French government data unless otherwise indicated.
[2] GDP excludes value added tax and other taxes.
[3] 2000 figure reflects M3 as of July.
[4] 2000 estimate based on seven months.
[5] 2000 estimate based on eight months.

1. General Policy Framework

France is the fifth largest industrial economy in the world, with annual gross domestic product about 15 percent that of the United States. France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the tenth largest trading partner of the United States and the third largest in Europe (after Germany and the United Kingdom). According to U.S. Department of Commerce data, U.S. merchandise exports to France increased by 6.4 percent to $18.9 billion in 1999, while merchandise imports from France grew 7 percent to $25.7 billion, again according to Commerce Department data. This resulted in a U.S. merchandise trade deficit with France of about $7 billion. French trade data shown in the table above account differently for re-exports and transshipments via neighboring European countries. They thus tell a different story: France believes that it had a trade deficit of about $2 billion with the United States in 1999. Trade in services is expanding rapidly. In 1999 it added about $2 billion more to the total volume of trade between the United States and France. The United States and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

The annual real GDP growth rate in 2000 should be about 3.4 percent according to the government (or 3.2 percent according to the French National Statistical Agency INSEE), following 2.9 percent in 1999, the fourth year of sustained growth. Economic growth has been domestic-demand led, although export growth has also continued to be robust. This strong economic climate has created a large number of jobs that permitted the unemployment rate to decrease to 9.6 percent in September from a high of 12.6 percent in June 1997. It has also permitted a continued reduction in the general government budget deficit as a share of GDP to 1.4 percent in 2000. Economic growth was solid in the first two quarters of 2000 and should remain robust in the second half of the year. However, international factors, notably the oil shock, are now creating downward risks to GDP growth, and most economists forecast annual growth to decrease to 2.8 to 3.1 percent for 2001.

Considerable progress has been made over the past decade on structural reforms. However, additional efforts will be necessary for France to achieve its full economic potential. Prime areas for reforms identified by international organizations include continued tax and government spending reduction, increasing the flexibility of labor markets, and further deregulation of goods and services sectors.

With exports and imports of goods and services each accounting for about 25 percent of GDP, France's open external sector is a vital part of its economy. The government has encouraged the development of new markets for French products and investors, particularly in Asia and Latin America. It especially seeks to promote exports by small and medium-sized firms. Foreign investment, both inward and outward, also plays a very important role in the French economy, helping generate employment and growth. With about 20 percent of the total, U.S. investment accounts for the largest share of foreign direct investment in France. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors in France.

2. Exchange Rate Policies

France adopted the euro currency as of January 1, 1999. Responsibility for exchange rate policy is shared between national finance ministries and the European Central Bank.

3. Structural Policies

Over the past decade, the government has made efforts to reduce its role in economic life through fiscal reform, privatization, and the implementation of European Union liberalization and deregulation directives. Yet the government remains deeply involved in the functioning of the economy through national and local budgets, remaining state holdings of major corporations, and extensive regulation of labor, goods, and services markets. This can sometimes result in a lack of transparency in the making of decisions that affect U.S. and other firms. While U.S. and foreign companies often cite concerns about relatively high tax rates on business, particularly payroll and social security taxes, state action does not discriminate against foreign firms or investments. There are very few, generally clearly defined exceptions, such as those notified to the OECD under its investment codes.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. A member of the group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank, and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and Sub-Saharan Africa. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

5. Significant Barriers to U.S. Exports

In general, European Union agreements and practices determine France's trade policies. These policies include preferential trade agreements with many countries.

Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions (irrespective of EU policy) that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry, meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; and exotic meats (e.g., ostrich, emu and alligator); and live crawfish unless authorized by special derogation. Current regulations discriminate against imports of bovine semen and embryos (from the United States) by strictly controlling their marketing in France.

France established a new national policy toward Genetically Modified Organisms (GMOs) in 1998 that has restricted imports and production of goods made from transgenic materials.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France strictly applies quotas mandating local content. A 40 percent domestic content requirement for music (excluding classical music and jazz) broadcast by French radio stations mandated by a 1994 law was lowered to 35 percent earlier this year. Continuation and growth of a strong French A/V sector is a government priority.

Government efforts to balance the national social security health care budget continue to target (via price/volume agreements, reduced reimbursement rates, taxes, and slow approvals) products brought to the market by research-based pharmaceutical firms and health equipment firms. The U.S. health equipment and research-based pharmaceutical industries continue to press the French government for more transparency in government regulation.

Aviation: Under the "Open Skies" aviation agreements that the United States has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. France is one of several member states without an Open Skies agreement, and where the U.S.-France bilateral aviation agreement still contains some limitations.

6. Export Subsidies Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. The French government has increased its export promotion efforts, particularly to the emerging markets in East Asia and Latin America. These efforts include providing information and other services to potential exporters, particularly small and medium-sized enterprises.

Support of the agricultural sector is a key government priority. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. French government subsidies to agricultural production are primarily indirect. France strongly supports continued EU export subsidies. The government offers indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

The French government has indicated that it is likely to provide financial support to airbus for the development of the A380 megaliner. The terms of its financial support has not been decided at the time of writing.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Bern Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

8. Worker Rights

a. *The Right of Association:* The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized.

b. *The Right to Organize and Bargain Collectively:* The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local and plant levels.

c. *Prohibition of Forced or Compulsory Labor:* French law prohibits antiunion discrimination and forced or compulsory labor.

d. *Minimum Age for Employment of Children:* With a few minor exceptions for those enrolled in apprenticeship programs or working in the entertainment industry, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work:* The current minimum wage is FF 42.02 per hour (about $5.60). Since February 2000, the legal workweek is 35 hours for firms of 20 or more workers. Firms of less than 20 workers will have until January 2002 to reduce their workweek to 35 hours. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. *Rights in Sectors with U.S. Investment:* Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

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

[Millions of U.S. Dollars]

Category	Amount
Petroleum	1,044
Total Manufacturing	17,210

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

[Millions of U.S. Dollars]

Category	Amount	
Food and Kindred Products	3,246	
Chemicals and Allied Products	3,947	
Primary and Fabricated Metals	4,322	
Industrial Machinery and Equipment	1,282	
Electric and Electronic Equipment	819	
Transportation Equipment	527	
Other Manufacturing	3,067	
Wholesale Trade		2,839
Banking		1,652
Finance/Insurance/Real Estate		10,583
Services		5,400
Other Industries		1,257
TOTAL ALL INDUSTRIES		39,984

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

GERMANY

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP [2]	2,150	2,107	1,992
Real GDP Growth (pct) [3]	2.2	1.5	2.8
GDP by Sector (pct):			
Agriculture	1.2	1.2	1.2
Manufacturing	25.4	25.1	29.6
Services	73.4	73.4	69.2
Government.			
Per Capita GDP (US$)	26,202	25,685	24,242
Labor Force (000s) [5]	40,262	40,508	40,800
Unemployment Rate (pct) [5]	11.1	10.5	9.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.0	5.2	4.1
Consumer Price Inflation	1.0	0.6	1.9
Exchange Rate (DM/US$ annual average)	1.76	1.84	2.04
Balance of Payments and Trade: [4]			
Total Exports FOB	542.7	543.7	277.0
Exports to United States	51.0	54.9	28.3
Total Imports CIF	470.6	474.0	248.1
Imports from United States	38.8	38.8	21.2
Trade Balance	72.1	69.7	28.9
Balance with United States	12.2	16.1	7.1
External Public Debt	1,296	1,264	1,166
Fiscal Deficit/GDP (pct)	–1.7	–1.1	0.0
Current Account Deficit/GDP (pct)	–0.2	–0.1	–0.2
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	66.7	90.2	84.2
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 Figures are all estimates based on the first half, except nominal GDP and fiscal balance, which are full-year forecasts.
[2] GDP at factor cost.
[3] Percentage change in real GDP calculated in national currency at 1995 prices.
[4] Goods and services trade.
[5] Estimate based on eight-month average and Embassy forecast.

1. General Policy Framework

Germany's economy is the world's third largest, with total output equivalent to just over $2 trillion in 1999 (in nominal terms). Real GDP growth, which reached 2.2 percent in 1998, dropped to 1.5 percent in 1999. Most German public and private forecasters estimate growth of at least 2.8 percent for 2000. Germany is highly integrated into the global economy: just as the slowdown in German growth in late 1998 and early 1999 resulted mainly from adverse international economic conditions, so the current cyclical upswing has been based on the recovery in global conditions. Inflation remains very low, partly as a result of deregulation in the electricity and telecommunications sectors, but has risen with the impact of higher oil prices.

The German "social market" economy is organized on market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health, educational and basic welfare benefits. Although economic growth is increasing, with some estimates suggesting that rates of three percent or more are attainable, growth has been faster in western Germany than in the east, slowing, at least temporarily, economic convergence between the two regions, a key national objective. In addition, unemployment rates remain high, with almost four million people unemployed nationwide. Unemployment is about twice as high in eastern Germany as in the west.

Increased government outlays associated with German unification put pressure on fiscal policy during the 1990s. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to raise eastern German production potential via public investment and generous subsidies to attract private investment. However, overall unit labor costs in eastern Germany are still quite high, as productivity growth has lagged behind wage increases. This process led to the higher unemployment in the east and resulted in a sharp increase in federal unemployment compensation costs. As a result, western Germany continues to transfer substantial sums to eastern Germany (more than DM 140 billion annually, or roughly four percent of German GDP). These transfers accounted for the dramatic ballooning of public sector deficits and borrowing since 1990 and contributed to the need for the current government's belt-tightening measures.

Top policy priorities of the coalition government elected in September 1998 are to lower unemployment and reduce the fiscal deficit. The government has organized an "Alliance for Jobs, Training and Competitiveness" involving labor union and employer representatives, with the principle aim of creating jobs including through wage restraint and training programs. Deficit reduction efforts have focused on federal spending restraint, although one-off revenues, such as the auction of UMTS wireless telephone licenses, are expected to go toward deficit reduction. The government has introduced tax reforms, which reduce corporate income tax rates and close loopholes, extending relief to families, and raising energy taxes for environmental reasons. The government has been successful in reducing the budget deficit. Better than expected growth and a shrinking of the working age population have also contributed to recent success in reducing unemployment.

2. Exchange Rate Policies

On January 1, 1999 the euro was introduced in Germany and the Deutsche Mark was fixed at 1.95 to the euro. Euro notes and coins will be introduced on January 1, 2002, but many non-cash transactions are already denominated in the new currency. All monetary and exchange policies are now handled by the European Central Bank.

3. Structural Policies

Since the end of the Second World War, German economic policy has been based on a "social-market" model which is characterized by a substantially higher level of direct government participation in the economy than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions, has worked to limit market entry by not only foreign firms, but also German entrepreneurs.

Although the continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the German economy with those of its EU partners, the shock of German unification, pressure from globalization on traditional manufacturing industries, and record-high unemployment have forced a rethinking of the German post-war economic consensus. A number of structural impediments to the growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

(1) a rigid labor market;
(2) a regulatory system that discourages new market entrants; and

(3) high marginal tax rates and high social charges.

While many Germans value these structural features for their presumed benefits in terms of social security and relative equality, the public debate has focused on their suitability to desired economic growth and employment levels and German's competitiveness as a location for business and investment. The government, as noted, has pursued tax reform, but has not undertaken formal structural reform of the labor market. Nevertheless, gradual changes are taking place in the labor market as a result of competitive forces, new technologies, new forms of employment, and the process of negotiations between unions and employers, at both the firm and the industry level.

In recent years, the government has carried out a reorganization of the German Federal Railroad and the Federal Post (Deutsche Post). An initial public offering for Deutsche Post is expected in November 2000. In conjunction with the liberalization of the telecommunications sector, the government-owned Deutsche Telekom has been substantially privatized (42 percent of shares has been made public) in several tranches. The German government has largely fulfilled its commitment to open the telecommunications network monopoly to competition as of January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post also began operation. USTR largely acknowledged this in its June 2000 1377 report; however, USTR continues to monitor Germany's compliance with the WTO's Basic Telecommunications Agreement, after two U.S. telecommunications trade associations filed complaints in February 2000 under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988. The federal government also has sold its remaining stake in the national airline, Lufthansa. The EU gas directive went into effect on August 10, 2000, but the negotiated third-party access agreement agreed to by the parties in Germany looked unlikely to unleash the level of competition and other changes that followed the electricity deregulation in 1998.

Despite the progress in recent years, lack of competition remains a problem in many regulated sectors and drives up business costs in Germany. Services which continue to be subject to excessive regulation and/or market access restrictions include communications, utilities, banking and insurance. The government intends to review existing legislation that limits price competition between firms, as well as laws that reduce competition in the insurance and transport sectors and to encourage competition in the telecom sector. The Regulatory Authority for Telecommunications and Post has issued many pro-competitive decisions prompting an explosion of growth in the telecom sector. Paralleling German government efforts to deregulate the economy, the European Commission is expected to continue to pressure member states to reduce barriers to trade in services within the Community. U.S. firms, especially those with operations located in several European Union member states, should benefit from such market integration efforts over the long term.

4. Debt Management Policies

As a condition of its participation in the European Monetary Union, the government was required to reduce its accumulated public debt and lower its debt/GDP ratio. Germany is also subject to a constitutional limitation to hold its new net borrowing at or below the amount invested in public sector infrastructure. Current policies seek to achieve a balanced federal budget by 2004.

Germany has recorded persistent current account deficits since 1991 due to a drop in the country's traditionally strong trade surplus, related in part, to strong consumer demand in eastern Germany. These deficits have been small, however, in relation to GDP. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has contributed to the current account deficits. Nonetheless, Germany continues to maintain a surplus in the merchandise trade balance.

5. Potential Barriers to U.S. Exports

Germany is the United States' fifth-largest export market and its fifth-largest source of imports. In 1999 U.S. exports to Germany totaled $26.8 billion, while U.S. imports from Germany reached $55.2 billion. During the first six months of 2000, U.S. exports to Germany totaled $14.4 billion, while U.S. imports from Germany reached $28.8 billion. Other than EU-imposed restrictions, there are few formal barriers to U.S. trade and investment in Germany. Ingrained consumer behavior and strong domestic players prevailing in German product and services markets often make gaining market share a difficult challenge, especially for new-to-market companies.

Import Licenses: Germany has abolished almost all national import quotas. The country enforces, however, import license requirements placed on some products by the European Union, such as the tariff quota on Latin American bananas imposed by the EU's banana import regime. As a result of this discriminatory marketing arrangement, U.S. fruit trading companies have lost market share in Germany. The World Trade Organization's dispute resolution panel and the WTO Appeals body have found the EU banana regime to violate both the General Agreement on Trade in Services and the General Agreement on Trade in Goods, requiring the EU to reform this trading regime, which it has yet to do.

Services Barriers: Foreign access to Germany's insurance market is still limited to some degree. All telecommunications services have been fully open to competition since January 1998, when the EU's telecommunications market liberalization came into effect; great dynamism and intense competition characterize the long-distance, but not local, market. Liberalization has opened up opportunities for U.S. telecommunications and internet service providers. Germany has no foreign ownership restrictions on telecommunications services. A 1998 EU data privacy directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protections that the EU deems adequate. In July 2000 the United States and the EU concluded a "safe harbor" understanding that bridges differences in approaches to protection of personal data.

Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures are complex and can prove to be a hurdle for U.S. exporters unfamiliar with the local environment. Overly complex government regulations offer—intentionally or not—local producers a degree of protection. EU health and safety standards, for example, can restrict market access for many U.S. products (e.g., genetically modified organisms and hormone-treated beef). The European Union's attempts to harmonize the various product safety requirements of its member states have further complicated the issue. Existing high German standards will likely form the basis in a number of cases for eventual EU standards.

Government Procurement: Germany's government procurement is nondiscriminatory and appears to comply with the GATT Agreement on Government Procurement. The German Public Procurement Reform Act, which establishes examining bodies that have the responsibility to review the awarding of public contracts and to investigate complaints pertaining to the procurement process, came into effect on January 1, 1999. In September 1998, however, the federal government implemented a so-called "sect filter," which prohibits the awarding of certain contracts related to education, training, or consulting to companies that have a Scientology connections. Certain state and local governments have also drafted sect filters. USTR noted U.S. objections to the use of sect filters in this year's Title VII report.

Investment Barriers: Under the terms of the 1956 Treaty, U.S. investors are afforded national treatment. The government and industry actively encourage foreign investment in Germany. Foreign companies with investment complaints in Germany generally list the same investment problems as domestic firms: high tax rates, expensive labor costs, and burdensome regulatory requirements.

Customs Procedures: Administrative procedures at German ports of entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the European Union's framework for export subsidies for agricultural goods. Governmental or quasi-governmental entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

Deutsche Post (DP) has been accused of cross subsidization in order to gain market entry and increase market share, thereby disturbing a competitive market interest to U.S. companies. Accepting a complaint from a U.S. parcel delivery company, the European Commission announced on August 9, 2000 that it would begin a formal antitrust investigation into DP for abuse of its dominant position. The investigation will examine predatory pricing in DP parcel service and possible unfair pricing in its letter delivery service. The EU has also initiated a separate decision to conduct a separate investigation of state aid for DP.

The German government has also indicated that it is likely to provide financial support to Airbus for the development of its A380 megaliner. The terms of its financial support had not been decided at time of writing.

7. Protection of U.S. Intellectual Property

Intellectual property is generally well protected in Germany. Germany is a member of the World Intellectual Property Organization; a party to the Bern Convention for the Protection of Artistic and Literary Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Patent Cooperation Treaty, the Brussels Satellite Convention, and the Treaty of Rome on Neighboring Rights. U.S. citizens and firms are entitled to national treatment in Germany, with certain exceptions. Germany's commitments under the intellectual property rights portions (TRIPS) of the Uruguay Round, implementation in 1993 of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped address concerns from some U.S. firms about the level of software piracy.

8. Worker Rights

a. *The Right of Association:* Article IX of the German Constitution guarantees full freedom of association. Worker rights to strike and employers' rights to lockout are also legally protected.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is rather seldom. Basic wages and working conditions are negotiated at the industry level. Nonetheless, some firms in eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a "blind eye" to firm-level negotiations. Likewise, some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. German law mandates a system of work councils and worker membership on supervisory boards of larger firms and those in particular industries. Thus many workers are able to participate in the management of the enterprises in which they work. The law thoroughly protects workers against anti-union discrimination.

c. *Prohibition of Forced or Compulsory Labor:* The German Constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. *Minimum Age for Employment of Children:* German legislation in general bars child labor under age 15. There are exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. *Acceptable Conditions of Work:* There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. *Rights in Sectors with U.S. Investment:* The enforcement of German labor and social legislation is strict, and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support chambers of industry and commerce which organize the dual (school/work) system of vocational education.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–113
Total Manufacturing		4,055
Food and Kindred Products	–22	
Chemicals and Allied Products	1,608	
Primary and Fabricated Metals	–444	
Industrial Machinery and Equipment	706	
Electric and Electronic Equipment	1,203	
Transportation Equipment	330	
Other Manufacturing	674	
Wholesale Trade		88
Banking		–194
Finance/Insurance/Real Estate		2,169
Services		153
Other Industries		–282
TOTAL ALL INDUSTRIES		5,875

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

GREECE

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1] (Jan-Oct)
Income, Production and Employment:			
Nominal GDP[2]	105,825.0	109,700.0	98,100.0
Real GDP growth (pct)[3]	3.7	3.5	3.8
GDP by Sector:			
Agriculture	8,800.0	8,740.0	7,450.0
Manufacturing	25,400.0	26,300.0	23,750.0
Services	71,625.0	74,660.0	66,900.0
Of which:			
Government	9,625.0	9,465.0	8,500.0
Per Capita GDP (US$)	11,560.5	11,915.8	10,600.0
Labor Force (000s)	4,399.6	4,434.8	4,470.3
Unemployment Rate (pct)	11.1	11.7	11.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M3 Dec)	9.8	5.6	7.0
Consumer Price Inflation	4.8	2.6	3.0
Exchange Rate (DRS/US$ annual average)			
Official	295.5	305.6	365.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[4]	10,758.0	10,510.0	11,000.0
Total Exports FOB[5]	6,671.5	8,546.9	9,800.0
Exports to United States[6]	467.1	571.0	336.4[7]
Total Imports CIF[4]	28,587.0	28,422.0	30,000.0
Total Imports CIF[5]	23,305.1	26,493.4	30,000.0
Imports from United States[6]	1,355.1	995.5	753.2[7]
Trade Balance[4]	–17,829.0	–17,912.0	–19,000.0
Trade Balance[5]	–16,633.6	–17,946.5	–20,200.0
Balance with United States	888.0	424.5	416.8
External Public Debt	32,129.0	31,850.0	33,000.0
Fiscal Deficit/GDP (General Government) (pct)	2.5	1.5	1.2
Current Account Deficit/GDP (pct)	3.0	4.1	7.2
Debt Service (Public Sector) Payments/GDP (pct)	6.3	5.0	5.0
Gold and Foreign Exchange Reserves	18,191.2	18,948.6	16,000.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are all estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise Trade; National Statistical Service of Greece; Customs Data.
[5] Trade; Bank of Greece data; on a settlement basis for 1998 and 1999. The Bank of Greece data, especially those on exports, used to underestimate true trade figures since exporters were not obliged to deposit their export receipts in Greece. Effective 1999, the Bank of Greece has been implementing a new set of accounts to be in line with other EU central banks. The new data are based on the new system (resident/non-resident basis).
[6] U.S. Department of Commerce. U.S. exports and general imports, customs value.
[7] January-July 2000 data.

1. General Policy Framework

Greece has been a member of the European Union (EU) since 1981. Its economy is segmented into the state sector (estimated at 40 percent of GDP) and the private sector (60 percent of GDP). It has a population of 10.7 million and a workforce of about 4 million. Some of Greece's economic activity remains unrecorded. (Estimates of how much of the economy remains unrecorded vary, due, at least in part, to deficient data collection). The moderate level of development of Greece's basic infrastructure, such as roads, rail, and telecommunications, reflects its middle-income status. Per capita GDP is $11,916, the lowest in the EU. However, with GDP growth well above the EU average, this gap is slowly closing.

Services make up the largest and fastest growing sector of the Greek economy, accounting for about 68 percent of GDP (including government services). Tourism, shipping, trade, banking, transportation, communications, and construction are the largest service sub-sectors. Greece is an import-dependent country, importing substantially more than it exports. In 1999 imports were $28.4 billion, while exports were only $10.5 billion. A relatively small industrial base and lack of adequate investment in the past have restricted the export potential of the country. As a general trade profile, Greece exports primarily light manufactured and agricultural products, and imports more sophisticated manufactured goods. Tourism receipts, emigrant remittances, shipping receipts, and transfers from the EU form the core of Greece's invisible earnings. Substantial funds from the EU (about $20 billion) have been allocated for major infrastructure projects (road and rail networks, ports, airports, telecommunications, etc.) over the period 1994–99. Greece will get another EU structural funds package of about $24 billion for the period 2000–2006. Greece will undertake a number of infrastructure projects to host the 2004 Summer Olympic games, although some were already underway.

Greece will join the Economic and Monetary Union (EMU) as of January 1, 2001, having met all the macroeconomic convergence criteria for participation in the EMU established by the Maastricht Treaty. This positive outcome was the result of the implementation of a six-year convergence program designed to meet EMU entry requirements. Thanks to a tight monetary policy, cuts in indirect taxation, limited real pay increases and a gradual drachma appreciation after the March 1998 devaluation, inflation has been reduced to 2.5 percent in June 2000. Investment and consumer confidence remains strong and the growth of GDP in 2000 is projected to be 3.8 percent, higher than 1999 growth (3.5 percent). Unemployment rate in 1999 increased to 11.7 percent (from 11.1 percent in 1998) and is expected to remain close to 11.8 percent in 2000. By the end of 1999, as a result of a fiscal policy focused on expanding revenue collection, the government budget deficit to GDP ratio had fallen to 1.5 percent. However, real progress in reducing public expenditures has been limited due to continued opposition to structural reforms by labor unions, professional associations, politicians, and the media.

Greece's large general government debt (104 percent of GDP or $126.8 billion in 1999) stems to a great extent from government acquisition of failing enterprises and a bloated public sector. Greece's social security program has also been a major drain on public spending. Deficits are financed primarily through issuance of government securities. For 2000 the government expects a reduction of the debt to 103.3 percent of GDP.

The Bank of Greece, Greece's central bank, implements monetary policy. The Bank of Greece uses the discount and other interest rates in its transactions with commercial banks as tools to control the money supply. The government continues to retain privileged access to credit via the still low-taxed status accorded to government debt obligations (which includes the right of Greek residents to purchase government debt obligations without having to declare their source of income to the tax authorities). Treasury bills and state bonds are issued by the Ministry of Finance but they are expected to comply with the monetary targets set by the Bank of Greece.

2. Exchange Rate Policy

Greece's foreign exchange market is in line with EU rules on free movement of capital. On March 16, 1998 the Greek currency was included in the European Union's Exchange Rate Mechanism (ERM). This was preceded by a drachma devaluation of 12.3 percent on March 14. The drachma participates in the ERM–2 as of January 1, 1999. In January 2000 the drachma's central parity to the euro (which also sets the entry level into EMU on January 1, 2001) was set at 340.75 drachmas per euro.

3. Structural Policies

Greece's structural policies need to conform to the provisions of the EU Single Market and the Maastricht Treaty on Economic and Monetary Union. Now that its entry to the EMU has been approved, Greece will have to undergo serious structural reform to sustain EMU convergence criteria. The Greek government has announced plans to liberalize the telecommunications and energy sectors. It has been implementing a plan stretching until mid-2001 to privatize or sell minority stakes in public sector enterprises and organizations including the Hellenic Telecommunications Organization (49 percent currently traded in the market), the Hellenic Petroleum (23 percent currently traded in the market), the Public Power Corporation, the Agricultural Bank of Greece and the port operations in Piraeus and Thessaloniki. Restructuring the operations of the public sector (i.e., elimination of unnecessary activities/entities, changes in the labor and social insurance regimes) are also at the top of the Greek government's agenda.

Pricing Policies: The only remaining price controls are on pharmaceuticals. The government can also set maximum prices for fuel and private school tuition fees, and has done so several times in the last several years.

About one quarter of the goods and services included in the Consumer Price Index (CPI) are still produced by state-controlled companies. As a result, the government retains considerable indirect control over pricing. While this distorts resource allocations in the domestic economy, it does not directly inhibit U.S. imports (with the exception of pharmaceuticals).

Tax Policies: Businesses complain about frequent changes in tax policies (there is a new tax law practically every year). A new draft bill providing for lower taxation will be submitted to Parliament at the end of October 2000. The main tax relief measures will include: gradual reduction of the top tax rate for personal income to 40 percent from the current 45 percent; gradual reduction of the tax on corporation profits from the current 40 to 37.5 percent in 2001 and 35 percent in 2002; adjustment of the tax scale to inflation; higher tax rebates to large families; and lower taxes for new farmers.

4. Debt Management Policies

Greece's "General Government Debt" (the Maastricht Treaty definition) is projected at $114 billion, or 103.3 percent of GDP (market prices) in 2000. Foreign exchange reserves stood at $15.7 billion, or about 6 months of imports at the end of June 2000.

Servicing of external debt (general government) in 1999 (interest and amortization) equaled 73 percent of exports and 5 percent of GDP. About 65 percent of the external debt is denominated in currencies other than the dollar. Foreign debt does not affect Greece's ability to import U.S. goods and services.

Greece has regularly serviced its debts and has generally good relations with commercial banks and international financial institutions. Greece is not a recipient of World Bank loans or International Monetary Fund programs. In 1985, and again in 1991, Greece received a balance of payments loan from the EU.

5. Significant Barriers to U.S. Exports

Greece, which is a WTO member, has both EU-mandated and Greek government-initiated trade barriers.

Law: Greece maintains nationality-based restrictions on a number of professional and business services, including legal advice. These restrictions have been lifted in the recent years for EU citizens. As a result, U.S. companies often employ EU citizens.

Accounting/Auditing: The transitional period for de-monopolization of the Greek audit industry officially ended on July 1, 1997. Numerous attempts to reserve a portion of the market for the former state audit monopoly during the transition period (1994–97) were blocked by the European Commission and peer review in the OECD., In November 1997, however, the Greek government issued a presidential decree that reduced the competitiveness of the multinational auditing firms. The decree established minimum fees for audits, and imposed restrictions on utilization of different types of personnel in audits. It also prohibited audit firms from doing multiple tasks for a client, thus raising the cost of audit work. The government has defended these regulations as necessary to ensure the quality and objectivity of audits. In practical effect, the decree constitutes a step back from deregulation of the industry.

Aviation: Under the "Open Skies" aviation agreements that the U.S. has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Greece is one of several member states without an Open Skies agreement, and where the U.S.-Greece bilateral aviation agreement still contains some limitations.

Motion Pictures: Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. Enforcement of Greek laws protecting audio-visual intellectual property rights for film, software, music, and books is problematic, but has improved in the last few years. .

Agricultural Products: Greek testing methods for Karnal bunt disease in U.S. wheat have served as a de facto ban on imports and transshipment of wheat for the last three years due to a high incidence of false positive results. The Ministry of Agriculture has recently agreed to procedures that will allow a resumption of transshipments through Greek ports to neighboring countries.

Recently, Greece has not been responsive to applications for introduction of bioengineered (genetically modified) seeds for field tests despite support for such tests by Greek farmers.

Investment Barriers: Greek authorities take into serious consideration local content and export performance when evaluating applications for tax and investment incentives. However, they are not mandatory prerequisites for approving investments.

Greece, which currently restricts foreign and domestic private investment in public utilities (with the exception of cellular telephony and energy from renewable sources, e.g. wind and solar), has deregulation plans for telecommunications and energy. Greece has been granted a derogation until January 1, 2001 to open its voice telephony and the respective networks to other EU competitors. In the energy field, the Greek energy market will be gradually deregulated, starting in February 2001.

U.S. and other non-EU investors receive less advantageous treatment than domestic or other EU investors in the banking, mining, maritime, and air transport sectors, and in broadcasting (these sectors were opened to EU citizens due to EU single market rules). There are also restrictions for non-EU investors on land purchases in border regions and certain islands (on national security grounds).

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers. Officially, Greece also adheres to EU procurement policy, and Greece has adhered to the GATT Government Procurement Code since 1992. Nevertheless, many of the following problems still exist: occasional sole-sourcing (explained as extensions of previous contracts); loosely written specifications which are subject to varying interpretations; and allegiance of tender evaluators to technologies offered by longtime, traditional suppliers. Firms from other EU member states have had a better track record than U.S. firms in winning Greek government tenders. It has been noted that U.S. companies submitting joint proposals with European companies are more likely to succeed in winning a contract. The real impact of Greece's "buy national" policy is felt in the government's offset policy (mostly for purchases of defense items) where local content, joint ventures, and other technology transfers are required.

In December 1996 the Greek Parliament passed legislation (Law 2446, article 16) which allows public utilities in the energy, water, transport, and telecommunications sectors to sign "term agreements" with local industry for procurement. "Term agreements" are contracts in which Greek suppliers are given significant preference. The official explanation for these agreements is the need to support the national manufacturing base. This was made possible as a result of Greece's receipt of an extension until January 1, 1998 to implement the EU's Utilities Directive 93/38. Before expiration of the extension, in November-December 1997, numerous contracts potentially worth of billions of dollars were signed by Greek public utilities with Greek suppliers. Some of these term agreements are for three to five years, thus effectively excluding foreign suppliers from vital sectors of government procurement for several years.

6. Export Subsidies Policies

The government does not use national subsidies to support exports. However, some agricultural products (most notably cotton, olive oil, tobacco, cereals, canned peaches, and certain other fruits and vegetables) receive production subsidies from the EU which enhance their export competitiveness.

7. Protection of U.S. Intellectual Property

Greek laws extend protection of intellectual property rights to both foreign and Greek nationals. Greece is a party to the Paris Convention for the Protection of Industrial Property, the European Patent Organization, the World Intellectual Property Organization, the Washington Patent Cooperation Treaty, and the Bern Copyright Convention. As a member of the EU, Greece has harmonized its legislation with EU rules and regulations. The WTO TRIPS agreement was incorporated into Greek legislation as of February 28, 1995 (Law 2290/95).

Despite Greece's legal framework for (Law 2121 of 1993 on copyrights and Law 2328 of 1995 on media) and voiced commitment to copyright protection, Greece has been on the Special 301 "Priority Watch List" since 1994. The U.S. government launched a WTO TRIPS non-enforcement challenge and consultations under WTO auspices were started in June 1998. The United States, Greece and the European Union have observed that estimated levels of television piracy in Greece have fallen significantly since 1996. According to statistics from the company for protection of audio-visual works, losses from audio-visual piracy have fallen from 60 million U.S. Dollars in 1996 to 5 million U.S. Dollars in 1999. Since 1998 several criminal convictions for television piracy have been made in Greece. In its most recent report on

Greece the International Intellectual Property Alliance points out that piracy has reached an all-time low level. The WTO case is still open as Greece and the United States have not yet reached agreement on the text of a document that would delineate obligations and commitments to prevent the reoccurrence of audio-visual piracy.

Another significant intellectual property protection problem in Greece is lack of effective protection of copyrighted software. The piracy rate for entertainment software is very high in Greece. Pirated copies of console games enter Greece from Eastern and Central Europe and are produced locally. Pirated CD-based games are also imported and represent 90 percent of the illegal market with the rest locally produced on CD copiers. The Business Software Alliance reports the problems of counterfeit products loaded on hard disks and sales of counterfeit products throughout Greece. Like the other copyright industries, the computer software industry reports that it experiences long delays and non-deterrent fines, which kept its piracy rate in 1999 at 73 percent of total sales, the highest in the European Union.

Although Greek trademark legislation is fully harmonized with that of the EU, claims by U.S. companies of counterfeiting appear to be on the increase. U.S. companies report that counterfeit apparel is routinely brought into Greek ports from other non-EU countries.

Intellectual property appears to be adequately protected in the field of patents. Patents are available for all areas of technology. Compulsory licensing is not used. Law protects patents and trade secrets for a period of twenty years. There is a potential problem concerning the protection of test data relating to non-patented products. Violations of trade secrets and semiconductor chip layout design are not problems in Greece.

8. Worker Rights

The Greek economy is characterized by significant labor-market rigidities. Greek labor law prohibits laying off more than two percent per month of total personnel employed by a firm. This restricts the flexibility of firms and the mobility of Greek labor and contributes to unemployment. A law, which came into force in November 1999, obliges public and private firms employing more than 50 persons to hire up to 8 percent of their staff from among the disabled, veterans descendants and families with more than four children.

a. *The Right of Association:* Approximately 30 percent of Greek workers are organized in unions, most of which tend to be highly politicized. While unions show support for certain political parties, particularly on issues of direct concern to them, they are not controlled by political parties or the government in their day-to-day operations. The courts have the power to ban strikes that they find illegal and abusive.

Employers are not permitted to lock out workers, or to replace striking workers (public sector employees under civil mobilization may be replaced on a temporary basis).

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was guaranteed in legislation passed in 1955 and amended in February 1990 to provide for mediation and reconciliation services prior to compulsory arbitration. Antiunion discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the Labor Inspectorate or to the courts. However, litigation is lengthy and expensive, and penalties are seldom severe. There are no restrictions on collective bargaining for private workers. Social security benefits are legislated by Parliament and are not won through bargaining. Civil servants negotiate their demands with the Ministry for Public Administration.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is strictly prohibited by the Greek Constitution and is not practiced. However, the government may declare "civil mobilization" of workers in case of danger to national security or to social and economic life of the country.

d. *Minimum Age of Employment of Children:* The minimum age for work in industry is 15, with higher limits for certain activities.

e. *Acceptable Conditions of Work:* Minimum standards of occupational health and safety are provided for by legislation, which the General Confederation of Greek Workers (GSEE) characterizes as satisfactory. In 1998 GSEE complaints regarding inadequate enforcement of legislation were met when the Ministry of Labor established a new central authority, the Labor Inspectors Agency. The agency is accountable to the Minister of Labor and has extended powers which include the power to close a factory that does not comply with minimum standards of health and safety.

Legislation providing for the legalization of illegal immigrants came into force in January 1998. About 350,000 illegal immigrants were registered and 159,000 received "green cards" which allow them to live and work in the country for one to three years. Those issued green cards have the same labor and social security rights as Greek workers. Non-registered immigrants are liable to summary deportation if arrested.

f. *Rights in Sectors with U.S. Investment:* Although labor/management relations and overall working conditions within foreign business enterprises may be among the most progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		66
Food and Kindred Products	–32	
Chemicals and Allied Products	47	
Primary and Fabricated Metals	1	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	11	
Transportation Equipment	0	
Other Manufacturing	39	
Wholesale Trade		85
Banking		138
Finance/Insurance/Real Estate		146
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		602

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

HUNGARY

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP	47.03	48.45	47.39 [2]
Real GDP Growth (pct)	4.9	4.5	5.6
GDP by Sector: [3]			
Agriculture	2.29	2.06	2.00
Manufacturing	11.68	11.78	12.52
Construction	1.89	1.93	1.86
Services	25.51	26.34	25.07
Government	N/A	N/A	N/A
Per Capita GDP (US$)	4,651	4,808	4539 [2]
Labor Force (000s)	6,368	6,200	6,402
Unemployment Rate (pct)	9.1	9.6	6.5 [3]
Money and Prices (annual percentage growth):			
Money Supply Growth	18.1	18.84	17 [4]
Average Consumer Price Inflation	14.3	10.0	9.8
Official Exchange Rate (HUF/$ annual average)	214.45	237.29	280
Balance of Payments and Trade:			
Total Exports FOB	23	25	26.6
Exports to United States (US$ millions)	1,567	1,893	2,020 [5]
Total Imports CIF	25.7	28	30.4
Imports from United States (US$ millions)	482	504	452 [5]
Trade Balance	–2.7	–3	–3.8
Balance with United States (US$ millions)	–1,085	–1,389	–1,568 [5]
Current Account Deficit/GDP (pct)	4.8	4.3	3.4

Key Economic Indicators [1]—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Net External Public Debt	4.4	2.9	2.6 [6]
Debt Service Payments/GDP (pct)	10.3	9	8.5
Fiscal Deficit/GDP (pct)	4.6	3.9	3.4
Gold and Foreign Exchange Reserves	9.3	10.9	10.6 [7]
Aid from United States (US$ millions)	9.9	4.0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] Source: Central Statistical Office and National Bank data available through October 2000, except where otherwise noted.
[2] Apparent inconsistency with the growth figures is due to the considerable strengthening of the dollar against the Hungarian forint.
[3] The Central Statistical Office changed the method of calculation of the unemployment rate as of 2000. The new figure is calculated according to the ILO recommendation.
[4] August-on-August M1 growth in 2000 (no M2 data available since 1998).
[5] Source: U.S. Department of Commerce; 2000 projected from January-October data. Note that U.S.-source and Hungarian-source bilateral trade figures differ markedly, due largely to country-of-origin distinctions in exports whose final assembly occurs in Hungary.
[6] July 2000.
[7] Sept 2000.

1. General Policy Framework

Hungary has been transformed into a middle-income country with a market economy and a well elaborated but still developing Western-oriented legal and regulatory framework. The first post-communist government (1990–94) began significant economic reform, but was unable to privatize many state enterprises and implement systemic fiscal reforms, which led to large imbalances in Hungary's fiscal and external accounts. A successor government (1994–98) achieved economic stabilization through an IMF-coordinated austerity program adopted in March 1995, and accelerated privatization and economic reform. In 2000 Hungary continued to post solid increases in industrial output, exports, and overall output. Continued economic restructuring under the current government (elected in May 1998) is expected to allow for sustainable growth in the medium term. Regional disparities exist in Hungary, though they will likely narrow in the future.

A revised privatization program enacted in 1995 gave new momentum to sales of government enterprises and assets, largely to Western companies. Privatization contributed to a rapid transformation of the energy, telecommunication, and banking sectors. Currently, over 80 percent of the country's GDP is derived from the private sector, and Hungary has lowered government expenditures as a percentage of GDP. Other significant reforms include means testing of social-welfare payments (partially reversed by the current government) and partial privatization of the pension system (implemented in January 1998). The unfinished reform agenda includes rationalizing health care and local government financing.

Privatization revenues have reduced Hungary's foreign debt burden substantially. The government has an unblemished debt payments record and its foreign-currency obligations have been rated investment grade by all major rating agencies since late 1996. Foreign currency reserves stood at $10.56 billion through September 2000, enough for more than four months of imports.

The government has pledged to continue reducing fiscal deficits and inflationary wage increases. The consolidated budget deficit in 2000 will equal about 3.4 percent of GDP, down from 3.9 percent in 1999. Hungary finances its state deficit primarily through foreign and domestic bond issues. The market expects a current account deficit of under $1.7 billion in 2000, less than the $2 billion in 1999. Foreign direct investment has slightly exceeded the current deficit through the end of September 2000, in contrast to only 82 percent by the end of 1999. Following a cumulative decline of 17 percent from 1995 to 1996, net real wages are expected to increase 1.5 percent in 2000, after an estimated 2.5 percent increase in 1999.

Hungary is a leader in attracting foreign direct investment, with an estimated $23 billion in cumulative inflows since 1989. The United States is a leading investor in Hungary with over $8 billion in cumulative FDI since 1989. Tax incentives and related credits are available for foreign investments, especially in underdeveloped regions. Hungarian law currently permits the establishment of companies in customs-free zones, which are also exempt from indirect taxation tied to the turnover of goods. These zones, the engines of Hungarian industry and foreign trade, will face significant changes after Hungary's accession to the EU, but until then there are no plans to reduce the preferences guaranteed to them.

A signatory to the Uruguay Round Agreement and a founding member of the World Trade Organization, Hungary joined the Organization for Economic Cooperation and Development (OECD) in May 1996 and, as a part of that process, is further liberalizing capital account transactions. Hungary has harmonized many laws and regulations with European Union standards and has oriented economic policy towards the earliest possible accession date of January 1, 2003.

2. Exchange Rate Policy

The revised Foreign Exchange Law, effective January 1, 1996, made the Hungarian forint legally convertible for current account transactions. Foreigners and Hungarians can maintain both hard currency and forint accounts. The forint exchange rate is managed within a ±2.25 percent band ("crawling peg") pegged 100 percent to the euro. In October 2000 the rate of devaluation was 0.3 percent a month. A 0.1 percent cut in this devaluation rate is expected in the first quarter of 2001. Improved macroeconomic performance has helped slow average annual inflation from 28.3 percent in 1995 to a projected 9.8 percent for 2000.

The Hungarian National Bank's principal policy target is a sustainable decline in inflation within the constraints of the foreign exchange regime. Commercial banks can conclude foreign exchange swap transactions with the MNB.

3. Structural Policies

The market freely sets prices for most products and services. User prices for pharmaceuticals, public transport, and utilities are set in some cases by the state. The government offers a wholesale floor price for many agricultural products. Public opposition and regulatory intervention have prevented utility prices (e.g., natural gas for heating and cooking) from reaching market levels, causing energy companies to receive less than the cost-plus-eight percent return stipulated in privatization contracts.

Starting in 1997, successive governments have reduced income tax rates and employer social contributions in an effort to cut inflation, spur job growth, and shrink the gray economy. Corporate tax remains low at 18 percent. A ten-year corporate tax holiday applies to investments of at least $33 million, as of October 2000, or $10 million in less developed regions, and a five-year, 50 percent tax holiday applies to investments of at least $3.3 million. Other incentive programs exist, including some offered by counties and municipalities. Consult the Country Commercial Guide for additional information.

Major structural budget reform has been implemented and further legislation is expected in this area. In January 1998 a new "three pillar" pension system was introduced in which private funds initially augment and gradually supplant more of the current state-funded, pay-as-you-go public system. The next areas of government finance reform are health care and local government financing. Health care costs are emerging as a drain on the budget and a source of fiscal indiscipline. The government continues to control pharmaceutical prices in order to limit health spending. Wholesale reforms are unlikely until after the 2002 election, which could also induce a bout of spending.

4. Debt Management

Hungary is a moderately indebted country with gross foreign debt expected to be $30.4 billion at the end of 2000. Net public domestic debt was $20.1 billion at the end of July 2000. Hungarian governments have consistently met external debt service payments. Moody's has upgraded the foreign currency ceilings for bonds and bank deposits in Hungary from Baa1 to A3. A standby credit arrangement with the IMF ended in February 1998 by mutual agreement. Hungary is expected to have reserves of $10.4 billion at the end of 2000.

5. Significant Barriers to U.S. Exports

On July 1, 1997 Hungary joined the Pan European Free Trade Zone and Cumulation System. Combined with tariff reductions stipulated in Hungary's 1993 EU Association Agreement, imports from EU members and associated states face declining tariffs (dropping to zero on January 1, 2001). Goods from the United States are subject to Hungary's MFN tariff rates until Hungary adopts the EU common external tariff. This increasing differential between tariffs on EU goods and on U.S. goods has disadvantaged many U.S. exporters. Duty must be paid on imports from outside the Pan-European Zone, which may then be exported duty-free to other countries within the Pan-European Zone. Duty paid on inputs processed and then exported within the zone is no longer refundable, a problem that the Hungarian government has addressed on a case-by-case basis for U.S. firms exporting from Hungary to European markets.

Although 95 percent of imports (in value terms) no longer require prior government approval, quota constraints apply to some 20 product groups, including cars, textiles, and precious metals (the quotas, however, are not actually reached in most of these areas). Under WTO rules, Hungary will phase out quotas on textiles and apparel by 2004. As a result of the WTO Agricultural Agreement, quotas on agricultural products and processed foods have been progressively replaced by tariff-rate quotas. In 1997 Hungary eliminated an import surcharge imposed as part of the March 1995 austerity package.

Importers must file a customs document (VAM 91 form) with a product declaration and code number, obtained from the Central Statistical Office. Upon importation, the importer must present Commercial Quality Control Institute (KERMI) certified documentation to clear customs. This permit may be replaced by other national certification and testing agency documents, such as those of the National Institute for Drugs. Hungary participates in the International Organization for Standardization (ISC) and the International Electro-Technical Commission (IEC).

Foreign investment is allowed in every sector open to private investment. Foreign ownership is restricted to varying degrees in civil aviation, defense, and broadcasting. Only Hungarian citizens may own farmland, but this restriction is slated for elimination upon EU accession.

Under the November 1995 Law on Government Procurement, public tenders must be invited for purchases of goods with a value over $33,000. As of October 2000, the same is true of construction projects worth $66,000 or designs and services worth over $16,500. Bids that contain more than 50 percent Hungarian content receive a 10 percent price preference. This process does not apply to military purchases affecting national security, or to gas, oil, and electricity contracts. Hungary is not a party to the WTO Government Procurement Code, and some U.S. firms have taken legal action against non-transparency and procedural irregularities involving government tenders.

6. Export Subsidies Policies

The Hungarian Export-Import Bank and Export Credit Guarantee Agency, both founded in 1994, provide credit and/or credit insurance for less than ten percent of total exports. There are no direct export subsidies on industrial products, but some agricultural products receive export subsidies from the state. After 1993, agricultural export subsidies exceeded Hungary's Uruguay Round commitments in the range and value of products subsidized; in October 1997 the WTO approved an agreement in which Hungary committed to phase out excess subsidies and not to expand exports of subsidized products to new markets. Hungary is abiding by the terms of that agreement in phasing out subsidies, despite continued political pressure from domestic constituencies.

7. Protection of U.S. Intellectual Property

Intellectual Property Rights laws in Hungary are generally good, but insufficient resources, court delays, and light penalties hamper enforcement. In 1993 the United States and Hungary signed a comprehensive Bilateral Intellectual Property Rights Treaty. Hungary also belongs to the World Intellectual Property Organization; Paris Convention on Industrial Property; Hague Agreement on Industrial Designs; Nice Agreement on Classification and Registration of Trademarks; Madrid Agreement Concerning Registration and Classification of Trademarks; Patent Cooperation Treaty; and Bern and Universal Copyright Conventions. The 1995 Media Law makes broadcast transmission licenses conditional upon respect for international copyrights. In 1997 legislation strengthened access to legal injunctions in infringement cases. In 1998 Hungary ratified the new WIPO Copyright Treaty and Performances and Phonograms Treaty. In compliance with its TRIPS obligations, Hungary enacted a new copyright law that went into effect on September 1, 1999. This replaced the 1969 Copyright Law and introduced modern copyright legislation. There is some question of whether sufficient legal authority exists for civil ex parte search procedures. Hungary is currently on the Special 301 Watch List, mainly due to confidential data protection and enforcement issues.

Patent protection exists for both products and processes, but problems exist with the protection of data submitted to regulatory authorities in the process of applying for and registering pharmaceutical products for marketing authority. The Hungarian government claims that its unfair competition legislation is adequate to prevent the use of data submitted by multinational research pharmaceutical firms from being used by domestic, generic drug manufacturers, but examples exist where generics have actually come to market prior to or very soon after the original product. Hungary is working on a data exclusivity protection provision in its revised Medicine Act, but it may not give the same level of protection available in the

United States and the European Union. Hungary has requested derogations of data exclusivity protection and of supplemental protection certificates for pharmaceutical products in its EU accession negotiations. Hungary has been invited to join the European Patents Agreement beginning July 1, 2002.

Trademark infringement is a problem in Hungary, with various counterfeit goods (e.g. perfumes, clothing) available on the local market. These goods appear to be entering Hungary from other countries rather than being manufactured here. The number of civil actions brought before the Budapest Metropolitan Court (the exclusive court of competence for these cases) is up dramatically since 1997, but the enforcement of sanctions against the sale of pirated goods is still lacking. There are no available estimates of the losses incurred by the various industries due to either black or gray market activities. This area of IPR infringement is receiving increased attention from Hungarian and international law enforcement, however, due to the involvement of organized crime and connections with money laundering schemes.

Copyright protection is weak in Hungary, with pirated CDs, tapes, videos and software available on the local market. Many of these products are produced in Hungary. Video and cable television piracy is widespread, and local television and cable companies regularly transmit programs without authorization. Local groups such as the Business Software Alliance and the Hungarian Anti-Piracy Association are funded in part by manufacturers associations (e.g., Motion Picture Association) and are working to reduce the level of piracy, in cooperation with Hungarian law enforcement. There are about 1,000 software copyright court cases tried each year. Government cooperation has been good, but not enough resources are available to effectively stop copyright infringement. The International Intellectual Property Alliance estimates that total losses due to piracy in 1999 were $30 million, down significantly from an estimated $74 million in 1998. Some estimates suggest, however, that over half of the business software in use nationally is illegal and could represent annual losses of over $50 million.

In addition to the direct losses noted above, the lack of data exclusivity protection in Hungary might deter U.S and multinational pharmaceutical companies from bringing new products to the Hungarian market. The Pharmaceutical Research and Manufacturers Association is compiling estimates of the losses incurred by the pharmaceutical industry due to this lack of IPR protection.

8. Worker Rights

a. *The Right of Association:* The 1992 Labor Code, as amended in 1999, recognizes the right of unions to organize and bargain collectively and permits trade union pluralism. Workers have the right to associate freely, choose representatives, publish journals, and openly promote members' interests and views. With the exception of military personnel and the police, they also have the right to strike.

b. *The Right to Organize and Bargain Collectively:* Labor laws permit collective bargaining at the enterprise and industry levels. The Economic Council (formerly the Interest Reconciliation Council), a forum of representatives from employers, employees, and the government, sets the minimum and recommended wage levels in the public sector. Trade unions and management negotiate private wage levels. Special labor courts enforce labor laws. Affected parties may appeal labor court decisions in civil court. The 1992 legislation prohibits employers from discriminating against unions and their organizers.

c. *Prohibition of Forced or Compulsory Labor:* The government enforces the legal prohibition of compulsory labor.

d. *Minimum Age for Employment of Children:* The Labor Code forbids work by minors under the age of 14, and regulates labor conditions for minors age 14 to 16 (e.g., in apprenticeship programs).

e. *Acceptable Conditions of Work:* The Labor Code specifies conditions of employment, including: working time, termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlement, and conflict resolution procedures.

f. *Rights in Sectors with U.S. Investment:* Conditions in specific goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–22
Total Manufacturing		610
Food and Kindred Products	–56	
Chemicals and Allied Products	144	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	363	
Electric and Electronic Equipment	–19	
Transportation Equipment	(1)	
Other Manufacturing	34	
Wholesale Trade		139
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		–37
Other Industries		640
TOTAL ALL INDUSTRIES		1,425

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

IRELAND

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 Est.
Income, Production and Employment:			
Nominal GDP[1]	68,974	93,219	98,497
Real GDP Growth (pct)[2]	10.2	9.8	8.75
GDP by Sector:[3]			
Agriculture	4,390	3,967	N/A
Industry	28,316	29,638	N/A
Services	34,998	36,369	N/A
Public Admin. and Defense	11,600	12,354	N/A
Per Capita GDP (US$)	20,517	24,890	25,717
Labor Force (000s)	1,646	1,711	1,732
Unemployment Rate (pct)[4]	7.6	5.6	4.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M3E)[5]	17.3	N/A	N/A
Consumer Price Inflation	2.4	1.6	5.5
Exchange Rate (IP/US$)	0.70	0.74	
Balance of Payments and Trade:			
Total Exports FOB[6]	64,556	70,917	73,125
Exports to United States	8,720	10,894	7,000*
Total Imports CIF[6]	44,728	46,777	46,633
Imports from United States	7,165	7,733	4,000*
Trade Balance	19,828	24,139	26,492
Balance with United States	1,555	3,161	3,000
General Government Debt[7]	47,612	46,845	40,483
Exchequer Surplus/GDP (pct)[8]	1.2	1.7	3.5
Current Account Balance/GDP (pct)	2.0	0.65	0.5
Debt Service Payments/GDP (pct)	4.0	3.6	N/A
Gold and Foreign Exchange Reserves	9,221	5,693	N/A
Aid from United States[9]	5	5	5
Aid from All Other Sources[10]	1,300	995	1,322

* Total for Jan–June 2000
[1] GDP at current market prices.

[2] GDP at constant market prices (local currency).
[3] GDP at constant factor cost.
[4] ILO definition.
[5] Broad money (from 1998 CBI discontinued publishing M3E).
[6] Merchandise trade; * indicates first six months of 2000.
[7] Total amount owed by Irish government at year ending December 31, 1998 and 1999 at the average yearly exchange rate. The figure for year 2000 represents the value of government debt on July 1, 2000.
[8] General Government.
[9] Each year the United States contributes 19.6 million dollars to the International Fund To Ireland (IFI). A quarter of this amount is estimated to be spent in the Republic of Ireland's border counties.
[10] These figures include transfers from the EU's European Social Fund, Regional Development Fund, Cohesion Fund and Special Programme for Northern Ireland and the Border Counties, as well as the contributions from countries other than the United States to the IFI.

Sources: Central Bank of Ireland (CBI); Central Statistics Office (CSO); National Treasury Management Agency (NTMA).

1.General Policy Framework

In 2000 the Irish economy continues to grow strongly, having enjoyed a vigorous average annual growth rate of approximately eight percent in real terms over the past six years.

Most commentators trace the origins of Ireland's "Celtic Tiger" economy to the economic policy mix put in place in the late 1980s and maintained by successive governments since then. This included: (1) tight control of public spending in order to reduce government borrowing and taxation on corporate and personal incomes; (2) a de facto incomes policy, operated through national economic programs agreed by the government, employers and trade unions, in order to limit wage growth and boost employment creation; (3) the ten percent corporate tax rate for international manufacturing and service companies, together with generous grants to export-oriented multinational firms who locate in Ireland; and (4) high levels of investment in education, training and physical infrastructure, much of it funded by generous transfers from the European Union. In contrast to the economic policies of the 1970s and early 1980s, the policy mix in the last decade has centered on supply-side reforms to the economy, aimed at improving the attractiveness of Ireland as a location for overseas investment and increasing competitiveness of Irish-made goods in the international marketplace.

The results have been impressive. Real Irish GDP growth has averaged almost eight percent since 1994, and real Irish incomes have increased by almost two thirds since the beginning of the decade. Fast growth has been accompanied by increasing openness to the world economy. In 1999 total imports and exports were equivalent to over 125 percent of GDP, compared with under 100 percent a decade earlier. Thanks in large part to the strong performance of Irish-based U.S. and other multinational firms, Ireland now enjoys a huge surplus in merchandise trade (equivalent to 26 percent in GDP in 1999), which more than offsets trade deficits in services and factor incomes. Despite fast growth, inflation remained low for much of this period, averaging just 2 percent in 1994–97. Since late 1999, however, inflation has accelerated from annual rates of 2 percent to a rate of 6.2 percent in August 2000. The weak value of the euro vis-a-vis the dollar, high oil prices, increasing wage costs, rising disposable incomes, relatively low interest rates, lower taxes, fast employment and strong growth in property prices have together resulted in these recent levels of high inflation.

Fiscal Policy: After the runaway public deficits of the mid-1980s, the Irish government has since maintained a more prudent fiscal position. Fast economic growth, combined with limited growth in public spending, has kept Ireland's general government deficit below 2.5 percent of GDP since 1989. This was consistent with the provisions of the 1992 Maastricht Treaty, which required EU nations to keep their fiscal deficits below three percent of GDP, and allowed Ireland to be confirmed in May 1998, along with ten other EU nations, as a starting participant in the final stage of Economic and Monetary Union (EMU), which began in 1999.

The small fiscal deficits, together with fast growth in national income, have reduced Ireland's debt/GDP ratio from over 125 percent in 1987 to 50.1 percent at the end of 1999. The national treasury management agency predicts a further decline in the ratio, of the order of seven percentage points, in 2000. In nominal terms, national debt at the end of 1999 amounted to just over 43 billion dollars. Of this, six percent was denominated in a non-euro currency. Most new government borrowing, used to refinance maturing debt, is made through the sale of Irish pound-denominated securities, although significant proportions of these are purchased by non-residents.

Personal income and consumption taxes form the bulk of total government tax revenue. There are two personal tax rates: the standard 22 percent rate and the higher 44 per cent rate. The higher rate kicks in at slightly below the median industrial wage (about $23,000). In a bid to secure continued trade union commitment to modest nominal wage increases and to make entry level jobs more attractive to the long-term unemployed and non traditional participants in the Irish workforce (older citizens and mothers), the current government is committed to lowering personal tax rates and expanding income tax credits significantly over the next two years, although concerns about recent spikes in inflation have caused some discussion within the government coalition about delaying these reductions in tax rates. The rate of Value Added Tax (VAT), a consumption tax, at 21 percent, is high by European standards. VAT rates in EU member states, including Ireland, can be raised, but not lowered, without EU approval.

The standard rate of corporate tax is 24 percent. Corporate taxation, however, makes a relatively modest contribution to public finances, and few U.S.-owned businesses pay this rate because of the special ten percent rate available to companies producing internationally-traded manufactured goods and services, and to companies operating in certain industrial zones. Most Irish-based, U.S.-owned businesses pay corporate tax at the special ten percent rate. In response to European Commission criticism that the special rate of corporate tax constituted a subsidy to industry, the government is committed to harmonizing the special and standard rates of Irish taxes to one single rate of 12.5 percent by 2003, thereby eliminating the differential treatment. In the interim period corporate tax rates will fall to 20 percent in 2001, 16 percent in 2002 and finally 12.5 percent in 2003.

Monetary Policy: Beginning in 1999, monetary policy in Ireland, as in the other ten EU states adopting the single European currency, is formulated by the European Central Bank (ECB) in Frankfurt. The Irish Central Bank will continue to exist as a constituent member of the European System Of Central Banks (ESCB) and will be responsible for implementing a common European monetary policy in Ireland (i.e. providing and withdrawing liquidity from the Irish inter-bank market at an interest rate set by the ECB.) The governor of the Irish Central Bank (currently Maurice O'Connell) will, ex officio, have one vote in the ECB's 17-member monetary policy committee, although each national central bank governor in the committee will be expected to disregard the individual performances of their own national economies in formulating a common monetary policy for the euro area. The 1992 Maastricht Treaty identifies price stability as the primary objective of monetary policy under EMU. Price stability is defined by the ECB as a year-on-year increase in the harmonized index of consumer prices for the euro area of below two percent. In making its assessment of future consumer price movements, the ECB will take account of trends in money supply, private sector credit, and a range of intermediate price indicators. The primary instrument of monetary policy is expected to be open market operations by the ECB and the national central banks (purchases and repurchases of government securities at a discount rate announced weekly.)

2. Exchange Rate Policies

On January 1, 1999 the Irish pound ceased to exist as Ireland's national currency, and the new single European currency, the euro, became the official unit of exchange. Although Irish currency continues to circulate until the introduction of euro notes and coins in January 2002, it acts as a "denomination" of the euro, with an irrevocably fixed exchange rate to the euro and the ten other participating currencies. The conversion rate between the Irish pound and the euro was fixed at the rate of one euro to Irish pounds 0.787564.

The euro is freely convertible for both capital and current account transactions. The Maastricht Treaty makes exchange rate policy for the euro the responsibility of EU finance ministers, subject to the proviso that exchange rate policy does not threaten price stability in the euro area. Ireland is unique among all other euro members in that its largest trading partner, the UK, remains, for the foreseeable future, outside the single euro currency. Ireland's loss of control over its exchange rate with UK sterling poses risks to Irish industry dependent on UK suppliers. The weak value of the euro vis-a-vis sterling places pressure on Irish importers to increase the flexibility of their cost base. The Irish pound averaged 1.35 against the dollar in 1999 (IP 1.0 = $1.35), and is expected to average in the region of $1.21 (IP 1.0 = $1.21) in 2000.

3. Structural Policies

Economic policy in Ireland is geared primarily towards maintaining low unemployment and raising average living standards, although income redistribution, social cohesion and regional development are also important goals. After the failure of expansionary fiscal policies in the late 1970s to stimulate growth, government policy makers focused on supply-side measures aimed at creating an environment attractive to private enterprise and in particular to inward direct investment by export-oriented multinationals. The most important policies in this regard have been the following:

(A) Tight control over the public finances in order to maintain macroeconomic stability (in 1997 Ireland recorded its first general government surplus in over 50 years);

(B) The development of a social consensus on economic policy through national wage agreements negotiated by the government, employers and trade unions (the latest agreement, the Program for Prosperity and Fairness, took effect at the beginning of April 2000 and trades off continued wage/pay moderation by trade unions in return for substantial cuts in personal taxation);

(C) The promotion of greater competition and liberalization in the economy, and reducing the number of state-owned industries, particularly in the provision of transport, energy and communications services;

(D) The availability of a special ten percent rate of corporate taxation and generous grants to attract foreign investment (which rises to 12.5 percent from 2003 onwards);

(E) A commitment to the Single European Market and to Irish participation in EMU;

(F) High levels of investment in education and training (of all OECD countries, only the Japanese workforce has a higher proportion of trained engineers and scientists); and

(G) Improvements in physical infrastructure (in all areas from roads to environmental systems to housing stock, details of which are contained in the National Development Plan [2000–2006]; structural investment between 2000–2006 is expected to total around 48 billion dollars. Much of this will be funded by Irish taxpayers as opposed to previous national development plans, which were funded by generous EU transfers).

The success of the above policies in attracting foreign investors and raising incomes has had two distinct effects on U.S. exports to Ireland. First, over 550 U.S. firms are now located in Ireland. These companies import a large proportion of their capital equipment and operating inputs from parent companies and other suppliers in the United States. Accordingly, the largest component of U.S. exports to Ireland is office machinery and equipment, followed by electrical machinery and organic chemicals. Furthermore, as U.S. firms in Ireland become increasingly integrated with the local economy, sales by U.S. parent companies to local Irish enterprises are believed to have increased dramatically in recent years, although the data on this remains sketchy. Second, the fast growth in both personal incomes and corporate profitability in Ireland has led to a strong increase in demand for U.S. capital and consumer goods from Irish companies and workers. The combination of the above two effects has seen U.S. exports to Ireland increase by a factor of five between 1983 to 1999. As a result, the United States has become Ireland's second largest trading partner, behind only the UK.

4. Debt Management Policies

The National Treasury Management Agency (NTMA) is the state agency responsible for the management of the government debt. Ireland's general government debt at end 1999 amounted to just over $46.7 billion (using average 1999 exchange rates), equivalent to just over 50 percent of GDP. The bulk of the national debt was accumulated in the 1970s and early 1980s, partly as a result of high oil prices, but more generally as a result of expanding social welfare programs and public-sector employment. Increased fiscal rectitude since the late 1980s means, however, that Ireland was the only EU member state to have a lower debt/GDP ratio in 1997 than it had in 1991. When exchange rate fluctuations are taken into account the market value of the general government debt actually increased by $1.9 billion.

While absolute level of debt has remained within a relatively narrow range over recent years, the ratio of debt to GDP has declined sharply because of the very strong growth of the Irish economy. Reported 1999 debt service expenditure was $3,392 million, some $39 million below the budget of $3,431 million.

The burden of debt service costs on the economy and the taxpayer continued to fall in 1999. The ratio of interest payments to tax revenues declined by four percentage points, continuing the downward trend of the past several years. As a result, interest on the debt now absorbs approximately 10 percent of tax revenue compared to almost 30 percent at the beginning of the decade. Debt servicing costs are expected to continue to fall significantly as a proportion of national income and total government expenditure in the coming years, reflecting moderate interest rates, falling nominal debt levels and fast Irish income growth. This should pave the way for further reform of the personal taxation system, thus increasing consumer demand for U.S. exports of goods and services.

5. Aid

In 1999 the United States contributed $19.6 million to the International Fund for Ireland (IFI), of which around $5 million is estimated to have been spent in the border constituencies of the Republic of Ireland, with the balance being spent in the UK province of Northern Ireland.

6. Significant Barriers To U.S. Exports

The United States is Ireland's second largest source of imports, behind only the UK. Total exports from the United States into Ireland in 1999 were valued at $7.7 billion (18 percent of total Irish imports), up from just over $3 billion in 1990. Irish exports to the United States have, however, increased at an even faster rate over the same period. With Irish exports to the United States in 1999 standing at $10.9 billion, the trade balance between the two countries in 1999 favored Ireland by almost $3.2 billion. Ireland has been running a trade surplus with the United States since 1997.

As a member of the EU, Ireland administers tariff and nontariff barriers in accordance with applicable EU policies. There are, however, several significant barriers to trade of importance to potential U.S. exporters, particularly with regard to trade in services. Specifically, Ireland maintains some barriers in the aviation industry: under the "Open Skies" aviation agreements that the U.S. has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Ireland is one of several member states without an Open Skies agreement, and where the U.S.-Ireland bilateral aviation agreement still contains some limitations.

Ireland's markets for electricity and gas are presently being liberalized, in accordance with EU energy directives. Ireland has opened 33 to 40 percent of its electricity market to European competition in accordance with the EU electricity directive. This development has sparked significant interest among electricity suppliers, both domestic and foreign, in the Irish electricity market, although the provision of electricity in Ireland is relatively costly for suppliers, owing to low demographic density in areas outside the major urban centers.

The gas industry is to be similarly deregulated beginning in 2001. The Irish government is in the process of establishing the regulatory and legal environment for a competitive gas market. Several U.S. firms have proposals before the Irish government for gas pipeline construction projects and distribution proposals.

The market for telecommunications services in Ireland was fully liberalized in December 1998, more than one year ahead of the original timetable agreed with the European Commission in 1996. Prior to liberalization, the state-owned telecommunications company, Telecom Eireann, had been the monopoly provider of voice telephony services to the general public, although the market for leased lines and other data transmission services was progressively liberalized earlier in the 1990s. The state-owned telephone company, Telecom Eireann, was publicly floated on the Dublin and New York stock exchanges in May 1999, under its new name "Eircom." Also as part of the privatization, Eircom sold off the state-owned cable network, "Cablelink" to "NTL," an Anglo-U.S. firm, which is presently launching a raft of telecommunications services ranging from an extension of the cable network to the provision of next generation internet facilities.

There are three licensed mobile telephony network providers. These include Eircell, subsidiary of Eircom, Esat-Digiphone and Meteor (U.S. consortium). A competitive market environment is emerging in Ireland in both land based and mobile telecoms networks. The EU's telecom ministers meeting in October 2000 agreed to a series of "local loop unbundling rules" that will pave the way to open access to the last mile of telephone lines by January 1, 2001. It is envisaged that this decision will be approved by the European Parliament and enter into force in January 2001.

Although some liberalization has taken place in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EU. These, together with EU import duties, effectively exclude many meat-based foods, fresh vegetables and other agricultural exports from the United States. Restrictions also apply to certain foods containing genetically modified organisms (GMOs), bananas from outside the Caribbean area, cosmetics containing specified risk materials (SRMs), and some wines, although as with other goods, these policies are determined at EU level.

Ireland has been a member of the World Trade Organization (WTO) since it came into effect on January 1, 1995. The WTO agreement was ratified by the Irish parliament in November 1994. As member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on an MFN, nonpreferential WTO basis.

7. Export Subsidy Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy Port, receive exemptions from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. Furthermore, Ireland applies a special ten percent rate of corporation tax (the standard rate is 24 percent) to companies producing internationally traded manufactures and services and to companies operating out of the SDFPZ and the international financial services center in Dublin. Under pressure from the European Commission, which viewed the tax as a subsidy to industry, the Irish government is now committed to eliminating the special ten percent rate of tax by harmonizing the special and standard rates (currently 24 percent) of tax at 12.5 percent by 2003, thereby abolishing the differential treatment.

In May 1998 the United States instituted WTO dispute settlement consultations against Ireland in relation to Ireland's "Special Trading House" tax regime. Under section 39 of the Irish finance act, 1980, the ten percent rate of corporation tax is available to "special trading houses," which are companies that act as an access mechanism and marketing agent for Irish-manufactured products in foreign markets. Following the U.S. action, the Irish government announced in June 1998 its intention to seek parliamentary approval for the termination of the scheme "at the earliest opportunity." Trading houses already licensed under the scheme will continue to receive the tax break until December 31, 2000, when the scheme is due to expire in any case under existing EU directives.

Other activities that qualify for the special ten percent rate of corporate taxation include design and planning services rendered in Ireland in connection with specified engineering works outside the European Union. This applies mainly to services provided by engineers, architects and quantity surveyors. Profits from the provision of identical services in connection with works inside the EU are taxed at the standard 24 percent rate.

Since January 1992, the government has provided export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. As a participant in the EU's Common Agricultural Policy (CAP), the Irish Department of Agriculture, Food and Forestry administers CAP export refund and other subsidy programs on behalf of the EU Commission.

8. Protection of U.S. Intellectual Property

Ireland is a member of the World Intellectual Property Organization and a party to the International Convention for the Protection of Intellectual Property. In July 2000 Irish President McAleese signed new legislation designed to bring Irish intellectual property rights (IPR) law into compliance with Ireland's obligations under the WTO Trade-Related Intellectual Property Treaty (TRIPS). Following final administrative preparations required under the new law, it will come into force in early fall 2000 (see below) and give Ireland one of the most comprehensive systems of IPR protection in Europe.

The new Irish legislation is a wholesale reform of previous Irish IPR law. Among its many provisions, this new legislation specifically addresses several TRIPS inconsistencies in Irish copyright, patent and trademark law which had been of concern to foreign investors, including the absence of a rental right for sound recordings, the lack of an "anti-bootlegging" provision, and low criminal penalties which failed to deter piracy. The new legislation should, by improving enforcement and penalties on both the civil and criminal sides, help reduce the high levels of software and video piracy in Ireland (industry sources estimate that up to approximately fifty percent of PC software used in Ireland is pirated).

As part of this new comprehensive copyright legislation, changes were also made to revise the non-TRIPS conforming sections of Irish patent law. Specifically, the new IPR legislation addresses two concerns of many foreign investors about the previous legislation:

The compulsory patent licensing provisions of the previous 1992 patent law were inconsistent with the "working" requirement prohibition of TRIPS articles 27.1 and the general compulsory licensing provisions of article 31; and applications processed after December 20, 1991, did not conform to the non-discrimination requirement of trips article 27.1.

Final enactment of the new legislation, and simultaneous repeal of previous IPR laws, will occur by ministerial order in early fall 2000, following completion of necessary preparatory administrative work, such as the regulatory definition of terms used in the new law (e.g., "charitable institutions" and "lending libraries") and the establishment of new dispute settlement bodies created under the new legislation.

In light of Irish government progress in passing new IPR legislation, USTR first suspended WTO dispute settlements proceedings against Ireland and then, in November 2000, removed Ireland from "Watchlist" status on its Special 301 Review of Intellectual Property Protection by U.S. Trading Partners.

Ireland offers exceptional trade and business opportunities in the technological services sector, particularly for e-commerce and other Internet related businesses. The Irish government has put into place, ahead of many of its fellow EU member states, flexible, market driven legal and regulatory regimes on key issues such as electronic signatures, consumer and data protection, encryption policy, and intellectual property protection for Internet based industries. The government, as part of its goal of making Ireland a transatlantic e-commerce hub, has aggressively invested in broad bandwidth throughout the country. Irish officials are also proactively supporting Irish private and public involvement in development of the "next generation Internet." The recently announced "Technology Foresight Fund," an Irish government program to fund basic scientific research projects with potential for commercial development, will focus on computers and Internet related research, as one of its priorities. There are no major trade barriers to exports or investment in e-commerce or Internet relates sectors.

Opportunities in the biotechnology sectors also exist. Irish policies in the planting and consumer sale of genetically modified (GM) crops and food products are still evolving, but an initial government sponsored "consultation paper" on biotechnology development, released in 1999, strongly argued for increased government support for all areas of biotechnology research, development and commercialization. There are some restrictions in importation of GM seeds and foods, in accordance with existing EU directives. Research involving GM crops and products is being conducted in Ireland after approval from the Irish Environmental Ministry.

Ireland is a growing center for biomedical research. The government has identified biomedical research as a priority sector for development. Both Irish and U.S. biomedical firms are active in Ireland. There are no trade barriers to export of biomedical products or foreign direct investment in the biomedical sector.

9. Worker Rights

a. *The Right of Association:* The right to join a union is guaranteed by law, as is the right to refrain from joining. The Industrial Relations Act of 1990 prohibits retribution against strikers and union leaders. About 55 percent of workers in the public sector and 45 percent in the private sector are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors. The Irish Congress Of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 63 member-unions with 738,126 members.

b. *The Right to Organize and Bargain Collectively:* Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits anti-union discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. The current partnership agreement (The Program for Prosperity and Fairness) trades off moderation by trade unions in wage demands in return for cuts in personal taxation by the government. Employer interests in labor matters, and during the negotiations of these national partnership agreements, are represented by the Irish Business and Employers Confederation (IBEC). Foreign owned businesses participate in IBEC at all levels.

The Labor Relations Commission, established by the Industrial Relations Act of 1990, provides advice and conciliation services in industrial disputes. The commission may refer unresolved disputes to the Labor Court. The Labor Court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate labor disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. *Minimum Age of Employment of Children:* New legislation introduced in 1997 prohibits the full-time employment of children under the age of 16, although employers may hire 14 or 15 year olds for light work on school holidays, or on a part-time basis during the school year. The law also limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Irish Department of Enterprise, Trade and Employment.

e. *Acceptable Conditions of Work:* After persistent lobbying by trade unions, the Irish government announced in April 1998 proposals for the introduction of a national hourly minimum wage of IP 4.40 (around 5.30 dollars), which came into effect in April 2000.

The standard workweek is 39 hours. In May 1997 a European Commission directive on working time was transposed into Irish law, through "The Organization of Working Time Act, 1997." The act set a maximum of 48 working hours per week, requires that workers be given breaks after they work certain periods of time, imposes limits to shift working, and mandates four weeks annual holidays for all employees. Worker rights legislation increasingly is being set at a European level, and further directives in this area, including rights for part-time workers and the right of equal treatment, can be expected in coming years.

f. *Rights in Sectors with U.S. Investment:* Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		8,949
Food and Kindred Products	621	
Chemicals and Allied Products	3,172	
Primary and Fabricated Metals	184	
Industrial Machinery and Equipment	158	
Electric and Electronic Equipment	1,570	
Transportation Equipment	38	
Other Manufacturing	3,206	
Wholesale Trade		235
Banking		–7
Finance/Insurance/Real Estate		7,960
Services		1,994
Other Industries		(1)
TOTAL ALL INDUSTRIES		19,823

(1) Suppressed to avoid disclosing data of individual companies.

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

ITALY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Real GDP [2]	1,146.6	1,162.9	1,196.1
Real GDP Growth (pct) [3]	1.5	1.4	2.8
GDP (at current prices) [3]	1,190.5	1,170.6	1,054.7
GDP by Sector:			
Agriculture	30.4	29.6	N/A
Manufacturing	306.4	297.7	N/A
Construction	56.9	54.4	N/A
Services	796.8	791.6	N/A
Per Capita GDP (US$)	20,839	20,584	18,548
Labor Force (millions)	23.2	23.4	23.5
Unemployment Rate (pct)	11.8	11.4	10.5
Money and Prices (annual percentage growth):			
Money Supply (M2) [4]	5.6	5.2	4.1
Consumer Price Inflation	2.0	1.7	2.5
Exchange Rate (Lira/US$ annual average of market rate)	1737	1818	2100

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Balance of Payments and Trade:			
Total Exports FOB[5]	245.4	230.5	115.8
Exports to United States[5]	21.2	21.9	12.0
Total Imports CIF[5]	218.1	216.9	117.1
Imports from United States[5]	10.9	10.6	6.2
Trade Balance[5]	27.3	13.7	–1.3
Balance with United States[5]	10.3	11.2	5.8
External Public Debt	71.7	71.0	N/A
Fiscal Deficit/GDP	2.6	1.9	1.3
Current Account Surplus/GDP (pct)	1.9	0.5	–0.9
Debt Service Payments/GDP (pct)[6]	9.4	6.8	6.1
Gold and Foreign Exchange Reserves	53.6	45.2	N/A

[1] 2000 estimates based on data available through June.
[2] 1995 prices; GDP at factor cost.
[3] Percentage changes calculated in local currency. Exchange rate changes account for discrepancy between rising GDP figures (calculated in local currency) and falling current price GDP (calculated in dollars).
[4] 1999 and 2000 data are the growth rate of M2 in the euro area through December 1999 and June 2000.
[5] Merchandise trade. 2000 data through June.
[6] Represents total debt-servicing costs.

1. General Policy Framework

Italy has the world's sixth largest economy, having grown into an industrial power in the last 50 years. Italy maintains an open economy, and is a member of major multilateral economic organizations such as the Group of Seven (G–7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy is one of the 11 founding members of the European Economic and Monetary Union (EMU). Beginning in January 1999, EMU member countries adopted the euro as their currency and the new European Central Bank as their monetary authority. National currencies are being phased out and only euros will be used beginning in 2002. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a private sector characterized primarily by a large number of small and medium-sized firms and a few multinational companies with well-known names such as Fiat and Pirelli. Economic dynamism is concentrated in northern Italy, resulting in an income divergence between north and south that remains one of Italy's most difficult and enduring economic/social problems.

The Italian government has traditionally played a dominant role in the economy through regulation and through ownership of large industrial and financial companies. Privatizations and regulatory reform since 1994 have reduced that presence somewhat. However, the government retains a potentially blocking "golden share" in all the industrial companies privatized thus far; the government and the Bank of Italy continue to shape merger and acquisition activity involving Italian financial and non-financial firms considered "key" to the economy and/or employment; and business surveys continue to cite a heavy bureaucratic burden as one of the main impediments to investing or doing business in Italy.

For years, government spending has been inflated by generous social welfare programs, inefficiency and projects designed to achieve political objectives. The result has been large public sector deficits financed by debt. Beginning in the early 1990s, Italy started to address a number of macroeconomic problems in order to qualify for first round EMU membership. The public sector deficit fell further from 2.6 percent in 1998 to 1.9 percent of GDP in 1999, and is expected to be 1.3 percent at end-2000, aided by higher than expected tax revenues. The level of public debt, second highest among the EMU countries as a share of GDP, also started to decline but remains over 100 percent of GDP. The Italian government plans to reduce the debt level gradually to the EMU target level of 60 percent of GDP in 2016.

Up to December 31, 1998, price stability was the primary objective of monetary policy; the Bank of Italy carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. Now all these powers have been transferred to the European Central Bank, with the Bank of Italy retaining banking supervision responsibilities. Consumer inflation increased only 1.7 percent in 1999, but is expected to accelerate to 2.5 for 2000, fueled by higher oil prices, a weakening euro and worsening of terms of trade. Producer prices are also expected to accelerate from minus 0.3 percent in 1999 to 5.6 percent in 2000, because of higher prices of petroleum and other raw material and of the strengthening of the dollar versus the euro.

2. Exchange Rate Policy

On January 1, 1999 Italy relinquished control over exchange rate policy to the European Central Bank.

3. Structural Policies

Italy has not implemented any structural policies over the last three years that directly impede U.S. exports. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. The 1993 "Single Banking Law" removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body.

U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create anti-trust concerns.

4. Debt Management Policy

Although the domestic public debt level is high, Italy has not had problems with external debt or balance of payments since the mid-1970s. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.6 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign-denominated debt essentially as a source of diversification, rather than need.

5. Significant Barriers to U.S. Exports

In general, EU agreements and practices determine Italy's trade policies. These policies include preferential trade agreements with many countries.

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the United States and most other countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Services Barriers: Italy is one of the world's largest markets for all forms of telephony and the largest and fastest growing European market for mobile telephony. More than 60 percent of Italy's population of 57 million employs mobile phones. In recent years, the Italian government has undertaken a liberalization of this sector, including privatization of the former parastatal monopoly Telecom Italia (formerly STET); creation of an independent communications authority; and allowing both fixed-line and mobile competitors to challenge the former monopoly (which Olivetti acquired in a hostile takeover in 1999). Following the EU's January 1, 1998 deadline for full liberalization of its telecommunications sector, Italy issued more than 140 fixed-line licenses, including to new entrants (with U.S. participation). Omnitel Pronto Italia, which is partly U.S.-owned, began offering cellular service in December 1995.

In August 1997 Italy established an independent regulatory authority for all communications, including telecommunications and broadcasting. Concerns remain regarding upcoming licensing and frequency allocation for "third generation" mobile carriers, regulatory due process, transparency and even-handedness in general. Nevertheless, the Italian market is much more open to services exports in this sector than it was prior to implementation of the EU telecommunications directive.

In 1998 the Italian Parliament passed government-sponsored legislation including a provision to make Italy's national TV broadcast quota stricter than the EU's 1989 "Broadcast Without Frontiers" Directive. The Italian law exceeds the EU Directive by making 51 percent European content mandatory during prime time, and by excluding talk shows from the programming that may be counted towards fulfilling the quota. Also in 1998 the government issued a regulation requiring all multiplex movie theaters of more than 1300 seats to reserve 15 to 20 percent of their seats, distributed over no fewer than three screens, to showing EU films on a "stable" basis. In 1999 the government introduced "antitrust" legislation to limit concentration in ownership of movie theaters and in film distribution, including more lenient treatment for distributors that provide a majority of "made in EU" films to theaters.

Firms incorporated in EU countries may offer investment services in Italy without establishing a presence. U.S. and other firms that are from non-EU countries may operate based on authorization from CONSOB, the securities oversight body. CONSOB may deny such authorization to firms from countries that discriminate against Italian firms.

Foreign companies are increasingly active in the Italian insurance market, opening branches or buying shares in Italian firms. Government authorization is required to offer life and property insurance; this authorization is usually based on reciprocal treatment for Italian insurers. Foreign insurance firms must prove that they have been active in life and property insurance for not less than 10 years and must appoint a general agent domiciled in Italy.

Italy imposes some limits on foreign ownership in banks. According to the Banking Law, a foreign institution wanting to increase its stake in a bank to above five percent needs authorization from the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions.

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws. However, there has frequently been a long lag in implementing these directives at the national level, although Italy has been improving its performance in this regard. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). U.S. exporters of "health" and/or organic foods, weight loss/diet foods, baby foods and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. In the case of food additives, coloring and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

In August 2000 Italy has banned the commercialization of four biotech corn varieties. The ban, which appears to be contrary to EU regulations, has not been seriously enforced to date but remains a potential concern.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport and aircraft manufacturing.

Italian antitrust law gives the government the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often nontransparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has made some progress in making the laws and regulations on government procurement more transparent, by updating its government procurement code to implement EU directives. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value rather than automatic reliance on traditional suppliers.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) agreements on agriculture and subsidies, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as a number of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides some direct assistance to industry and business firms, in accordance with EU rules on support to depressed areas, to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian peach processing sector receives subsidies to compensate it for having to pay the EU minimum grower price for its raw product. It is recognized that this grower price is above the world market price for peaches and a U.S.-EU agreement is in place to monitor the level of subsidies paid. However, there is concern that the processors may receive extra benefits from loopholes in the system.

The Italian wheat processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs similar to the initial subsidies operating at present.

7. Protection of U.S. Intellectual Property

Italy is a member of the World Intellectual Property Organization, and a party to the Bern and Universal Copyright Conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

In August 2000 the Italian Parliament enacted the long-awaited "anti-piracy" law, providing for higher criminal penalties for IPR violations. Italy has since been moved from the U.S. Trade Representative's Special 301 IPR "Priority Watch List" to the "Watch List." According to American film, music and software industry representatives, enforcement against piracy has been improving over recent years. With this new legislation, law enforcement agencies and magistrates are empowered with more effective tools to combat piracy and are, according to the industry, already obtaining very good results. The United States will, however, continue to closely monitor developments in this area.

8. Worker Rights

a. *The Right of Association:* The law provides for the right to establish trade unions, join unions, and carry out union activities in the workplace. The unions claim to represent between 35–40 percent of the work force. Trade unions are free of government controls and have no formal ties with political parties. The right to strike is embodied in the constitution and is frequently exercised. In April a new law changed provisions of a 1990 measure governing strikes affecting essential public services (e.g., transport, sanitation, and health). The new law defined minimum service to be maintained during a strike as 50 percent of normal, with staffing by at least one-third the normal work force. The law established compulsory cooling off periods and more severe sanctions for violations. Besides transport worker unions, the law also covers lawyers and self-employed taxi drivers. These changes enjoyed the backing of the three major national trade union confederations, which sought to avoid inconvenience to tourists and the traveling public alike during the Catholic Church's Jubilee year.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right of workers to organize and bargain collectively, and these rights are respected in practice. By custom, although not by law, national collective bargaining agreements apply to all workers, regardless of union affiliation. The law prohibits discrimination by employers against union members and organizers. It requires employers that have more than 15 employees and who are found guilty of anti-union discrimination to reinstate any workers affected. In firms with less than 15 workers, an employer must provide the grounds for firing a union employee in writing. If a judge deems the grounds spurious, he can order the employer to reinstate or compensate the worker.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including that performed by children, and generally it does not occur. Some illegal immigrants and children were forced into prostitution, however, and trafficking in illegal immigrant women for prostitution and forced labor, as well as trafficking in illegal immigrant children, are problems.

d. *Status of Child Labor Practices and Minimum Age for Employment:* The law forbids the employment of children under age 15 (with some limited exceptions). There also are specific restrictions on employment in hazardous or unhealthful occupations for men under age 18, and women under age 21. The enforcement of minimum wage laws is difficult in the extensive underground economy. Estimates of the number of child laborers differ, ranging from 30,000 to 300,000 (the most probable figure may be in the area of 50,000). Most of these cases involve immigrants, but instances involving Italian children also have been reported. The footwear and textile industries have established a code of conduct that prohibits the use of child labor in their international as well as national activities, applicable to subcontractors as well. In 1999, a child labor clause was attached to the national labor contract in the health sector, whereby the parties committed themselves not to use surgical tools produced by child labor. The law forbids forced or bonded labor involving children. Italy ratified ILO convention 182 prohibiting the worst forms of child labor following completion of parliamentary action in May.

e. *Acceptable Conditions of Work:* Minimum wages are not set by law, but rather by collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. A 1997 law reduced the legal workweek from 48 hours to 40. Most collective agreements provide for a 36- to 38-hour workweek. The average contractual workweek is 39 hours but is actually less for many industries. Overtime work may not exceed 2 hours per day or an average of 12 hours per week. The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. For most practical purposes, European union directives on health and safety also have been incorporated into the law. Labor inspectors are from the public health service or from the ministry of labor. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardizing their continued employment.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other sectors of the economy.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		9,394
Food and Kindred Products	813	
Chemicals and Allied Products	3,394	
Primary and Fabricated Metals	98	
Industrial Machinery and Equipment	1,019	
Electric and Electronic Equipment	996	
Transportation Equipment	913	
Other Manufacturing	2,162	
Wholesale Trade		2,129
Banking		390
Finance/Insurance/Real Estate		1,656
Services		2,397
Other Industries		(1)
TOTAL ALL INDUSTRIES		17,595

(1) Suppressed to avoid disclosing data of individual companies.

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

NETHERLANDS

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [2]
Income, Production and Employment:			
Nominal GDP [3]	392.0	398.1	384.8
Real GDP Growth (pct) [4]	4.1	3.9	4.5
GDP by Sector:	347.8	346.0	336.4
Agriculture	11.1	11.4	11.1
Manufacturing	91.7	90.7	88.2
Services	204.3	204.3	198.6
Government	40.7	39.6	38.5
Per Capita GDP (US$)	24,968	25,194	24,354
Labor Force (000s)	7,229	7,368	7,495
Unemployment Rate (percent)	4.8	4.0	3.5
Money and Prices (annual percentage growth):			
Money Supply (M2) [5]	7.2	9.9	9.0
Consumer Price Inflation	2.0	2.2	2.5
Exchange Rate (guilders/US$ annual average)			
Official	1.98	2.07	2.30
Balance of Payments and Trade:			
Total Exports FOB [6]	197.6	198.9	210.3
Exports to United States [7]	7.6	8.5	9.0
Total Imports CIF [6]	183.9	188.0	201.2
Imports from United States [7]	19.0	19.4	20.0
Trade Balance [6]	13.7	10.9	9.1
Balance with United States [7]	–11.4	–10.9	–11.0
Current Account Surplus/GDP (pct)	4.1	5.6	5.25
External Public Debt [8]	0	0	0
Debt Service Payments/GDP (pct) [8]	9.4	12.3	7.6
Fiscal Deficit/GDP (pct)	–0.7	–1.0	–1.0
Gold and Foreign Exchange Reserves	31.6	26.7	29.9
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] All figures have been converted at the average guilder/US$ exchange rate for each year.
[2] 2000 figures are official forecasts or estimates based on available monthly data in October.
[3] GDP at factor costs.
[4] Percentage changes calculated in local currency.
[5] Netherlands contribution to euro-zone monetary aggregates.
[6] Merchandise trade.
[7] Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 figures are estimates based on data available through October 2000.
[8] All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

1. General Policy Framework

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a unique position as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government successfully reduced its role in the economy during the 1990s, and structural and regulatory reforms have been an integral part of a major reorientation of Dutch economic policy since the early 1980s. Telecommunication services have been fully liberalized since January 1 1998, and deregulation and privatization of the Dutch electricity and gas markets will take place in 2003. The government continues to dominate the energy sector, and will play an important role in public transport and aviation for some time.

Dutch economic policy is geared chiefly towards environmentally sustainable economic growth and development by way of economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is conducted within the framework of a national environmental action plan.

General elections in May 1998 resulted in a clear vote of confidence for the ruling three-party coalition, which returned to office for another four-year term. Policy intentions of the new coalition government are articulated in the 1998 coalition accord, with reductions in the tax burden and the fiscal deficit, as well as further labor and product market reforms as chief priorities. The government coalition accord is based on a "conservative" 2.25 percent average annual GDP growth scenario between 1999 and 2002. Average GDP growth so far has been close to four percent.

The Dutch economy remains strong, combining sustained GDP growth with falling unemployment and moderate inflation. The success of the Dutch economy can be attributed to the combination of a rigorous and stable macro-economic policy with wide-ranging structural and regulatory reforms. Boosted by vigorous consumer demand and strong growth in world trade, the Dutch economy is forecast to show 4.5 percent GDP growth in 2000 (the highest rate since 1989), followed by slightly lower 4 percent expansion in 2001. Exports (up 9.5 percent in 2000; up 9 percent in 2001) are expected to resume their role as major driving force behind the economy's expansion. A reduction in the burden of taxes and social security contributions is expected to fuel real disposable household incomes by average 5.5 percent, and provide further momentum to strong consumer spending (up 4.5 percent in 2000 and 2001). Despite warnings by the IMF and the OECD, there are no distinct signs that the Dutch economy may be overheating. The outlook for the labor market in 2000 and 2001 also remains favorable. Continued job growth is forecast to reduce the level of unemployment to just three percent of the labor force in 2001. Firming inflation thus seems the only cloud on an otherwise bright horizon. Imported inflation and a hike in indirect taxes (VAT) will cause consumer price inflation in 2001 to exceed the expected 2.5 percent CPI rise in 2000 by one percentage point and firm to 3.5 percent.

The Netherlands was one of the first EU member states to qualify for Economic and Monetary Union (EMU). Fiscal policy aims to strike a balance between further reducing public spending, and lowering taxes and social security contributions. The fiscal balance registered a surplus of one percent of GDP in 1999 and 2000 and is expected to remain in surplus in 2001 (0.7 percent of GDP) and beyond. The stock of public debt will fall from a high of 62.9 percent in 1999 to 52.3 percent in 2001. Both fiscal deficit and public debt have thus converged well below the deficit and debt criteria in the EMU's Growth and Stability Pact.

The deficit is largely funded by government bonds. Since January 1, 1994 financing has also been covered by Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing with the central bank that, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Since the European Central Bank (ECB) assumed monetary responsibility on January 1, 1999, monetary policy is no longer under the exclusive control of the Dutch authorities but determined by the Eurosystem (the European Central Bank and the 11 national Central Banks in the euro area), and are attuned to the euro area as a whole. On December 31, 1998 the exchange rate of the euro vis-a-vis the guilder was fixed at 2.20371 guilders to the euro. There are no multiple exchange rate mechanisms.

3. Structural Policies

Tax Policies: Partly with an eye to further EU integration, the Dutch recently took the first step towards a fundamental reform of the tax system. The new tax regime for the 21st century entails a shift from direct to indirect taxes, a broadening of the tax base, and a reduction of the tax rate on labor. When implemented in 2001, wage and individual income taxes will be lowered, while excise duties, "green" taxes and VAT rates will be raised. The highest marginal tax rate on wage and salary income will be reduced from 60 percent to 50 percent, while the top VAT rate will rise from 17.5 percent to 19 percent. The Dutch corporate income tax rate is among the lowest in the European Union. Effective January 1, 1998 the standard corporate tax rate paid by corporations (including foreign-owned corporations) was reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997 the Dutch have been offering multinationals a more friendly tax regime for their group finance activities, effectively reducing tax on internal banking activities from 35 percent (the standard corporate tax rate) to 7 percent.

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country. Measures blend tax incentives and subsidies and are available to foreign and domestic firms alike. There are also subsidies to stimulate research and development and to encourage development and use of new technology by small and medium sized firms.

Complying with EU competition legislation, new Dutch competition legislation became effective on January 1, 1998. The new Competition Law includes a provision for the supervision of company mergers by the Netherlands Competition Authority (NMA). The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of well over five percent of GDP and no external debt, the Netherlands is a major creditor nation. The Dutch have run a surplus on current account since the early 1980s. During that period, gross public sector debt (EMU criterion) grew sharply, to 81.2 percent of GDP by 1993. Since the late 1980s, the Dutch fiscal balance has drastically improved. The debt to GDP ratio is also falling more rapidly than anticipated. Debt servicing and rollover in 2000 fell to roughly eight percent of GDP, with interest payments alone at three percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP equal to $4.8 billion in 2001. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.5 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy, nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the International Convention for the Settlement of Investment Disputes. There are no significant Dutch barriers to U.S. exports, and relatively few trade complaints are registered by U.S. firms. The few trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters:

Agricultural Trade Barriers: These result from the Common Agricultural Policy (CAP) and common external tariffs, which severely limit imports of U.S. agricultural products, e.g., canned fruits (high tariffs), frozen whole turkeys and parts (high tariffs). Bilateral import barriers, although usually connected with EU-wide regulations, do arise in customs duties, grading, inspection and quarantine, e.g., fresh beef (hormones) and poultry (phytosanitary). EU rules and procedures sometimes hinder commodity and product entry. Although only a few cases have been reported to date, an increasing pattern of delayed or rejected shipments of agricultural commodities, food and beverages appears to have developed. Current EU-wide regulations, and the lack of timely approval processes for agricultural products, including Genetically Modified Organisms (GMOs), hinder U.S. exports. Some of these rejections or delays in clearance cause major financial and logistical problems to Dutch importers and U.S. exporters for particular products, thus dampening trade prospects and flows.

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive. However, U.S. television shows and films are popular and readily available. Commercial broadcasters may apply for temporary exemptions of the quota requirement on an ad hoc basis.

Cartels: Although the export sector of the Dutch economy is open and free, cartels have long been a component of the domestic sector of the economy. A new Cartel Law, which took effect in 1996, bans cartels unless its proponents can conclusively demonstrate a public interest. Since 1998, the United States has received no complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands.

Public Procurement: Dutch public procurement practices comply with the requirements of the GATT/WTO Agreement on Public Procurement and with EU public procurement legislation. The Netherlands has fully implemented the EU's Supplies Directive 93/36/EEC, Works Directive 93/37/EEC, and the Utilities Directive 93/38/EEC. Implementation of EU and WTO public procurement obligations have contributed to greater transparency of the Dutch public procurement environment at the central and local government levels. Independent studies show that transparency and enforcement in this area can be deficient, especially at the local level, and procurement may be contingent on offset or local content requirements. As part of its plan to encourage electronic transactions, the government has declared its intention to begin posting all national and local government procurement tenders on websites in the near future. The EU Electricity Directive has led to more public notification and ended the duopoly in Dutch power generation and distribution. The EU Gas Directive is expected to end the monopoly in the distribution of natural gas by 2003.

6. Export Subsidies Policies

Under the Export Matching Facility, the government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. The government provides up to 10 million guilders (about $5.5 million) of interest subsidies per export contract, up to a maximum of 35 percent per export transaction. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company.

Adhering to EU shipbuilding regime, the Dutch have discontinued generic support of their shipbuilding industry effective January 1, 2001.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good set of IPR legislation and regulations in place. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on Industrial Property and the Bern Copyright Convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used. The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters.

The enforcement of anti-piracy laws remains a concern to U.S. producers of software, audio and videotapes, and textbooks. Some estimate as much as half of software used in the country is illegally copied. The Dutch government has recognized the need to protect intellectual property rights and law enforcement personnel have worked with industry associations to find and seize pirated software. Dutch IP legislation explicitly includes computer software as intellectual property under the copyright statutes.

8. Worker Rights

a. *The Right of Association:* The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three-quarters of the workforce. Membership in labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 1999 some 76 labor days per 1000 workers were lost due to industrial disputes compared with 33 days in 1998.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively is recognized and well established. There are no union shop requirements. Discrimination against workers because of union membership is illegal and does not exist. Dutch society has developed a social partnership among the government, employers' organizations, and trade unions. This tripartite "Social Partnership" involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such generally binding agreements (AVVs) cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor, including that by children, is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children:* Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas that could be dangerous to their physical or mental development.

e. *Acceptable Conditions of Work:* Dutch law and practice adequately protect the safety and health of workers. Although a forty hours workweek is established by law, the official average workweek for adults working full time currently averages 37 hours. Work-shortening programs (ADV) effectively reduce the average workweek to 36 hours. There is a trend to cut working hours further in order to create jobs or avoid layoffs, and recently concluded wage contracts include provisions for a 36-hour workweek. The gross minimum wage in mid-2000 amounted to about $1,021 per month. The legally-mandated minimum wage is subject to semiannual cost of living adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors with U.S. Investments:* The worker rights described above hold equally for sectors in which U.S. capital is invested.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		3,296
Total Manufacturing		19,508
Food and Kindred Products	2,311	
Chemicals and Allied Products	10,603	
Primary and Fabricated Metals	256	
Industrial Machinery and Equipment	694	
Electric and Electronic Equipment	3,636	
Transportation Equipment	112	
Other Manufacturing	1,895	
Wholesale Trade		8,498
Banking		(1)
Finance/Insurance/Real Estate		64,199
Services		9,031
Other Industries		(1)
TOTAL ALL INDUSTRIES		106,436

(1) Suppressed to avoid disclosing data of individual companies.

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

NORWAY

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	146,636	152,923	164,600
Real GDP Growth (pct) [2]	2.0	0.9	3.4
Real Mainland GDP Growth (pct)	3.3	0.8	2.2
GDP by Sector:			
Agriculture	3,161	3,005	3,000

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Oil And Gas Production	15,463	21,262	25,000
Manufacturing	17,422	15,886	17,000
Services	86,646	88,031	93,000
Government	23,944	24,739	26,600
Per Capita GDP (US$)	33,101	34,288	36,600
Labor Force (000s)	2,330	2,350	2,360
Unemployment Rate (pct)	3.2	3.2	3.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.6	5.5	5.5
Consumer Price Inflation	2.6	2.3	3.0
Exchange Rate (Nok/US$)	7.6	7.8	8.5
Balance of Payments and Trade:			
Total Exports FOB	40,649	44,913	61,000
Exports to United States[3]	2,874	4,051	3,500
Total Imports CIF	39,656	33,807	34,000
Imports from United States[3]	1,709	1,440	1,500
Trade Balance	993	11,106	27,000
Balance with United States	1,165	2,611	2,000
External Public Debt	953	911	900
Debt Service Payments	2,185	42	11
Fiscal Surplus/GDP (pct)	2.5	2.8	10.2
Current Account Surplus/GDP (pct)	–1.3	3.9	13.0
Gold and Foreign Exchange Reserves[4]	18,813	24,819	25,200
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2000 figures are all estimates based on monthly data in October 2000.
[2] Growth figures are based on local currency GDP values
[3] US$OC trade statistics.
[4] Includes gold; but excludes assets in the state petroleum fund.

1. General policy framework

Exploitation of Norway's major non-renewable energy resources, crude oil and natural gas, will remain the major foundation for economic growth for at least the next three decades. On Norway's offshore continental shelf, Norway's Remaining oil reserves (discovered plus undiscovered) will last for another 30 years at current extraction rates, while the equivalent figure for natural gas is 130 years. Energy-intensive industries such as metal processing and fertilizer production will remain prominent on the mainland thanks to abundant hydropower resources.

Some constraints continue to limit Norway's economic flexibility and ability to maintain international competitiveness. Labor availability remains limited by Norway's small 4.5 million population and a restrictive immigration policy. Norway is also a high-cost country with a centralized collective wage bargaining process and government-provided generous social welfare benefits. Norway's small agricultural sector remains protected from international competition by subsidies, high tariffs and other barriers to trade.

State intervention in the economy remains significant. The government owns about 50 percent of domestic businesses, including controlling stakes in the two largest oil and industry conglomerates, the country's biggest commercial bank, and Telenor. While the government has signaled part-privatization, the state is expected to remain in effective control of key enterprises. While new legislation governing investment was implemented in 1995 to meet EEA and WTO obligations, screening of foreign investment and restrictions on foreign ownership remains.

The government's dependence on petroleum revenue has increased substantially since the early 1970s, generating over 26 percent of total government 2000 revenue. Since 1995, Norway has been a net foreign creditor and has posted budget surpluses. The surpluses are transferred to a petroleum fund and invested in foreign assets (an estimated $43 billion at the end of 2000) to meet future spending.

No general tax incentives exist to promote investment. Tax credits and government grants are offered, however, to encourage investment in northern Norway; and tax incentives are granted to encourage the use of environmentally friendly products such as liquid gas driven buses and the electric car. Several specialized state banks provide subsidized loans to sectors including agriculture and fishing. Transportation allowances and subsidized power are also available to industry. Norway and the EU have preferential access to each other's markets, except for the agricultural and fisheries sectors, through the European economic area (EEA) agreement that entered force in January 1994. Although in a 1994 national referendum Norwegians rejected a proposal to join the EU, Norway routinely implements most EU directives as required by the EEA.

The government controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the central bank overnight lending rate. The central bank's flexibility in using the money supply as an independent policy instrument is limited by the government's priority to maintain a stable rate of exchange.

2. Exchange rate policy

The Norwegian krone was unpegged from the ECU in December 1992. The government's stated policy since 1994 has been to maintain a stable krone vis-a-vis European currencies. The central bank uses interest rate policy and open market operations to keep currency stable in a managed float that follows a range of values defined in the exchange rate regulation. With the introduction of the euro January 1, 1999, Norway currently keeps the krone stable against the euro-zone currency (euro). In the past year, Norway's central bank has raised interest rates: (a) to promote currency stability; and (b) to reduce the inflation differential between Norway and the euro-zone.

Quantitative restrictions on credit flows from private financial institutions were abolished in the late 1980s. Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating within Norway have not reported any problems to the embassy in remitting payments.

3. Structural policies

The government's top economic priorities include maintaining high employment, generous welfare benefits, and rural development. These economic priorities are part of Norway's regional policy of discouraging internal migration to urban centers in the south and east and of maintaining the population in the north and other sparsely populated regions. Thus, parts of the mainland economy, particularly agriculture and rural industries, remain protected and cost-inefficient from a global viewpoint with Norway's agricultural sector remaining one of the most heavily subsidized in the OECD. While some progress has been made in reducing subsidies to the manufacturing industry, support remains significant in areas including food processing and shipbuilding.

A revised legal framework for the functioning of the financial system was adopted in 1988, strengthening competitive forces in the market and bringing capital adequacy ratios more in line with those abroad. Further liberalization in the financial services sector occurred when Norway joined the EEA and accepted the EU's banking directives. The Norwegian banking industry has returned to profitability following reforms prompted by the banking crises in the early 1990s.

Norway has taken some steps to deregulate the non-bank service sector. Although large parts of the transportation markets (including railways) remain subject to restrictive regulations, including statutory barriers to entry, the government opened telecommunications services to competition in 1998. Telenor is expected to be partially privatized in 2000.

4. Debt management policies

The state's exposure in international debt markets remains very limited because of Norway's prudent budgetary and foreign debt policies. The government's gross external debt situation significantly improved in the 1990s, declining from about $10 billion in 1993 to about $900 million in 2000. Norway's status changed from a net debtor to a net creditor country in 1995 largely because of the contributions from the oil and gas sector.

5. Significant barriers to U.S. Exports

Norway is a member of the World Trade Organization (WTO) and supports the principles of free trade, but significant barriers to trade remain in place. The government maintains high agricultural tariffs that are administratively adjusted when internal market prices fall outside certain price limits. These unpredictable administrative tariff adjustments disrupt advance purchase orders and severely limit agricultural imports into Norway from the United States and other distant markets.

State ownership in Norwegian industry continues to complicate competition in a number of sectors including telecommunications, financial services, oil and gas, and alcohol and pharmaceutical distribution. Despite some ongoing reforms, Norway still maintains regulatory practices, certification procedures and standards that limit market access for U.S. materials and equipment in a variety of sectors, including telecommunications and oil and gas materials and equipment. U.S. companies, particularly in the oil and gas sector, operate profitably in Norway.

While there has been substantial banking reform, competition in this sector still remains distorted due to government ownership of the largest commercial bank, and the existence of specialized state banks, which offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcohol, which historically has been handled through state monopolies, and in the way pharmaceutical drugs are marketed. Norway is obligated to terminate these monopolies under the EEA accord, but implementation is slow. The European Free Trade Association surveillance agency (ESA, the organization responsible for insuring EEA compliance) has been monitoring Norway's progress in these areas.

6. Export subsidy policies

As a general rule the government of Norway does not subsidize exports, although some heavily subsidized goods, such as dairy products, may be exported. The government indirectly subsidizes chemical and metal exports by subsidizing the electricity costs of manufacturers. In addition, the government provides funds to Norwegian companies for export promotion purposes. Norway is reducing its agricultural subsidies in stages over six years in accordance with its WTO obligations. Norway has also ratified the OECD shipbuilding subsidy agreement and has indicated it will eliminate shipbuilding subsidies as soon as other major shipbuilders, including the United States and Japan, ratify the agreement.

7. Protection of U.S. Intellectual property

Norway is a signatory of the main intellectual property accords, including the Bern Copyright and Universal Copyright Conventions, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Any adverse impact of Norwegian IPP practices on U.S. trade is negligible.

Norwegian officials believe that counterfeiting and piracy are the most important aspects of intellectual property rights protection. They complain about the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

8. Worker rights

a. *The Right of Association:* Workers have the right to associate freely and to strike. The government can invoke compulsory arbitration under certain circumstances with the approval of parliament.

b. *The Right To Organize and Bargain Collectively:* All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. *Prohibition of Forced or Compulsory Labor:* The Government of Norway prohibits forced and compulsory labor by law.

d. *Minimum Age for Employment of Children:* Children are not permitted to work full time before age 18. However, children 13 to 18 years may be employed part-time in light work that will not adversely affect their development.

e. *Acceptable Conditions of Work:* Ordinary working hours do not exceed 37.5 hours per week, and four weeks plus one day of paid leave are granted per year (31 days for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The Workers' Protection and Working Environment Act Of 1977 assures all workers safe and physically acceptable working conditions.

f. *Rights in Sectors with U.S. Investment:* Norway has a tradition of protecting worker rights in all industries, and sectors in which there is heavy U.S. investment are no exception.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4,078
Total Manufacturing		871
Food and Kindred Products	(1)	

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

[Millions of U.S. Dollars]

Category	Amount	
Chemicals and Allied Products	17	
Primary and Fabricated Metals	9	
Industrial Machinery and Equipment	216	
Electric and Electronic Equipment	7	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		314
Banking		(1)
Finance/Insurance/Real Estate		640
Services		273
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,601

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

POLAND

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	157,300	155,600	160,200
Real GDP Growth (pct)	4.8	4.1	4.8
GDP by Sector (pct):			
Agriculture	4.8	4.5	N/A
Manufacturing [2]	36.3	36.5	N/A
Services	45.4	46.3	N/A
Government	13.5	12.7	N/A
Per Capita GDP (US$)	4,070	4,025	4,110
Labor Force (000s)	17,659	18,058	18,300
Unemployment Rate (pct; year-end)	10.4	13.0	14.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	25.2	19.2	32.0
Consumer Price Inflation (annual average)	11.8	7.3	9.8
Exchange Rate (PLN/US$; annual average)			
Official	3.49	3.97	4.38
Balance of Payments and Trade:			
Total Exports FOB (US$ billions) [3]	30.1	26.3	28.3
Exports to United States (US$ billions) [4]	0.8	0.8	1.0
Total Imports CIF (US$ billions)	43.8	40.8	42.0
Imports from United States (US$ billions) [4]	0.9	0.8	0.7
Trade Balance (US$ billions)	–13.7	–14.5	–13.7
Balance with United States (US$ billions) [4]	–0.1	0.0	0.3
External Public Debt (US$ billions)	34.1	32.1	30.2
Fiscal Deficit/GDP (pct)	2.7	2.8	2.3
Current Account Surplus/Deficit/GDP (pct) [5]	–4.3	–7.4	–7.0
Debt Service Payments/GDP (pct) [6]	3.2	3.4	4.0
Gold and Foreign Exchange Reserves (US$ billions) [7]	27.4	27.3	25.5
Aid from United States (US$ millions) [8]	62.7	26.3	10.0
Aid from Other Sources (US$ millions) [9]	200	300	820

[1] 2000 figures are Polish government estimates as of October 2000, unless otherwise noted.
[2] Manufacturing including construction.
[3] Polish government trade figures, without transshipments via third countries.
[4] U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

[5] Including estimated unrecorded trade.
[6] Debt service includes paid interest and principal.
[7] Data available through August 2000.
[8] U.S. government estimate; includes economic and military assistance.
[9] EU declared assistance; includes PHARE; 2000 includes ISPA and SAPARD.

1. General Policy Framework

In the past decade, Poland has transformed its economy with mostly sound financial policies and commitment to structural reforms (the government adopted into law reforms on regional government, health care, pension system, and education in 1998–1999 alone), making it one of the most successful and open transition economies. After four consecutive years of growth at about six to seven percent per year, the Polish economy slowed in 1998 to a growth rate of 4.8 percent, in large part due to the Asian and Russian crises. The decline continued in the first half of 1999; growth for the year was 4.1 percent. A rebound has been underway since mid-1999. By the end of 2000, the Polish economy is expected to see 4.5 to 5.0 percent growth, and growth around 5 percent is projected for 2001. The private sector is thriving as a result of privatization and liberalization, although Poland's agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. The shadow "gray economy," which had been shrinking, is thought to be expanding and generated around 20 percent of GDP in 2000, up from 18 percent in 1999.

Government Priorities: A member of the WTO, OECD, and NATO, Poland now considers membership in the European Union (EU) one of its highest priorities. The process (supported by the opposition and 50 percent of the population) affects most economic policies, from the budget to reforms. By fall 2000, Poland had provisionally closed 11 of 29 negotiating chapters. Poland hopes to close the remaining chapters by the end of 2001, in time for its desired accession date of January 1, 2003. In addition, Poland has agreed to liberalize its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and various bilateral agreements. Poland continues to seek improvement in bilateral economic relations with Russia, Ukraine and Belarus.

Fiscal Policy: The government seeks to reduce the public sector "economic deficit" to 1.6 percent of GDP in 2001, and to eliminate it altogether by 2003. Financing of the deficit comes principally from privatization revenues and the domestic nonbanking private sector (e.g., insurance companies and pension funds). The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. Reforms, generous social programs (disability, unemployment and welfare), and debt service obligations constitute the heaviest burdens on the budget. The 1998 Act on Public Finances, a framework for fiscal consolidation to manage public finances, clarifies the responsibilities of the various budgetary players, sets measures to improve transparency in public finances, establishes rules for local governments, and prepares for EU accession. It also establishes procedures to be followed if total public debt, including state guarantees, exceeds certain limits.

Monetary Policy: An independent, ten-member Monetary Policy Council (MPC) sets monetary policy, which is implemented by the NBP, using a formal inflation target. Increasingly restrictive fiscal and monetary policies reduced annual average inflation from 37 percent in 1993 to 7.3 percent in 1999. However, inflation accelerated in late 1999, a trend that has continued into 2000. As a result, the MPC missed its inflation target in 1999 and is likely to do so in 2000 as well. Its goal for 2001 is a twelve-month (December to December) CPI increase of six to eight percent, which the MPC believes is necessary to meet its medium-term target of inflation below four percent by 2003. The MPC has been tightening monetary policy over the past year to combat the resurgence of inflation. It raised interest rates by 3.5 percent in November 1999, by another 1 percent in February 2000, and an additional 1.5 percent in September 2000. As a result, real interest rates are high, running around eight to nine percent at the end of 2000. These high rates have been a drag on economic growth (although not as much as they would be in more developed countries, since the level of borrowing is relatively low) and have attracted significant amounts of short-term foreign investment, which has kept the Polish zloty relatively strong.

2. Exchange Rate Policies

On April 12, 2000 the NBP abandoned the crawling peg it had used since 1991 and allowed the zloty to float freely. The decision was in line with government plans to let the zloty find its equilibrium level before applying for participation in the European Exchange Rate Mechanism and then European Monetary Union. As As the zloty had been floating within the 15 percent band for several years without NBP interventionseveral years without NBP intervention, the decision to float did not have a significant impact on the foreign exchange marketnot viewed as a significant change in policy. The government reserves the right to intervene in the market to prevent destabilizing swings.

Poland achieved current account convertibility in 1995, eliminated the requirement for Polish firms to convert their foreign currency earnings into zlotys in 1996, removed most limits on capital account outflows by Polish citizens in 1997, and enforced a new foreign exchange law in January 1999. Restrictions were removed on foreign exchange transactions for resident portfolio investments, investment in OECD-issued securities, and operations in negotiable securities, including collective investment securities, with some exceptions, such as transactions in debt instruments with a maturity of less than one year and derivatives. The law authorizes further liberalization measures, but also contains safeguards to allow the government to temporarily re-establish restrictions under certain circumstances, such as extraordinary risk to the stability and integrity of the financial system. By 2001, Poland's remaining restrictions on capital movements, other than foreign direct investment flow and short-term capital flow, should be limited to real estate investment abroad and in Poland. The remaining restrictions on foreign direct investment concern foreign acquisitions of certain categories of real estate, indirect ownership of Polish insurance companies, air and shipping transport, broadcasting, certain telecommunication services, and gaming.

3. Structural Policies

Prices: Most price subsidies and controls disappeared during Poland's 1990 economic shock therapy, although those on public transportation, coal, and some pharmaceuticals continue. The government hopes eventually to eliminate all controls, providing interim support for coal and some agricultural products, and allowing new regulatory bodies to play a central role in setting prices in the energy and telecommunications sectors. The government has also taken steps to promote greater competition in the Polish markets for oil and telecommunications services, where price rises contributed considerably to inflation in 2000.

Taxes: A tax reform package approved in late 1999 significantly reduced corporate income taxes and streamlined exemptions; VAT rates were also revised to meet EU rules (a companion bill to reduce and simplify personal income taxes was vetoed by the president). The corporate income tax rate was reduced to 30 percent in 2000 and will fall to 28 percent in 2001, 24 percent in 2003, and 22 percent in 2004. Personal income tax rates of 19, 30, and 40 percent will remain unchanged in 2000, but the government plans to propose reforms to the personal income tax system in 2001. Under pressure from the EU, Poland amended the rules governing special economic zones (SSEs) that permit tax breaks for foreign investment. These new regulations, which await final parliamentary and presidential approval, are less advantageous for investors than the old rules, but more compliant with EU mandates. Under the new regulations, which should be implemented January 1, 2001, companies registered in SSEs will be eligible to receive grants amounting up to 50 percent of initial capital.

Regulatory Policies: Poland's regulatory regime is being harmonized with EU standards. Existing regulatory structures are variously faulted for the excessive burden imposed on businesses, lack of transparency and predictability, and lack of effectiveness. An independent regulator for the telecommunications sector will begin functioning in 2001. Current concerns include product certification standards and pharmaceutical registration and pricing mechanisms, which effectively impede market access.

4. Debt Management Policies

Poland improved its foreign debt situation through rescheduling agreements with the Paris Club (1991) and the London Club (1994), which reduced Poland's debt by nearly half. As of July 2000, Poland's total official foreign debt was $30 billion, including $21.5 billion to the Paris Club, $2.1 billion to other institutions (IMF, World Bank, EBRD and BIS), $5.3 billion in Brady Bonds, and $1.1 billion in other foreign bonds. On October 31, 2000 Poland intends to buy back Brady Bonds worth almost $1 billion. This move will reduce Poland's debt to around $29 billion and will increase its creditworthiness. Since 1995, Poland has held investment grade ratings from various agencies. In October 2000 Poland had a Moody's rating of Baaa1 and a Standard and Poor's rating of BBB+. Debt servicing remains relatively low both in relation to government expenditure (12 percent) and GDP (3 to 4 percent), although amortization payments are scheduled to rise significantly in the next few years. Foreign debt servicing represents a sustainable proportion of exports of goods and services. As of mid-2000, the private sector had an estimated $24 billion in foreign debt. This is relatively low, but the pace of its growth in recent years is of concern to government officials. Poland's total state debt (foreign and domestic) amounted to 41 percent of GDP in June 2000.

5. Aid

In September 2000 Poland formally graduated from USAID assistance following a very successful decade in which nearly $1 billion in U.S. aid helped support Poland's economic and social reform. Remaining Fiscal Year 1999 funds are being used to support several programs that will wind down in late 2000 and early 2001. While it will not receive new bilateral economic aid from the United States, Poland will continue to benefit from certain U.S.-sponsored regional assistance projects, law enforcement training and cooperation programs, and military assistance programs. In 2000 the United States provided Poland with law enforcement programs worth about $260,000 and military assistance programs totaling about $9.7 million. Poland also benefits from increasing flows of EU assistance under the PHARE, SAPARD, and ISPA programs. However, most of the funds pledged by the EU remain in the pipeline. In the first nine months of 2000, the Polish National Fund for EU Aid received $44 million from the EU, up from $16.8 million in 1999. This sum does not account for a number of ongoing projects, which receive money directly from the EU.

6. Significant Barriers to U.S. Exports

Tariffs: In 1999 Poland entered a new stage of free trade in industrial products with the EU, EFTA and CEFTA countries. Currently, 77 percent of all industrial imports from these countries are duty free, 20 percent fall under MFN tariffs, and about three percent are subject to the GSP system. The exceptions are tariffs on cars (to be eliminated in 2002), steel products, gasoline and fuel, and heating oils. As a result of Uruguay Round commitments, Poland reduced tariffs in 1999 on many agricultural products, but simultaneously increased tariffs on others, e.g., pork and malt. While Poland's EU association agreement established preferential tariffs for non-agricultural, EU-origin imports into the Polish market, Poland has maintained its higher MFN tariffs for U.S. and other non-EU products. U.S. exporters within a broad range of industry sectors have complained that the differentials, which continue to grow as Poland's tariffs on EU goods move toward zero in preparation for joining the EU, have diminished their business prospects and ability to compete against EU-origin products, many of which enter Poland duty-free. The U.S. and Polish governments are continuing to discuss possible solutions to this issue, but progress in 2000 has been inadequate. In late 1999 the Polish government significantly raised some agricultural tariffs from 1999 applied levels to Poland's WTO bound levels. In 2000 Poland and the EU reached a new agreement liberalizing agricultural trade in which both sides agreed to eliminate tariffs and export subsidies on a range of agricultural goods traded between the two.

Import Licenses: Licenses are required for strategic goods on Wassenaar dual use and munitions lists, as well as for beer, wine, fuel, tobacco, dairy products, meat, poultry, semen, and embryos. The plant quarantine inspection service issues a mandatory phytosanitary import permit for the import of live plants, fresh fruits and vegetables into Poland. U.S. grain and oilseed exports to Poland have been hampered by Polish regulations requiring zero tolerance for several common weed seeds. Certificates from the Veterinary Department in the Ministry of Agriculture are also required for meat, dairy and live animal products. Poland intends to implement regulations on biotechnology and genetically modified organisms (GMO), following EU norms. New regulations are expected in mid-2001. Import licenses for dairy cattle genetics have already limited U.S. access to the Polish market.

Services Barriers: Poland has made progress, but many barriers remain, especially in audio-visuals, legal services, financial services, and telecommunications. In November 1997 the government enacted a rigid 50 percent European production quota for all television broadcasters, raising concerns about certain liberalization commitments made by Poland upon joining the OECD. However, legislation passed by the Parliament in 2000 requires broadcasters to meet the 50 percent quota only where practical, thereby bringing Polish regulations into line with EU directives. In January 1998 new laws on banking and the central bank came into force. As a condition of its accession to the OECD, Poland allowed firms from OECD countries to open branches and representative offices in the insurance and banking sector in 1999, as well as subsidiaries of foreign banks. The government began privatizing the state telecommunications monopoly in October 1998, and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Several competitors now provide local phone service and are also licensed to provide domestic long distance service, but the state-controlled telecommunications firm retains its monopoly over interconnection and international long distance.

Standards, Testing, Labeling, and Certification: Harmonization of standards, certification, and testing procedures with those of the EU, including greater reliance on voluntary standards, is now the main objective of Polish standards policy. Under the 1997 European Conformity Assessment Agreement, Poland agreed to introduce an EU-compatible certification system; to gradually align its regulations and certification procedures with the those of the EU; to remove from mandatory certification those products free from certification requirements in the EU; and to automatically provide a "B" safety certificate to EU products subject to mandatory certification. However, there have been delays in implementing these commitments. Currently, many Polish product standards are mandatory and must be certified by accredited Polish testing agencies. A Polish "B" safety certificate has been required since 1997 for imports and domestic products and affects about one third of all products marketed in Poland. Poland does not automatically accept the EU "CE" mark or other international product standards, nor self-certification by manufacturers. Non-acceptance of many international standards, certification, and conformity testing procedures are associated with long delays, involving expensive testing processes. Poland has bilateral mutual recognition agreements on standards and conformity testing procedures with Ukraine, China, Belarus, Germany, the Czech Republic, the Russian Federation, Italy, and Switzerland, which allow the importation of certain products from these countries based on conformity statements issued by the foreign producer. Phytosanitary standards on weed seeds have had a major adverse impact on the ability of U.S. farmers to export grains to Poland.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations. However, some obstacles remain for foreign investment in certain "strategic sectors," such as mining, steel, defense, transport, energy, and telecommunications, while certain controls remain on other foreign investment. Broadcasting law still restricts foreign ownership to 33 percent (although proposed legislation would allow EU-based firms to purchase a 100 percent stake), while foreign ownership of air and maritime transport, fisheries, and long-distance telecommunications is confined to 49 percent. The cap on foreign ownership in telecommunications, however, will be lifted January 1, 2001. No foreign investment is currently allowed in gambling. The privatization of the energy, steel, and telecommunications sectors envisions significant foreign investment, as does a restructuring plan for the defense industry. As a result of OECD accession, foreigners in Poland may purchase up to 4,000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent (not always automatic) of both the Defense and Agriculture Ministries.

Government Procurement Practices: Poland's government procurement law is modeled on the UN procurement code and is based on competition, transparency, and public announcement, but does not cover most purchases by state-owned enterprises. Single source exceptions to the stated preference for unlimited tender are allowed only for reasons of state security or national emergency. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation organized under the Joint Ventures Act of 1991 may qualify for "domestic" status. There is also a protest/appeals process for tenders thought to be unfairly awarded. As of September 1997, Poland has the status of an observer to the WTO's Government Procurement Agreement (GPA).

Customs Procedures: Since signing the GATT customs valuation code in 1989, Poland has a harmonized tariff system. The customs duty code has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU, the CEFTA agreement, FTAs with Israel, Croatia, Latvia, Estonia, Lithuania, and Turkey, as well as GSP for developing countries, grant firms from these areas certain tariff preferences over U.S. competitors. Some U.S. companies have criticized Polish customs' performance, citing long delays, indifference, corruption, incompetent officials, and inconsistent application of customs rules. A new customs law took effect January 1998, but some problems remain, including the amount of paperwork required and the lack of electronic clearance procedures.

7. Export Subsidies Policies

With its 1995 WTO accession, Poland ratified the Uruguay Round Subsidies Code and eliminated earlier practices of tax incentives for exporters, but it still offers drawback levies on raw materials from EU and CEFTA countries which are processed and re-exported as finished products within 30 days. Some politically powerful state-owned enterprises continue to receive direct or indirect production subsidies to lower export prices. Polish industry and exporters criticize the government for too little export promotion support. Poland's export insurance agency has limited resources and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts. However, the agency announced in 2000 it would expand the availability of contract insurance for trade with Poland's eastern neighbors. Poland also committed in October 2000 to provide $85 million in loans to finance environmentally friendly investments by Polish firms in China.

8. Protection of U.S. Intellectual Property

Poland has made major strides in improving the legal framework of intellectual property rights protection. The U.S.-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new Copyright Law that offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, and audio-visual works, as well as industrial patterns. Amendments to the Copyright Law, designed to bring it fully into compliance with Poland's TRIPS obligations, were enacted in July 2000. The amendments provide full protection of all pre-existing works and sound recordings. Parliament also passed a bill on patents and trademarks to bring Poland's industrial property protection up to TRIPS standards, but the President sent it to the Constitutional Tribunal for review.

Despite this legal foundation, Poland still suffers from high rates of piracy. Most pirated materials available, particularly CDs and CD–ROMs, are produced in the former Soviet Union. Industry associations estimate 1999 levels of piracy in Poland to be: 30 percent for sound recordings, 20 to 25 percent for motion pictures, 60 percent for business software, and 80 percent for entertainment software. While enforcement has improved in recent years, the cumbersome judicial system remains an impediment. Criminal penalties increased and procedures for prosecution were somewhat simplified when the Amendments to the Copyright Law took effect. Poland is currently on the "Special 301 Watch List" due primarily to ineffective enforcement.

Separately, pharmaceutical producers are affected by inadequate data exclusivity and patent protection for their products. Test data submitted to the government to register a drug generally receive only three years of data exclusivity. Moreover, in a number of cases firms have been allowed to register drugs based on test data submitted by a different firm less than three years previously. The government plans to harmonize its laws on drug registration and reimbursement and data exclusivity with EU laws by the end of 2000. To join the EU, Poland will also have to change its law to provide for supplemental protection certificates (patent extensions). However, issues related to harmonizing Poland's patent protection system with EU directives are being negotiated as a part of Poland's accession process.

9. Worker Rights

Poland's 1996 Labor Code sets out the rights and duties of employers and employees in modern, free-market terms.

a. *The Right of Association:* Polish law guarantees all civilian workers, including military employees, police officers, and border guards, the right to establish and join trade unions of their own choosing, and the right to join labor organizations and to affiliate with international labor confederations. The number of unions has remained steady over the past several years, although membership appears to be declining.

b. *The Right to Organize and Bargain Collectively:* The laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity, although numerous cases have been reported of employer discrimination against workers seeking to organize or join unions in the growing private sector.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor does not exist, except for prisoners convicted of criminal offenses.

d. *Child Labor Practices:* Polish law strictly prescribes conditions under which children may work and sets the minimum age at 15. Forced and bonded child labor is effectively prohibited. The State Labor Inspectorate reported increasing numbers of working children and violations by employers who underpay or pay late.

e. *Acceptable Conditions of Work:* Unions agree that the problem is not in the law, which provides minimum wage and minimum health and safety standards, but in insufficient enforcement by too few labor inspectors.

f. *Rights in Sectors with U.S. Investment:* Firms with U.S. investment generally meet or exceed the above five worker rights standards. In the last several years, there have been only a few cases where Polish unions have charged such companies with violating Polish labor law, and cases have been largely resolved. Existing unions usually continue to operate in Polish enterprises that are bought by American companies, but there tend to be no unions where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries—Stock of U.S. Direct Investment on a Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		51
Total Manufacturing		985
Food and Kindred Products	116	
Chemicals and Allied Products	276	
Primary and Fabricated Metals	20	
Industrial Machinery and Equipment	31	
Electric and Electronic Equipment	1	
Transportation Equipment	–7	
Other Manufacturing	547	
Wholesale Trade		294
Banking		409
Finance/Insurance/Real Estate		63
Services		63
Other Industries		47
TOTAL ALL INDUSTRIES		1,911

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

Note: Negative values may indicate either cumulative losses or the U.S. parent company's liabilities to its foreign subsidiary (e.g., loans extended to the parent company) in excess of its original investment.

PORTUGAL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	106.8	108.6	99.8
Real GDP Growth (pct) [3]	3.9	3.0	3.3
GDP by Sector: [2]			
Agriculture	3.5	3.6	3.3
Industry	34.7	35.3	32.3
Services	64.8	65.9	65.0
Per Capita GDP (US$) [2]	10,718	10,879	9,964
Labor Force (000s)	4,992	5,057	5,097
Unemployment Rate (pct)	4.6	4.5	3.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.8	5.9	8.0
Consumer Price Inflation	2.8	2.4	2.3
Exchange Rate (PTE/US$ annual average)	180	188	217
Balance of Payments and Trade:			
Total Exports FOB [4]	26.0	23.6	21.9
Exports to United States [4]	1.2	1.2	1.1
Total Imports CIF [4]	38.3	36.2	36.2
Imports from United States [4]	1.05	1.0	1.2
Trade Balance	–12.3	–12.7	–14.3
Balance with United States	0.15	0.2	–0.1
External Public Debt	13.6	N/A	N/A
Fiscal Deficit/GDP (pct)	1.9	1.7	1.5
Current Account Deficit/GDP (pct) [5]	4.8	6.6	8.1
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	21.6	13.1	13.9
Aid from the United States	0	0	0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are estimates based on available monthly data in October.
[2] Drop in GDP due to dollar-euro exchange rate fluctuation.
[3] Percentage changes calculated in local currency.
[4] Portuguese Ministry of the Economy.
[5] IMF figures. Bank of Portugal gives 7.7 percent for 1998, 9.3 percent for 1999, and projects 10.4 percent for 2000.

1. General Policy Framework

Prior to the 1974 Portuguese revolution, Portugal was one of the poorest and most isolated countries in Western Europe. In the twenty-six years since, however, the country has undergone fundamental economic and social changes that have resulted in substantial convergence with its wealthier European neighbors. Joining the European Union in 1986 was a primary factor in this progress. The country has not only enjoyed growing trade ties with the rest of Europe, but has been one of the continent's primary beneficiaries of EU structural adjustment funds. The last twenty-six years have witnessed not only economic growth, but also significant structural changes. An economy that was once rooted in agriculture and fishing has developed into one driven by manufacturing and, increasingly, by the service sector.

Portugal has experienced a broad-based economic expansion since 1993. Much of this growth can be linked with the country's successful efforts to join European Monetary Union (EMU), which was formally established at the beginning of 1999. To qualify for EMU, Portugal took steps to reduce its fiscal deficit and implement structural reforms. As a result, the country has benefited from currency stability, a falling inflation rate and falling interest rates. The falling interest rates, in turn, have reduced the government's interest expenditures and made it easier to meet its fiscal targets. The broader economy has been stimulated by a boom in consumer spending brought on by lower interest rates and greater availability of credit. Although the Portuguese economy has continued to expand over the past year, the rate of growth has slowed, and is forecast to be lower than the EU average for the coming year.

Although the economy is generally healthy, there is some concern among economists that the current expansion shows signs of overheating. One manifestation of the growth in consumption has been a rise in household debt, from less than 20 percent of disposable income in 1990, to a projected 92 percent of disposable income by the end of 2000. Other manifestations include an inflation rate that is persistently higher than the euro-zone average, a large and growing current account deficit, and a sharp rise in real estate prices. With monetary union, Portugal no longer has the ability to craft a monetary response to the situation. Moreover, the government has found it difficult to impose fiscal restraint; the proposed budget for 2001 projects government spending to continue to rise as a percent of GDP.

2. Exchange Rate Policy

On January 1, 1999 Portugal and 10 other European countries entered monetary union; the escudo exchange rate is fixed at 200.482 Portuguese escudos being equal to one euro. Future exchange rate policy for the euro-zone countries will be governed by the European Central Bank.

3. Structural Policies

Portugal has generally been successful in liberalizing its economy. The country has used a large proportion of the over $20 billion EU-backed regional development financing for new infrastructure projects. These projects have included new highways, urban renewal for the site of Lisbon-based EXPO 98, rail modernization, subways, dams and water treatment facilities.

Portugal has also pursued an aggressive privatization plan for state-owned companies. In 1988, state-owned enterprises accounted for 19.4 percent of GDP and 6.4 percent of total employment. By 1997, these had fallen to 5.8 percent and 2.2 percent, respectively, and the country has continued with an aggressive schedule of privatization. By the end of 1999, total privatization receipts had reached $23.5 billion. Former state-controlled companies now account for the bulk of the market capitalization of the Lisbon stock exchange and several of them have taken steps to expand their investments overseas. Notably, EDP (electricity) and Portugal Telecom (telecommunications) have made major investments in their respective sectors in Brazil.

4. Debt Management Policies

Following the removal of capital controls in 1992, lower interest rates abroad led to a shift towards a greater reliance on the use of foreign public debt, which rose to 15 percent of GDP by 1998. That debt, however, has yielded benefits in the form of longer debt maturities and lower costs for domestic debt. As a result, interest expenditure on public debt fell from 6.2 percent of GDP in 1994 to an estimated 3.2 percent of GDP in 2000.

5. Significant Barriers to U.S. Exports

The EU Customs Code was fully adopted in Portugal as of January 1, 1993. In general, EU agreements and practices determine Portugal's trade policies. Special tariffs exist for tobacco, alcoholic beverages, petroleum and automotive vehicles. Portugal is a member of the World Trade Organization.

Because Portugal is a member of the EU, the majority of imported products enjoy liberal import procedures. However, import licenses are required for agricultural products, military/civilian dual use items, some textile products and industrial products from certain countries (not including the United States). Imported products must be marked according to EU directives and Portuguese labels and instructions must be used for products sold to the public.

Portugal welcomes foreign investment and foreign investors need only to register their investments, post facto, with the Foreign Trade, Tourism, and Investment Promotion Agency. However, Portugal limits the percentage of non-EU ownership in civil aviation, television operations, and telecommunications. In addition, the creation of new credit institutions or finance companies, acquisition of a controlling interest in such financial firms, and establishment of subsidiaries require authorization by the Bank of Portugal (for EU firms) or by the Ministry of Finance (for non-EU firms).

With respect to the privatization of state-owned firms, Portuguese law currently allows the Council of Ministers to specify restrictions on foreign participation on a case-by-case basis. Portuguese authorities tend, as a matter of policy, to favor national groups over foreign investors in order to "enhance the critical mass of Portuguese companies in the economy."

Portuguese law does not discriminate against foreign firms in bidding on EU-funded projects. Nevertheless, as a practical matter, foreign firms bidding on EU-funded projects have found that having an EU or Portuguese partner enhances their prospects. For certain high-profile direct imports; i.e., aircraft, the Portuguese government has shown a political preference for EU products (Airbus).

Companies employing more than five workers must limit foreign workers to 10 percent of the workforce, but exceptions can be granted for workers with special expertise. EU and Brazilian workers are not covered by this restriction.

Portugal maintains no current controls on capital flows. The Bank of Portugal, however, retains the right to impose temporary restrictions in exceptional circumstances and the import or export of gold or large amounts of currency must be declared to customs.

6. Export Subsidies Program

Portugal's export subsidies programs appear to be limited to political risk coverage for exports to high-risk markets and credit subsidies for Portuguese firms expanding their international operations.

7. Protection of U.S. Intellectual Property

Trademark Protection: Portugal is a member of the International Union for the Protection of Industrial Property (WIPO) and a party to the Madrid Agreement on International Registration of Trademarks and Prevention of the Use of False Origins. Portugal's current trademark law entered into force on June 1, 1995. The law, however, is not considered to be entirely consistent with the terms of the trade related intellectual property provisions of GATT (TRIPS).

Copyright Protection: Portugal is finishing the process of adopting EU directives in the form of national legislation. Most recently, the country adopted the EU directive on protection of databases (Decree Law 122/2000, July 4, 2000). Software piracy remains a problem, however, with one survey indicating the rate is three percent higher this year than last.

Patent Protection: Currently, Portugal's patent protection is afforded by the Code of Industrial Property that went into effect on June 1, 1995. In 1996 new legislation was passed to extend the life of then-valid patents to 20 years, consistent with the provisions of TRIPS. The current code, however, remains inconsistent with TRIPS in certain regards. A new industrial property code has been drafted and is currently open for public comment. Portugal's perceived weak protection for test data, coupled with high registration costs, have restricted the introduction of new drugs into the country.

8. Worker Rights

a. *The Right of Association:* Workers in both the private and public sectors have the right to associate freely and to establish committees in the workplace to defend their interests. The Constitution provides for the right to establish unions by profession or industry. Trade union associations have the right to participate in the preparation of labor legislation. Strikes are constitutionally permitted for any reason; including political causes; they are common and are generally resolved through direct negotiations. The authorities respect all provisions of the law on labor rights.

Two principal labor federations exist. There are no restrictions on the formation of additional labor federations. Unions function without hindrance by the government and are affiliated closely with the political parties.

b. *The Right to Organize and Bargain Collectively:* Unions are free to organize without interference by the government or by employers. Collective bargaining is provided for in the Constitution and is practiced extensively in the public and private sectors.

Collective bargaining disputes are usually resolved through negotiation. However, should a long strike occur in an essential sector such as health, energy or transportation, the government may order the workers back to work for a specific period. The government has rarely invoked this power, in part because most strikes are limited to one to three days. The law requires a "minimum level of service" to be provided during strikes in essential sectors, but this requirement has been applied infrequently. When it has, minimum levels of service have been established by agreement between the government and the striking unions, although unions have complained, including to the International Labor Organization, that the minimum levels have been set too high. When collective bargaining fails, the government may appoint a mediator at the request of either management or labor.

The law prohibits antiunion discrimination, and the authorities enforce this prohibition in practice. The General Directorate of Labor promptly examines complaints.

There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor, including by children, is prohibited and does not occur.

d. *Minimum Age for Employment of Children:* The minimum working age is 16 years. There are instances of child labor, but the overall incidence is low and is concentrated geographically and sectorally.

The Portuguese government is fighting child labor through the office known as PEETI (Plan for Eliminating Exploitation of Child Labor), which was established by legislation passed in July 1998, and falls under the jurisdiction of the Ministry of Labor and Solidarity. The group collaborated with the ILO in 1998 and 1999 in a first of its kind survey to try to ascertain the extent of child labor in Portugal. The survey, which polled thousands of students and their parents, indicates that there are between 18,000 and 34,000 children who perform some kind of work in Portugal. The survey also indicates, however, that the majority of these situations constitute children working for their parents on family-owned farms, in labor which does not interrupt education. Portugal ratified ILO Convention 182 on June 1, 2000.

PEETI has called for stronger domestic legislation specifying the minimum age for employment, to be applied to all sectors of the economy. The organization also supports legislation which will extend labor laws to include all work done that has an economic value, even that done for family-owned businesses and farms. Finally PEETI is pushing legislation which makes it a felony to continue to employ minors once a firm has been notified of a violation.

Portugal has a regular system of unannounced inspections of firms by the Inspectorate General of Labor to check for the illegal employment of minors. Many current violations of labor laws, however, are thought to occur in the home, where children are engaged on a "piece-work" basis in the clothing and footwear sectors and where labor inspectors do not have authority to inspect. To fight this phenomenon, the Portuguese government has begun a program of unannounced inspections involving representatives of the Inspectorate General of Labor, the Social Security Inspection Services, and a representative of the court.

e. *Acceptable Conditions of Work:* Minimum wage legislation covers full-time workers as well as rural workers and domestic employees ages 18 years and over. For 2000 the monthly minimum wage was raised to 63,800 escudos/month (approximately $277 at current exchange rates) and generally is enforced. Along with widespread rent controls, basic food and utility subsidies, and phased implementation of an assured minimum income, the minimum wage affords a basic standard of living for a worker and family.

Employees generally receive 14 months pay for 11 months work: the extra 3 months pay are for a Christmas bonus, a vacation subsidy, and 22 days of annual leave. The maximum legal workday is 8 hours and the maximum workweek 40 hours. There is a maximum of 2 hours of paid overtime per day and 200 hours of overtime per year. The Ministry of Employment and Social Security monitors compliance through its regional inspectors.

Employers are legally responsible for accidents at work and are required to carry accident insurance. An existing body of legislation regulates health and safety, but labor unions continue to argue for stiffer laws. The General Directorate of Hygiene and Labor Security develops safety standards in harmony with European Union standards, and the General Labor Inspectorate is responsible for their enforcement, but the Inspectorate lacks sufficient funds and inspectors to combat the problem of work accidents effectively. A relatively large proportion of accidents occurs in the construction industry. Poor environmental controls in textile production also cause considerable concern.

While the ability of workers to remove themselves from situations where these hazards exist is limited, it is difficult to fire workers for any reason. Workers injured on the job rarely initiate lawsuits.

f. *Worker Rights in Sectors with U.S. Investment:* Legally, worker rights apply equally to all sectors of the economy.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		436
Food and Kindred Products	110	
Chemicals and Allied Products	103	
Primary and Fabricated Metals	–8	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	192	
Transportation Equipment	65	
Other Manufacturing	(1)	
Wholesale Trade		355
Banking		(1)
Finance/Insurance/Real Estate		173
Services		158
Other Industries		69
TOTAL ALL INDUSTRIES		1,478

(1) Suppressed to avoid disclosing data of individual companies.

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

ROMANIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP (billion current lei) [2]	338,670.0	521,735.5	748,457.8
Real Lei GDP Growth (pct) [3]	–5.4	–3.2	1.5
GDP by Sector (million US$):	38,157.4	34,026.9	34,537.3
Agriculture	6,067.0	4,729.7	4,256.8
Manufacturing	12,057.7	9,459.5	10,187.0
Services	20,032.7	19,837.7	20,093.5
Per Capita GDP	1,695.6	1,512.3	1,528.1
Labor Force (millions)	8.9	8.7	8.6
Unemployment Rate (pct)	10.3	11.5	10.3

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	48.9	44.9	42.5
Consumer Price Inflation (pct)	40.6	54.8	40.0
Exchange Rate (Lei/US$ annual average)			
Official	8,872.6	15,333.0	21,671.0
Parallel	9,020.0	15,300.0	21,700.0
Balance of Payments and Trade:			
Total Exports FOB[4]	8,302.0	8,504.7	10,562.8
Exports to United States[4]	319.7	316.9	387.5
Total Imports CIF[4]	11,821.0	9,592.1	11,836.6
Imports from United States[4]	499.0	362.4	288.0
Trade Balance (FOB/CIF)[4]	–3,519.0	–1,087.4	–1,273.8
Balance with United States	–179.3	–45.5	99.5
External Public and Public Guaranteed Debt	6,966.9	6,090.4	6,594.0
Fiscal Deficit/GDP (pct)	3.1	3.9	3.5
Current Account Deficit/GDP (pct)	7.9	3.8	2.7
Debt Service Payments/GDP (pct)	5.9	10.4	6.2
Gold and Foreign Exchange Reserves	2,300.3	2,492.9	3,090.3
Aid from United States	38.0	56.0	36.0
Aid from All Other Sources	204.0	172.8	322.0

[1] 2000 figures are all estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. General Policy Framework

For Romania, 2000 has been an election year when market-based economic reforms continued at an insufficient pace. A lower current account deficit, an impressive surge of exports, moderately tight fiscal policy, modest progress in privatization, a certain revival of industrial demand and therefore significant industrial output increase represented the foundation of a tiny GDP growth in 2000.

GDP is expected to rise around 1.5 percent in 2000. At the same time, the informal economy has increased to 50 percent of the formal economy. The current account deficit narrowed and external public debt slightly increased. Improved tax collection and tight public spending caused the consolidated budget deficit to drop to 3.5 percent of GDP, in line with the target set by the IMF. Public direct and guaranteed external debt service is projected to reach 6.2 percent of the GDP in 2000, down from 10.4 percent in 1999. As a result of full and timely servicing of the foreign debt, as well as increased official foreign exchange reserves (up 36.9 percent in September 2000 from September 1999), Fitch-IBCA decided in November 2000 to upgrade Romania's long-term rating from "B–" to "B" in both foreign and local currency.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner and which invited Romania to open accession negotiations. Trade with the EU now accounts for 63 percent of Romania's merchandise exports and 57 percent of imports. Trade with the United States accounts for only 3.9 percent of Romania's exports and 2.7 percent of its imports. In 2000 U.S. exports to Romania are projected to drop by 19 percent.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The leu is fully convertible for current account transactions and foreign investment. The leu depreciated substantially in 2000. For the first three-quarters of the year, the nominal devaluation was 32.4 percent, while the real one was 2.5 percent. The central bank has been committed to increase the official foreign exchange reserves in the short run and has remained committed to full convertibility in the capital account, but the necessary conditions for the latter are not yet in place and may take a few years.

3. Structural Policies

Economic reform has resulted in the passage of a wide variety of legislation affecting virtually every sector: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. While new legislation is necessary to create a basis for a market economy, rapid and erratic regulatory change has slowed the pace of trade and investment. Implementation has also been a serious problem.

Romania continues to make significant progress in its agricultural reform program. (Note: Agriculture accounts for about one-fifth of GDP, and about 35 percent of formal and informal employment is dependent on it). Prices are determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. Modest progress has been made in agricultural sector privatization, and further privatization is on track within the ASAL program agreed with the World Bank.

However, deep-seated problems remain in the agricultural sector. Among them:

the continued pervasive state presence, including price controls, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;

incomplete land reform, which has left many fragmented holdings, for which property rights are still not well-defined;

almost nil financial services, few private input suppliers, and no extension services;

agricultural coupons for diesel oil that arrive too late to be helpful for agricultural production.

The pace of reform in heavy industry has been very slow. The state has retained ownership of 65 percent of the industrial sector. While the government remains committed to privatizing or liquidating most of these firms, implementation has proved difficult. Meanwhile, industrial subsidies are still largely concentrated in loss-making industries instead of in potential growth sectors, such as IT or food processing.

4. Debt Management Policies

At the end of September 2000 Romania's medium and long-term external debt amounted to $8.8 billion, from $8.6 billion at the end of 1999. The National Bank's foreign exchange reserves amounted to $3.1 billion, gold included, and the commercial banks' reserves reached $4.5 billion in September 1999. Also, Romania has claims against foreign countries amounting to $3 billion.

The Romanian government succeeded in avoiding default in 1999, and since then has increased foreign exchange reserves, while cutting the current account deficit by more than 50 percent. After long negotiations and months of delay, the government concluded with the IMF a new standby loan, the first tranche ($73 million) of which was released in August 1999. However, the current Romanian government has failed to receive the second tranche of $117 million, out of the $450 million. The World Bank concluded at the same time a $300 million PSAL I agreement with Romania. The government received half of the loan in August 1999, and the World Bank is considering releasing the second tranche as soon as the IMF board takes a decision. Under the PSAL I agreement with the World Bank, the government has pledged to reform the banking sector, close loss-making firms and improve the business environment. In the meantime, the government succeeded in international private capital markets with one issue in July 1999 that attracted $50 million and two Eurobonds in 2000 totaling EURO 300 million.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania, as there are no laws that directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged U.S. exports in several sectors, including agriculture, telephonic equipment, computers, and beverages. For example, the duty on tires is 30.5 percent from the United States, and 18.4 percent from the EU and falling.

Bureaucratic red tape and uncertainties in the legal framework make doing business in Romania difficult. There is little experience with Western methods of negotiating contracts and, once concluded, enforcement is not uniform. In addition, delays in reconciling conflicting property claims, arising from seizures during the World War II and Communist eras, have resulted in a situation in which purchasers are potentially subject to legal challenge by former owners and title insurance is not available. The absence of clear legal recourse to recover claims against debtors is a further complication for foreign investors. Romania's customs regime imposes minimum reference prices, which is inconsistent with its WTO obligations. This has hindered U.S. exports to Romania, particularly of poultry and distilled spirits; in June 2000 the United States initiated a WTO dispute settlement case challenging Romania's use of minimum reference prices.

The cost of doing business in Romania is high, particularly for office rentals, transportation and telecommunication services. Lack of an efficient, modern payment system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital remains very expensive. Also, taxes on both profits and operations are steep. Investors complain of inconsistency in Romania's policy on tax incentives for foreign companies. Previously foreign companies qualified for some tax exemptions, based on the size of their investment. Given significant fiscal constraints and under IMF pressure, the Romanian government rescinded this in 1999, except for the case of the French car maker, Renault, which purchased the national Romanian car manufacturing company, Dacia Pitesti.

There are few formal barriers to investment in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land, for as long as the investment is in place). There are no legal restrictions on the repatriation of profits and equity capital. The continually changing legal regime for investment and privatization, however, forms a significant barrier to investment. Government approval of joint ventures requires extensive documentation. U.S. investment in Romania totaled $314.1 million by July 1999, putting the United States in fourth place among foreign investors.

Romania is a member of the World Trade Organization, but not a signatory to the agreement on government procurement.

6. Export Subsidies Policies

The Romanian government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. In addition, income derived from exports is taxed at a significantly lower rate (5 versus 25 percent). For example, the government provides refunds of import duties for goods that are then processed for export. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters, and has lately become more of an analysis bank.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property Rights

Romania has enacted significant legislation in intellectual property protection. Patent, copyright and trademark laws are in place. In the past year, Romania has adopted pipeline protection for pharmaceuticals. Enforcement is limited and ineffective.

Pirated copies of audio and video cassettes, CDs, and software are readily available. In a few cases, pirated films were broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Bern Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania will implement the WTO agreement on intellectual property on January 1, 2000. Industrial property law amendments needed for full compliance with TRIPS have already been drafted, but not yet enacted. The TRIPS-consistent Copyright and Neighboring Rights Law is very inefficiently implemented, mainly due to the lack of coordination among the government enforcement agencies, police, prosecutors and judges, as well as due to each of these organizations' lack of focus. The Business Software Association estimates that currently, pirated products account for about 80 percent of the Romanian market, down from 95 percent prior to the law's coming into force. In order to help solve this problem, the government drafted a bill regulating the customs right to check the intellectual property ramifications of imports, a draft that is still in the Parliament for action.

8. Worker Rights

a. *The Right of Association:* All workers (except public employees) have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unions.

b. *The Right to Organize and Bargain Collectively:* Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are no legal limitations on the right to strike, except in sectors the government considers critical to the public interest (e.g. defense, health care, transportation).

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 16. Children over 14 may work with the consent of their parents, but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are required to assist in this regard.

e. *Acceptable Conditions of Work:* Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard work week of 40 hours with overtime for work in excess of 40 hours, and paid vacation of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. Labor organizations continue to press for healthier, safer working conditions. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality.

f. *Rights in Sectors with U.S. Investment:* Conditions do not appear to differ in goods producing sectors in which U.S. capital is invested.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–15
Total Manufacturing		15
Food and Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	0	
Transportation Equipment	1	
Other Manufacturing	–3	
Wholesale Trade		9
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		48

(1) Suppressed to avoid disclosing data of individual companies.

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

RUSSIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	2,696	4,546	2,946
Real GDP Growth (pct)	–4.6	3.2	3.5
Per Capita Personal Income (US$)	1,168	650	459 [5]
Labor Force (000s)	72,000	72,000	73,700 [5]
Unemployment Rate (pct)	11.2	13.3	12.4 [5]

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Money and Prices (annual percent growth):			
Money Supply Growth (M2)	19.8	57.2	32.1
Consumer Price Index (percent increase)	56.4	62.0	12.0 [4]
Exchange Rate (Ruble/US$ annual average)	9.97	24.84	28.21
Balance of Payments and Trade:			
Total Exports (FOB)	71.3	71.8	47.8
Exports to United States	5.7	5.9	4.5 [6]
Total Imports (CIF)	43.6	30.2	15.5
Imports from United States	3.6	2.0	1.4 [6]
Trade Balance	27.7	41.6	32.3
Balance with United States	2.1	3.9	3.1 [6]
Current Account	1.0	25.0	11.2
External Public Debt	147	159.7	147.0 [8]
Debt Service Payments/GDP (pct)	3.7	5.9	4.0 [4]
Fiscal Deficit/GDP (pct)	5.0	1.7	–7.0 [5]
Gold and Foreign Exchange	12.2	12.5	25.0 [3]
Aid from United States (US$ millions) [7]	639.4	1,937.1	1,062
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 data has been provided for the last available period (6/00) unless otherwise noted.
[2] Billions of Russian Rubles.
[3] Data as of September 29, 2000.
[4] Data for January-August 2000.
[5] Data for the period January-July 2000.
[6] U.S. Commerce Department data for the period January-July 2000.
[7] U.S. government assistance (by fiscal year) including food assistance, not including donated humanitarian commodities shipped by U.S. government.
[8] Data as of May 2000.

Sources: Russian Statistics Committee (Goskomstat), Russian State Customs Committee, International Monetary Fund, Department of State S/NIS/C and embassy estimates.

1. General Policy Framework

The Russian economy is in its second year of economic growth, the longest and only substantial period of economic expansion since the collapse of the USSR. Growth is the result of improved corporate competitiveness as a result of the 1998 ruble devaluation, high commodity prices, and lately increased investment. Growth has been accompanied by increased monetization of the economy, a substantially improved fiscal situation, and a perception of greater political stability. Whether economic growth continues depends on several factors, some internal (continued structural reform, domestic investment, improved rule of law) and some external (oil and other commodity prices, foreign investment flows).

The Russian economy grew 3.2 percent in 1999. In the first six months of 2000, GDP increased 7.5 percent (year-on-year) and forecasts for calendar year 2000 are for 6.5 percent GDP growth. The major growth component continues to be net exports, particularly oil and other commodities, now enjoying substantially higher prices. Imports remain depressed, although there is some evidence that the volume of imports (as opposed to their dollar value) is increasing, masked by the weakness of the euro against both the dollar and the ruble. (Note: Many of Russia's imports are denominated in euros). Domestic demand is increasing, but has not yet recovered from the 1998 financial crisis. Investment also increased substantially in 2000 based on high corporate retained earnings, up 17.2 percent in the first seven months compared to the same period in 1999.

In the medium term, sustainable economic growth will depend on a continued recovery in domestic demand, and investment, underpinned by progress on structural reform. The Russian government has begun to implement its reform program, passing a major tax reform and simplifying the tariff system. However, the lack of significant progress on other structural reforms, including corporate governance, deregulation, competition policy, land reform and banking reform, contributed to a difficult investment climate, continued net capital outflow (although the pace of capital flight has slowed). The banking sector has stabilized from its collapse in 1998, but still is not in a position to effectively intermediate savings to productive investments on a large scale. State banks increasingly are crowding out private banks for commercial lending.

The substantial improvement in Russia's fiscal situation was in 1999 and 2000 was greatly aided by an improved external environment but also reflects better fiscal policy. Fiscal policy for the first seven months of the year was very disciplined, with both primary and overall surpluses. Revenues were R596.1 billion, or 17 percent of GDP, while expenditures were R463.7 billion, or 13.2 percent of GDP. Monetary policy has been moderately tight during the first eight months, with base money increasing 31.1 percent. The budget surplus has been the major factor on this regard, absorbing monetary liquidity created by the Central Bank of Russia's (CBR) doubling its reserves in the first nine months of 2000. Meanwhile, keeping monetary growth even to this level has been a significant challenge, in the context of high dollar inflows and the government's desire to build reserves and avoid significant ruble appreciation or inflation. The Russian government and CBR continue to coordinate their fiscal and monetary policies to try to avoid substantial real ruble appreciation. The CBR has intervened selectively to even out exchange rate fluctuations, preventing sharp appreciation or depreciation

The positive trend for Russia's economy should be put in perspective. The cost of Russia's 1998 financial collapse was significant. Measured in dollar terms at the average rate of exchange (and keeping in mind that the sharp devaluation may have magnified the drop), Russia's GDP in 1999 was only about $183 billion, slightly more than half of its value in 1995 ($337 billion). Even with strong growth in 2000 and some real ruble appreciation, Russia's GDP in dollar terms may not reach precrisis levels until 2001 or later.

2. Exchange Rate Policy

The objective of the Central Bank of Russia's (CBR) exchange rate policy is to prevent sharp fluctuations in exchange rates. The CBR and Russian government also are working together to prevent significant real ruble appreciation due to high dollar inflows from high oil and commodity prices. The nominal ruble/dollar exchange rate has remained relatively flat, rising less than one ruble from 27 to 27.8 in the first eight months. Factoring in differences in inflation, the ruble has appreciated 7.8 percent against the dollar in real terms during the first eight months. Given the large devaluation in 1998, the price competitiveness of imported goods (including U.S. goods) has recovered only marginally due to this real appreciation in exchange rates. During the first nine months of 2000, the CBR's international reserves more than doubled, from $12.3 billion to $25 billion. High ruble liquidity, as reflected in the approximately R75–90 billion held in banks' correspondent accounts at the CBR, reflect the CBR's purchase of dollars. Much of these CBR ruble emissions have been "sterilized" by the Russian government's budget surplus.

Part of the ruble's strength can be explained by administrative controls maintained by the CBR. The CBR continues restrictions on foreign exchange for import contracts, requiring 75 percent of repatriated export proceeds to be sold on authorized exchanges, not allowing banks to trade on their own accounts, limiting the conversion of funds in S-accounts from the GKO restructuring, and requiring banks to deposit amounts equivalent to those it holds in S-accounts of non-residents. Under such conditions, the CBR only needs to make tactical interventions in the foreign exchange markets to smooth volatility.

3. Structural Policies

Conclusion of Russia's election cycle gave new impetus to economic and structural policy, which had been on hold through 1999. Even before his elevation to the Presidency on an acting basis at the end of the year, Vladimir Putin created a Center for Strategic Research under the direction of Deputy Minister for State Property German Gref, and directed that it formulate a 10-year strategic reform plan. That plan was presented to the Russian government in May 2000, and formally adopted by it at the end of July. Gref assumed primary responsibility for its implementation with his appointment as Minister for Economic Development and Trade, a new "super-ministry" that united six past Ministries and Committees in part or in whole.

The new direction from above, coupled with the more cooperative Duma that emerged from the December 1999 elections, holds out hope that the effective policy stalemate that characterized the economic sphere through the last years of the Yeltsin Presidency may be at an end. Putin and his government won early successes in the summer of 2000, with the implementation of far-reaching tax reform, that set a 13 percent flat rate income tax and which drastically scaled back the country's infamous turnover tax.

Overall, the "Strategy of Development of the Russian Federation through 2010" is an ambitious reform program that seeks a middle course between "paternalism" and "radical liberalism." It focuses on modernizing the economy through releasing private initiative and ensuring a favorable environment for economic activity, including fair rules for competition, deepening of the rule of law, integration into the world economy, and reform of Russia's natural monopolies. The strategy includes a detailed table of actions to be undertaken in its initial 18 months, and more general goals for the following eight years.

4. Debt Management Policies

The Government of Russia seeks to reduce substantially its internal and external debt, and to minimize new debt or contingent guarantee liability. In 2000 government budget surpluses, combined with trade and current account surpluses have allowed Russia to meet external debt payments and build Central Bank reserves. Since the August 1998 financial crisis, it has restructured almost all of its internal and pre-1992 external debt. In August 1999 it reached agreement with the Paris club to restructure Soviet-era payments falling due through the end of 2000. In February 2000 it reached agreement with its London Club commercial creditors to restructure and reduce the commercial debt inherited from the Soviet government. It has announced plans to complete the restructuring of its MinFin3 bonds before the end of 2000. The 2001 Russian government budget assumes further restructuring of roughly $6.6 billion in Paris Club service payments falling due during next year. Any new restructuring arrangement, however, requires agreement on an IMF program.

The CBR continues to prohibit the conversion of S-account (accounts through which non-residents invested in government securities) rubles to foreign currency, except during occasional CBR foreign exchange auctions. Investors also may invest restricted S-account rubles in certain securities. Many foreign S-account holders were able to repatriate their funds, at substantial discounts, through schemes by which they bought and then resold authorized securities.

The Government of Russia continues to negotiate with the IMF on a new program. The World Bank is negotiating with the government on a successor to its Structural Adjustment Loan (SAL), which failed due to lack of progress on structural reform legislation.

5. Significant Barriers to U.S. Exports

U.S. exports to Russia continue to suffer more from unfavorable economic conditions in Russia than from statutory trade barriers. Despite the overall improvement in Russian macroeconomic indicators, the effects of the August 1998 devaluation and depressed purchasing power of most Russians continue to depress imports. Russia's overall imports in the first half of 2000 were up only seven percent from the very depressed levels of the same period in 1999. U.S. exports to Russia have recovered only slightly from sharply reduced levels in 1999. Exporters have been cautious about entering the Russian market, suffering from reduced availability of trade finance and in some sectors facing much stronger domestic competition, as some Russian companies have used the weak ruble to build up their market share.

Since 1995, Russian tariffs have generally ranged from zero to thirty percent, with average import tariff rates at 11.4 percent. However, for some products, including poultry and automobiles, compound duties with minimum tariffs per unit or by weight effectively have raised tariff rates above their ad valorem equivalents. This has been particularly the case for poultry imports, although the Russian government did unify poultry tariffs at 25 percent in August, reducing duties on chicken, while increasing duty on other poultry meat. In addition, excise and Value-Added Tax (VAT) is applied to selected imports. The VAT, which is applied on the import price plus tariff, is currently 20 percent with the exception of some medicines and food products, which are taxed at 10 percent. Under the government's reform program, Russia in September 2000 adopted a new unified tariff regime, which will apply the same duty across broad product categories. These new tariffs, which take effect in January 2001, will generally range from 5 to 20 percent, with a very small number of items remaining at the zero (insulin), 25 (poultry) and 30 percent (sugar) levels. For sugar, Russia also has resorted to high seasonal tariffs on top of these rates and the introduction of a tariff rate quota. The Russian government believes its new tariff structure will simplify customs administration, reduce fraud, and through better compliance eventually increase customs revenues and effective protection, even though the proposal will reduce overall tariff levels.

Other Russian tariffs that have stood out as particular hindrances to U.S. exports to Russia include those on autos (where combined tariffs and engine displacement-weighted excise duties can raise prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent); some semiconductor products; and aircraft and certain aircraft components (for which tariffs are set at 30 percent). The tariff unification may reduce these tariffs, but the exact effect depends on how the Russian government sets specific and compound duties, which is still undetermined. The Russian government continues to make waivers on aircraft import tariffs for purchases by Russian airlines contingent on those airlines' purchases of Russian-made aircraft.

Throughout 2000 Russia maintained or increased export duties (for exports to non-CIS countries) on many products as a revenue measure. Initially, these duties were imposed on oil and gas, but have since been expanded to include many export commodities, including fertilizers, paper and cardboard, some ferrous and non-ferrous metals, and agricultural products, including oilseeds raw hides, and hardwoods, all ranging from 5 to 30 percent. Throughout the year, the government has increased export duties on crude oil and oil products, and recently decided to set crude oil export duties from 27 to 34 euro per ton, effective November 2000.

Import licenses are required for importation of various goods, including ethyl alcohol and vodka, color TVs, sugar, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. Most import licenses are issued by the Russian Ministry of Economic Development and Trade or its regional branches, and controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs.

Throughout 2000 the government has continued tight controls on alcohol production, including import restrictions, export duties, and increased excise taxes. Many of these controls are designed to increase budget revenues.

In spring 1998 Russia passed the Law on Protective Trade Measures, which provides the government authority to undertake antidumping, countervailing duty and safeguard investigations, under certain conditions. In 2000 for the first time, Russian companies filed a successful action under this law, a special safeguard action on starch molasses imposed in March 2000. In addition, two other actions remain under investigation: an anti-dumping case against steel pipe from Ukraine, and a safeguard case on potato and corn starch. The Ministry of Economic Development and Trade has stated it plans to submit amendments to the Law on Protective Trade Measures, to make easier for Russian companies to file actions. Under the government's economic reform plan, such protective actions, and not tariffs, are to become the preferred method for protecting domestic industry. The government has introduced tariff rate quotas on sugar (not exported by the United States to Russia) and domestic industry has advocated extending such quotas to poultry imports, although no government action has been taken.

The June 1993 Customs Code standardized Russian customs procedures generally in accordance with international norms. However, customs regulations change frequently, (often without sufficient notice), are subject to arbitrary application, and can be quite burdensome. In addition, Russia's use of minimum customs values is not consistent with international norms. In April 2000 the State Customs Committee implemented a restriction that forced U.S. poultry importers to ship directly through Russian ports, rather than through warehouses in the Baltic States, as had been their practice. On the positive side, Russian customs is implementing the "ClearPac" program in the Russian Far East that facilitates customs clearance from the United States.

U.S. companies continue to report that Russian procedures for certifying imported products and equipment are non-transparent, expensive, time-consuming and beset by redundancies. Russian regulatory bodies also generally refuse to accept foreign testing centers' data or certificates. U.S. firms active in Russia have complained of limited opportunity to comment on proposed changes in standards or certification requirements before the changes are implemented, although the Russian standards and certifications bodies have begun to work closely with the American Chamber of Commerce in Russia to provide additional information. Occasional jurisdictional overlap and disputes between different government regulatory bodies compound certification problems.

Under current law some of Russia's legislation in the services sector is overtly protectionist, and a draft law before the parliament could codify restrictions and bans on foreign investment in many services sectors, although its passage is currently uncertain. Formally, foreign participation in banking has been limited to 12 percent of total paid-in banking capital. In the aftermath of the financial crisis, foreign banks' share has exceeded this limit, but the government has taken no action, and the Central Bank of Russia has indicated it will seek a higher quota so as not to impede foreign bank entry, or possibly eliminate the quota altogether. Foreign investment is also limited in other sectors, such as electricity generation and aviation. In October 1999 a law took effect, which implicitly allows majority-foreign-owned insurance companies to operate in Russia for the first time, but restricts their total market capitalization and prohibits them from selling life insurance or obligatory types of insurance. The law contains a "grandfather clause" exempting the four foreign companies currently licensed in Russia from these restrictions. In practice, foreign companies are often disadvantaged vis-a-vis Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees.

Despite the passage of a revised law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The Law on Foreign Investments provides that a single agency (still undesignated) will register foreign investments, and that all branches of foreign firms must be registered. The law does codify the principle of national treatment for foreign investors, including the right to purchase securities, transfer property rights, protect rights in Russian courts, repatriate funds abroad after payment of duties, and to receive compensation for nationalizations or illegal acts of Russian government bodies. However, the law goes on to state that Federal law may provide for a number of exceptions, including where necessary for "the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." The potential large number of exceptions thus gives considerable discretion to the Russian government. The law also provides a "grandfather clause" that existing "priority" foreign investment projects with a foreign participation over 25 percent be protected from unfavorable changes in the tax regime or new limitations on the foreign investment. The definition of "priority" projects is not fully clear, although it appears that projects with a foreign charter capital of over $4.1 million and with a total investment of over $41 million will qualify. Furthermore, lack of corresponding customs and tax legislation has so far prevented implementation of these tax protections ostensibly afforded by the investment law. In addition, although the situation has improved over the past few years, foreigners encounter significant restrictions on ownership of real estate in some cities and regions in Russia.

The government maintains a monopoly on the sale of precious and several rare-earth metals, conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. Throughout 1999 the government has sharply restricted exports of platinum group metals, based on new legislation. An August 1997 series of Presidential Decrees on military exports remain in effect. These decrees established tighter control over military exports by the state enterprises, Rosvooruzheniye and Promeksport, and opened the door to future direct sales by arms manufacturers, if licensed and approved by the Ministry of Industry, Science, and Technology.

Most of these issues are the subject of discussion, as Russia continues to negotiate its accession to the World Trade Organization (WTO). By the end of 2000, the government completed ten working party meetings. It has conducted negotiations on its goods and services market access offer throughout the year, and the government has announced that accelerated WTO accession will be a priority. The Russian government provided a revised goods market access offer in 2000, and plans to revise its services offer by early 2001. Russia is not yet a signatory of the WTO Government Procurement or Civil Aircraft codes.

6. Export Subsidies Policies

The government has not instituted export subsidies, although a 1996 executive decree allows for provision of soft credits for exporters and government guarantees for foreign loans. The government does provide some subsidies for the production of coal, but coal exports are minimal. Low domestic prices for energy, which are provided to all industries, are seen by some as providing a hidden subsidy to some export industries, such as metals producers. However, the government is moving to encourage more realistic pricing for energy. Soft credits are at times provided to small enterprises for specific projects. Senior Russian officials have publicly advocated establishing an export credit agency, along the lines of the U.S. Exim Bank, but no concrete steps have been taken to establish such an agency.

7. Protection of U.S. Intellectual Property

Under the U.S.-Russia Trade Agreement that was originally signed with the Soviet Union in 1990, Russia is obligated to take steps that would provide for the adequate and effective protection and enforcement of intellectual property (IP). In order to address these obligations, the United States and Russia established a bilateral working group as called for under the 1990 Trade Agreement; the bilateral working group is scheduled to meet again in early 2001. In addition, Russia is in the process of accession to the World Trade Organization (WTO) and, accordingly, must fully comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement upon its accession. In 2000 the U.S. Trade Representative retained Russia on the "Special 301" Priority Watch List for a fourth year due in large part to concerns over weak enforcement of IP laws and regulations as well as the lack of retroactive copyright protection for U.S. works in Russia. In 2000 the U.S. copyright industry filed a petition with the U.S. Trade Representative requesting review of Russia's eligibility under U.S. Generalized System of Preferences (GSP) program, citing deficiencies in Russia's IP regime and inadequate enforcement of IP in Russia.

Russia is currently a member of the World Intellectual Property Organization (WIPO) and has acceded to the obligations of the former Soviet Union under the Paris Convention for the protection of industrial property (patent, trademark and related industrial property), the Madrid Agreement Concerning the International Registration of Marks, and the Patent Cooperation Treaty. Russia has also become a signatory to the Bern Convention for the Protection of Literary and Artistic Works (copyright), as well as the Geneva Phonograms Convention.

In 1992–93 Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. Legal enforcement of intellectual property rights (IPR) continued to show a pattern of slow improvement in 2000 with several large raids on manufacturing facilities, wholesale and retail outlets of pirated goods. A new Criminal Code took effect January 1, 1997 that contains considerably stronger penalties for IPR infringements. However, there are still disappointingly few cases in which these penalties have been applied. Widespread sales of pirated U.S. videocassettes, recordings, books, computer software, clothes, toys, foods and beverages continue. The Russian Patent and Trademark Agency (Rospatent) was re-established as an independent agency this year, and was given full authority for intellectual property rights policy.

The Patent Law includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins. The Law on Copyright and Associated Rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years. The September 1992 Law on Topography of Integrated Microcircuits, which also protects computer programs, protects semiconductor topographies for 10 years from the date of registration. The government plans to submit new draft legislation by the end of 2000 to the parliament to provide for retroactive protections for copyrights and other measure to bring Russia into compliance with its bilateral and multilateral obligations.

Losses to U.S. industry from pirated products sold in Russia (a significant portion of which are produced in third countries) are estimated to be significant, although there are few reliable estimates of their value. Counterfeit goods also cause significant losses, in many cases for U.S. firms that have local production. Investors in the consumer goods sector increasingly are warning the Russian government that they will not make further investments if infringement of intellectual property rights continues.

8. Worker Rights

a. *The Right of Association:* The law provides workers with the right to form and join trade unions, but practical limitations on the exercise of this right arise from governmental policy and the dominant position of the formerly governmental Federation of Independent Trade Unions of Russia (FNPR). As the successor organization to the governmental trade unions of the Soviet period and claiming to represent 80 per cent of all workers, the FNPR occupies a privileged position that inhibits the formation of new unions. In some cases, FNPR local unions have continued to work with management to destroy new unions. While recent court decisions have supported the right of association and often ruled in favor of employees, enforcement of these decisions remains difficult. The parliament will consider this fall an amendment to the Law on Trade Unions that could set complicated new re-registration requirements for unions.

b. *The Right to Organize and Bargain Collectively:* Although the law recognizes collective bargaining, and requires employers to negotiate with unions, in practice employers often refuse to negotiate and agreements are not implemented. Past court rulings have established the principle that non-payment of wages (by far the predominant grievance) is an individual dispute and cannot be addressed collectively by unions. As a result, a collective action based on non-payment of wages would not be recognized as a strike, and individuals would not be protected by the Labor Law's guarantees against being fired for participation. The right to strike is difficult to exercise. Most strikes are considered technically illegal, as the procedures for disputes remain exceedingly complex. Moreover, courts have the right to order the confiscation of union property to settle damages and losses to an employer, if a strike is found to be illegal. Reprisals for strikes are common, although strictly prohibited by law. In December 2000 the parliament will consider two draft versions of a new Labor Code. The first was proposed by the government last year and emphasizes labor mobility and a reduction of the so-called "gray economy." The other is supported by pro-union deputies in the parliament and proposes to strengthen trade union rights and workers' guarantees, including indexation of delayed wages.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor by adults and children. There are documented cases of soldiers being sent by their superior officers to perform work for private citizens or organizations. Such labor may violate military regulations and, if performed by conscripts, would be an apparent violation of ILO convention 29 on forced labor.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits regular employment for children under the age of 16 and also regulates the working conditions of children under the age of 18, including banning dangerous, nighttime and overtime work. Children may, under certain specific conditions, work in apprenticeship or internship programs at the ages of 14 and 15. Accepted social prohibitions against the employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor legislation. The government prohibits forced and bonded labor by children, and there have been no reports that it occurred. However, an increase in the number of children working and living on the streets is largely the result of drastic economic changes and a deterioration in the social service infrastructure.

e. *Acceptable Conditions of Work:* The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period. The law requires premium pay for overtime work or work on holidays. The government-supported draft of the new Labor Code proposes loosening present restrictions on the work day, including conditions under which women may work and other measures that will reduce government control of the workplace. Wage arrears during the first half of 2000 fell by over 80 percent in real terms compared with the same period in 1998. However, the monthly minimum wage of $4.70 (132 rubles) remains below the official subsistence level of $42 (1,185 rubles) and approximately 34.7 percent of the population have incomes below this survival level. Workers' freedom to move in search of new employment is virtually eliminated by the system of residency permits. The law establishes minimal conditions of workplace safety and worker health, but these standards are not effectively enforced.

f. *Rights in Sectors with U.S. Investment:* Observance of worker rights in sectors with significant U.S. investment (petroleum, telecommunications, food, aerospace, construction machinery, and pharmaceuticals) did not significantly differ from observance in other sectors. There are no export processing zones. Worker rights in the special economic zones/free trade zones are fully covered by the Labor Code.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		627
Total Manufacturing		(1)
Food and Kindred Products	127	
Chemicals and Allied Products	–107	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	2	
Electric and Electronic Equipment	(2)	
Transportation Equipment	0	
Other Manufacturing	–67	
Wholesale Trade		–124
Banking		–141
Finance/Insurance/Real Estate		(1)
Services		–166
Other Industries		324
TOTAL ALL INDUSTRIES		509

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/–).

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

SPAIN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Real GDP (1995 prices) [2]	538.6	534.1	485.7 [3]
Real GDP Growth (pct) [4]	4.3	4.0	4.1
GDP (at current prices)	582.1	595.3	566.3
GDP by Sector:			
Agriculture	23.2	22.4	19.2
Industry	122.2	120.8	136.1
Construction	40.5	43.3	43.0
Services	344.3	351.7	327.6
Government	51.9	57.3	58.7
Per Capita GDP (US$)	14,626	14,957	14,229
Labor Force (000s)	16,265	16,423	16,700
Unemployment Rate (pct)	18.8	15.9	14.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.0	6.0	1.0
Consumer Price Inflation	1.8	3.0	4.0
Exchange Rate (PTA/US$ annual average)	149.4	156.3	180.0
Balance of Payments and Trade:			
Total Exports FOB [5]	108.9	111.4	125.0
Exports to United States [5]	4.6	4.8	5.6
Total Imports CIF [5]	133.1	146.3	170.0
Imports from United States [5]	7.8	7.9	9.0
Trade Balance [5]	–23.5	–34.9	–45.0
Balance with United States [5]	–3.2	–3.1	–3.4
Fiscal Deficit/GDP (pct)	1.8	1.1	0.4
Public Debt	65.6	66.4	51.0
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	60.7	39.8	42.0

[1] 2000 figures are all estimates based on available monthly data in July.
[2] GDP at factor cost.
[3] Devaluation.
[4] Percentage changes calculated in local currency.
[5] Merchandise trade. Spanish National Institute of Statistics.

Note: Estimates for 2000 show lower figures in dollars than previous years due to a rise in the U.S. dollar/Spanish peseta exchange rate.

1. General Policy Framework

Spain's economy is expected to grow by four percent in 2000. While this growth is expected to continue in 2001, growth prospects may be dampened somewhat by inflationary pressures due to a prolonged depreciation of the euro, exacerbated by continued elevated oil prices. Thus far, growth continues to be broadly based and is supported by the services sector, agriculture, construction, consumer demand, and capital goods investment.

Throughout the 1990s much of Spain's economic policy had focused on meeting Maastricht targets so that Spain could become one of the founding members of the euro. These policies have continued in the guise of the Stability Pact, which, if anything, has a bias toward even stricter fiscal policy than the preceding agreement. Together these policies have provided continuing benefits in the form of lower interest rates, which in turn have promoted investment, construction, and consumer demand. This increased economic activity has provided increased income and higher tax receipts, which have allowed Spain to handily meet government deficit/GDP targets. Government fiscal restraint, higher tax receipts, and lower interest on government debt (courtesy of lower euro interest rates) should allow the government's deficit/GDP ratio to fall to 0.4 percent in 2000. The government's overall debt/GDP ratio should fall to 60 percent in 2000.

Economic growth has decreased unemployment to the lowest levels in a over a decade. Although high compared to EU averages, Spain's current unemployment rate of 15 percent and increasing evidence of sectoral labor shortages points to a strongly growing economy. Employment growth has been underwritten by changes in 1998 and 1999 that provided flexibility in hiring practices that lessen somewhat the high costs of permanent new hires. Despite the labor market's rigidities, Spain creates more jobs than any other EU country.

2. Exchange Rate Policy

The Spanish peseta/euro rate was fixed on January 1, 1999 at 166.386 pesetas to the euro. Average dollar/euro rate to date in 2000 has been 0.960 or 180.0 pesetas to the dollar. The rate at the time this is being drafted is 1 euro equals $0.8476.

3. Structural Policies

Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly Spain follows the U.S.-EU mutual recognition agreements in its application of certain non-tariff regulations and conformity assessment procedures applied to certain goods from the United States.

In 1989 as part of the investment sector reforms necessary to comply with EU membership, Spain made stock market rules and operations more transparent and provided for the licensing of investment banking services. The reform also eased conditions for obtaining a broker's license. A 1992 Investment Law removed many administrative requirements for foreign investments. EU resident companies (i.e. companies deemed European under article 58 of the Treaty of Rome) are free from almost all restrictions. Non-EU resident investors must obtain Spanish Government authorization to invest in broadcasting (signatories to the WTO Telecoms Agreement are exempt from this requirement), gaming, air transport, or defense. Restrictions in transport are facing increasing pressure as the government looks to finalize privatizing its national airline, Iberia.

Under its EU accession agreement, Spain was forced to transform its structure of formal and informal import restrictions for industrial products into a formal system of import licenses and quotas. While Spain does not enforce any quotas on U.S.-origin manufactured products, it still requires import documents for some goods, which are described below. Neither of the following documents constitutes a trade barrier for U.S.-origin goods:

> Import Authorization *(autorizacion administrativa de importacion)* is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-origin goods, the document is used for statistical purposes only or for national security reasons;
>
> Prior Notice of Imports *(notificacion previa de importacion)* is used for merchandise that circulates in the EU customs union area, but is documented for statistical purposes only. The importer must obtain the document and present it to the general register.

Importers apply for import licenses at the Spanish general register of Spain's secretariat of commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoice number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Not infrequently, U.S. products face rigorous application of import requirements. Goods that are shipped to a Spanish customs area without proper import licenses or declarations are subject to considerable delay, may run up substantial demurrage charges, and have recently been rejected outright. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

The government has signed and ratified the Marrakech Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policy

Almost 30 percent of Spanish medium and long-term debt is held by non-residents. Approximately 21 percent of Spanish Government debt is short-term (less than one year) and 79 percent is long-term (i.e. maturities greater than five years).

At the end of June 2000, international reserves at the Bank of Spain totaled 39.4 billion euros or $37.7 billion.

5. Significant Barriers to U.S. Exports:

In general, EU agreements and practices determine Spain's trade policies. These policies include preferential trade agreements with many countries.

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic market to compete with domestic production. However, the Uruguay Round agreement has required that all import duties on agricultural products be reduced by an average of 20 percent during the five year period from 1995 to 2000.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. At times, these regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone-treated beef, imposed in 1989 with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in beef production in the EU, including in Spain, the EU continues to ban U.S. beef originating from feedlots where growth promoters have been used safely and under strict regulation for many years. Despite a WTO ruling requiring the EU to remove the ban, the EU ban on imports of hormone treated beef remains in effect.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation was fully implemented in Spain. Agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an enlargement agreement with the EU in 1987, which established a 2.3 million ton annual quota for Spanish imports of corn and specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement had the effect of extending this agreement indefinitely.

As an EU member state, Spain must also abide by EU procedures for approving the commercialization of products generated with the aid of biotechnology. The EU's lengthy and non-transparent process for approving bioengineered agricultural products has halted U.S. corn exports to Spain. Due to the EU's failure to approve all but two transgenic corn varieties, U.S. corn exports to Spain have virtually been eliminated, costing U.S. exporters about $150 million per year. Unless the EU takes steps to lift its moratorium on approval of transgenic products and streamlines its biotech product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue and is currently exploring the concept of providing USDA certified, identity preserved corn shipments, containing only EU approved varieties.

Telecommunications: Spain liberalized its telecommunications market beginning December 1, 1998. Prior to this date, the government phased in competition in basic telephony through licenses granted to privatized second operator Retevision and to third operator Lince/Uni2 (France Telecom), in addition to incumbent operator Telefonica. Cable operators were allowed to provide basic telephony beginning January 1, 1998, but only by using their own networks; that is, they could provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, such as bureaucratic obstacles at the municipal level, the arrival of digital satellite television, and problems with new entrants forging interconnection agreements that are unbundled, transparent, timely and cost-oriented, has resulted in a slow start for the establishment of the cable sector in Spain.

Digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are three digital television platforms, Via Digital, Canal Satellite Digital, and Onda Digital/Retevision (over a terrestrial network), which currently offer digital television programming. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. The government granted four licenses for third generation mobile telephony in March 2000, and six licenses for wireless local telephone services. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government has established the Telecommunications Market Commission (CMT) as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took effect on January 1, 1997. Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements: On May 13, 1999 the Spanish parliament adopted new legislation that incorporates the revised EU Television without Frontiers Directive and revises the 1994 Spanish law on television broadcasting. The new law explicitly requires television operators to reserve 51 percent of their annual broadcast time to European audiovisual works. It also obliges television channels to devote five percent of their annual earnings to finance European feature length films and films for European television.

Motion Picture Dubbing Licenses and Screen Quotas: In January 1997 the government adopted implementing regulations for the 1994 Cinema Law, which reserved a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations eased the impact of the 1994 law on non-EU producers and distributors in regard to screen quotas and dubbing licenses. The screen quotas finally adopted required exhibitors to show one day of EU-produced film for every three days of non-EU-produced film instead of the original ratio of one to two. The three-tiered system established for dubbing licenses under the 1994 law ended in June 1999. In January 2000 the administration sent new draft film legislation to Parliament that calls for a gradual elimination of screen quotas over a period of five years. Approval is pending.

Despite remaining protectionist elements, Spain's theatrical film system has been modified sufficiently in recent years so that it is no longer a major source of trade friction as it had been earlier. In 1998, however, the Catalan regional government adopted a decree under its new law on language policy, which calls for both dubbing and screen quotas in order to increase the number of films being shown in the Catalan language. Due to strong industry opposition and the start of negotiations with film distributors and exhibitors to resolve their differences, the Catalan government decided to suspend implementation of the law. In March 2000 the regional government annulled the legislation due to strong resistance from film distributors.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU. After several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations in this area to conform to EU directives. For example, now all telecom equipment must carry the CE mark, which certifies that it complies with all applicable EU directives. This process may take three to four months after all tests have been performed and necessary documents are submitted. However, recognition from other EU countries and an early presentation of all documentation can speed up the process considerably. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

In general there has been improved transparency of process. For example, the CE registration for medical equipment from any of the EU member states is considered valid here. Thus, the product registration procedure is shortened (to about six months) and no longer must be initiated by a Spanish distributor. Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU pharmaceutical agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The U.S.-EU MRA, when fully implemented, will permit certain conformity assessments (e.g., product tests) to be performed in the United States to EU requirements. This should improve market access, reduce costs, and shorten the time required to market certain U.S. products in the EU.

Aviation: Under the "Open Skies" aviation agreements that the U.S. has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Spain is one of several member states without an Open Skies agreement, and where the U.S.-Spain bilateral aviation agreement still contains some limitations.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports in Latin America, the Maghreb, and China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to about $221.2 million in 1999. Spanish exports of grains, olive oil, other oils, wine, sugar, dairy products, beef, pork, poultry, and fruits and vegetables benefited most from these subsidies in 1999. Agricultural exports totaled $17.2 billion in 1999.

The Spanish government has indicated that it is likely to provide financial support to Airbus for the development of the A380 megaliner. The terms of its financial support had not been decided at the time of writing.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws, as agreed at the time of its EU accession in 1986. It enacted a new Patent Law in March of 1986, a new Copyright Law in November 1987, and a new Trademark Law in November of 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Bern, and Universal Copyright Conventions and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In October 1992 Spain enacted a modernized Patent Law which increases the protection afforded patent holders. At that time, Spain's pharmaceutical process patent protection regime expired and product protection took effect. However, given the long (10 to 12 year) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until 2002 or 2003. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered significant losses as a result. This year the government introduced an amendment to Article 100 of the Medicine's Act in an attempt to address the issue.

The Copyright Law is designed to redress historically weak protection accorded movies, videocassettes, sound recordings and software. It includes computer software as intellectual property, unlike the prior law. In December 1993 legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits and searches to take place under these provisions.

In 1999 Spain was placed on the Special 301 "Watch List" because of the continuing high level of business software piracy. The U.S. Trade Representative found that "illegal copying of business application software for internal use remains pervasive and continues to account for the majority of losses to industry in Spain stemming from piracy." In addition, the Special 301 review found that despite earnest efforts by Spanish government officials to educate the judiciary about the importance of intellectual property rights protection, civil and criminal court proceedings continued to move so slowly as to dilute the impact of improved police enforcement.

Spain maintains a sound record of low incidence of motion picture (i.e. video) and audiocassette piracy. The Spanish government prohibits the running of cable across public thoroughfares and also strictly enforces the Copyright Law that stipulates that no motion picture can be shown without authorization of the copyright holder.

Spain's Trademark Law incorporates by reference the enforcement procedures of the Patent Law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. The government has drafted a new Trademark Law which will incorporate TRIPS, the EU Community Trademark Directive, and the Trademark Law Treaty, and which will most likely be adopted in 2000. But first, the Spanish Supreme Court rendered a verdict on July 8, 1999, on case presented by Catalan and Basque governments against the existing trademark law, Ley 32/1998. The text of the law and its verdict is available at the Internet address: *www.oepm.es*, under AVISOS Y NOTICIAS and NORMATIVA. National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the government began to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to cope more effectively. Despite these efforts, industry estimates rank Spain as the country with the second highest incidence of trademark fraud in the clothing sector in Europe.

In September 1999, in a trademark case in which a well-known U.S. apparel manufacturer complained about infringement of its brand name, the Spanish Supreme Court handed down a decision denying it the right to continue marketing its products under its trademark name in Spain. The Spanish Constitutional Court has accepted the case for review. A decision is still pending.

8. Worker Rights

a. *The Right of Association:* All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was established by the workers statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. *Minimum Age for Employment of Children:* The legal minimum age for employment as established by the workers statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The workers statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work:* Workers in general have substantial, well defined rights. A 40 hour workweek is established by law. Spanish workers enjoy 14 paid holidays a year (12 assigned by central government and 2 by autonomous authorities) and a month's paid vacation. The employee receives his annual salary in 14 payments: one paycheck each month and an "extra" check in June and in December. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome.

f. *Rights in Sectors with U.S. Investment:* Conditions in sectors with U.S. investment do not differ from those in other sectors of the economy.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		200
Total Manufacturing		7,786
Food and Kindred Products	1,579	
Chemicals and Allied Products	1,507	
Primary and Fabricated Metals	1,191	

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

[Millions of U.S. Dollars]

Category	Amount	
Industrial Machinery and Equipment	125	
Electric and Electronic Equipment	1,015	
Transportation Equipment	1,346	
Other Manufacturing	1,022	
Wholesale Trade		1,245
Banking		2,022
Finance/Insurance/Real Estate		435
Services		465
Other Industries		304
TOTAL ALL INDUSTRIES		12,456

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

SWEDEN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	235.6	238.5	224.2
Real GDP Growth (pct) [3]	3.0	3.8	3.9
GDP by Sector:			
Agriculture	1.5	1.5	1.5
Manufacturing	47.0	47.0	47.0
Services	97.5	98.0	98.5
Government	44.5	44.0	43.5
Per Capita GDP (US$) [2]	26,606	26,910	25,260
Labor Force (000s)	4,255	4,391	4,387
Unemployment Rate (pct)	6.5	5.6	4.7
Money and Prices (annual percentage growth):			
Money Supply (M3) [4]	2.1	7.5	4.4
Consumer Price Inflation	–0.6	1.2	1.1
Exchange Rate (SEK/US$)	7.95	8.27	9.14
Balance of Payments and Trade:			
Total Exports FOB [5]	83.65	83.79	85.98
Exports to United States [6]	6.87	7.43	7.62
Total Imports CIF [5]	67.90	68.39	70.43
Imports from United States [6]	4.21	4.29	4.42
Trade Balance [5]	15.75	15.40	15.55
Balance with United States [6]	2.66	3.14	3.20
External Public Debt [7]	46.7	35.9	27.4
Fiscal Balance/GDP (pct)	1.9	1.9	3.4
Current Account Surplus/GDP (pct)	2.9	2.5	2.6
Foreign Debt Service Payments/GDP (pct)	3.0	4.8	3.3
Gold and Foreign Exchange Reserves	14.3	18.4	1.79
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2000 figures are all estimates based on available monthly data in October 2000.
[2] Decrease due to exchange rate fluctuations.
[3] Percentage changes calculated in local currency.
[4] Source: The Central Bank. M3 is the measurement used in Sweden, very close to a potential Swedish M2 figure.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 figures are estimates based on data available through October.
[7] Source: Swedish National Debt Office.

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent transport and communications links with the world, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and is a strong supporter of liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, by which point it had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area.

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices also are particularly important. The Central Bank is by law independent in pursuit of its avowed goal of price stability. Fiscal policy decisions in the late 1980s to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically. Since the beginning of 1995, however, Sweden has made impressive strides with its economic convergence program, having restored macroeconomic stability and created the conditions for moderate, low-inflation economic growth. The government intends to run budget surpluses for the foreseeable future in order to assure that the public pension system and other aspects of the welfare state are adequately funded in the face of expected demographic changes.

During 1995 and 1996, Sweden pulled out of its worst and longest recession since the 1930s (GDP declined by six percent from 1991 to 1993). Unemployment started to come down in 1998, from average figures as high as 12 to 14 percent in the mid-1990s, now down to around 7.3 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for 2.6 percentage points of total unemployment). In 1992 the Swedish krona came under pressure and was floated late that year; Swedish interest rates soared but have come down rapidly starting in 1996, and are now below Euroland rates.

Sweden's export sector is strong, resulting in large trade balance surpluses and solid current account surpluses since 1994. Domestic demand started to pick up in 1997 and has contributed to the growth since that year. It is now driving Sweden's strong growth (the growth figure for 2000 is estimated at 3.9 percent), even though the export sector has recovered better than expected from the effects of the Asia crisis. Structural changes in recent years have prepared the way for future economic growth. The social democratic government at the end of the 1980s and the conservative coalition government at the beginning of the 1990s deregulated the credit market; removed foreign exchange controls; reformed taxes; lifted foreign investment barriers; and began to privatize government-owned corporations.

2. Exchange Rate Policies

From 1977 to 1991 the krona was pegged to a trade weighted basket of foreign currencies in which the dollar was double weighted. From mid-1991 the krona was pegged to the ecu. Sweden floated the currency in November 1992 after briefly defending the krona during the turbulence in European financial markets. Although Sweden is an EU member, it has chosen not to join the European Monetary Union and does not currently participate in the European Exchange Rate Mechanism.

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980s. No capital or exchange controls remain. (The central bank does track transfers for statistical purposes).

3. Structural Policies

Sweden's tax burden is 52.6 percent of GDP for 2000. Central government expenditure during the recent severe recession was nearly 75 percent of GDP, and in 2000 it will come down to 55.2 percent. The maximum marginal income tax rate on individuals is 59 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add about 40 percent to employers' gross wage bills. The value-added tax is two-tiered, with a general rate of 25 percent and a lower rate of 12 percent for food, domestic transportation, and many tourist-related services.

Trade in industrial products between Sweden, other EU countries, and EFTA countries is not subject to customs duty, nor are a significant proportion of Sweden's imports from developing countries. When Sweden joined the EU, its import duties were among the lowest in the world, averaging less than five percent ad valorem on finished goods and around three percent on semi-manufactured. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some dual use products that have potential military or nonproliferation application.

Sweden began abolishing a complicated system of agricultural price regulation in 1991. Sweden's EU membership and consequent adherence to the EU's common agricultural policy has brought some re-regulation of agriculture.

4. Debt Management Policies

Central government borrowing guidelines require that most of the national debt be in Swedish crowns; that the borrowing be predictable in the short term and flexible in the medium term; that the government (that is, the Cabinet) direct the extent of the borrowing; and that the government report yearly to the parliament.

Sweden's Central Bank and National Debt Office borrowed heavily in foreign currencies starting from the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Since then, the ratio has come down to one fifth of public debt. Management of the increased debt level so far poses no problems to the country, but interest payments on the large national debt grew rapidly in the early 1990s. Total debt is declining rapidly from early decade highs as a result of budgetary surpluses and strong economic growth. Gross government debt is projected to drop to 58.9 percent of GDP in 2000, and to 53.2 in 2001.

5. Significant Barriers to U.S. Exports

Sweden is open to imports and foreign investment and it campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, some semi-manufactures of iron and steel. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents in order to facilitate exports.

Sweden has harmonized laws and regulations with the EU's. Sweden is now open to virtually all foreign investment. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant WTO codes concerned with government procurement, standards, etc. There are no official counter-trade requirements.

6. Export Subsidies Policies

The government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium and long-term credits to finance exports of capital goods and large-scale service projects.

Sweden's agricultural support policies have been adjusted to the EU's common agricultural policy, including intervention buying, production quotas, and increased export subsidies.

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, and no preferential exchange rate schemes. Sweden is a signatory to the GATT subsidies code.

7. Protection of U.S. Intellectual Property

In most cases, Swedish law strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are generally adequate and clear. However, enforcement has not been as strong as it should be, especially in the area of copyright protection for software. The police and prosecutors need additional resources, some specialized training to help with acquiring and preserving evidence, and clear signals from the top of the government that copyright protection is a real priority, especially within Swedish public sector organizations. Lately, positive signals have been seen, indicating an increasing awareness of the problem. The police and prosecutors also received additional funds in the last budget bill.

The courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Bern Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As an EU member, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights.

8. Worker Rights

a. *The Right of Association:* Laws protect the freedom of workers to associate and to strike, as well as the freedom of employers to organize and to conduct lock-outs. These laws are fully respected. Around 80 percent of Sweden's work force belongs to trade unions. Unions operate independently of the government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. *The Right to Organize and Bargain Collectively:* Labor and management, each represented by a national organization by sector, negotiate framework agreements every two to three years. More detailed company agreements are reached locally. The law provides both workers and employers effective mechanisms, both informal and judicial, for resolving complaints.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, and the authorities effectively enforce this ban.

d. *Minimum Age for Employment of Children:* Compulsory nine-year education ends at age 16, and the law permits full-time employment at that age under supervision of local authorities. Employees under age 18 may work only during daytime and under supervision. Union representatives, police, and public prosecutors effectively enforce this restriction.

e. *Acceptable Conditions of Work:* Sweden has no national minimum wage law. Wages are set by collective bargaining contracts, which non-union establishments usually observe. The standard legal work week is 40 hours or less. Both overtime and rest periods are regulated. All employees are guaranteed by law a minimum of five weeks a year of paid vacation; many labor contracts provide more. Government occupational health and safety rules are very high and are monitored by trained union stewards, safety ombudsmen, and, occasionally, government inspectors.

f. *Rights in Sectors with U.S. Investment:* The five worker-right conditions addressed above pertain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		86
Total Manufacturing		2,207
Food and Kindred Products	6	
Chemicals and Allied Products	269	
Primary and Fabricated Metals	418	
Industrial Machinery and Equipment	192	
Electric and Electronic Equipment	140	
Transportation Equipment	–132	
Other Manufacturing	1,313	
Wholesale Trade		–41
Banking		(1)
Finance/Insurance/Real Estate		5,604
Services		1,039
Other Industries		(1)
TOTAL ALL INDUSTRIES		9,595

(1) Suppressed to avoid disclosing data of individual companies.

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

SWITZERLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	262.7	259.3	238.8
Real GDP Growth (pct)	2.3	1.5	2.0
GDP by Sector			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government [2]	39.1	37.7	33.8
Per Capita GDP (US$)	36,898	36,319	32,983
Labor Force (000s) [3]	3,230	3,258	N/A
Unemployment Rate—Average (pct)	3.9	2.7	2.2
Money and Prices (annual percentage growth):			
Money Supply (M3) [4]	1.2	1.4	–2.2
Consumer Price Inflation (pct)	0.0	0.8	1.2
Exchange Rate—Average (SFr/US$)	1.45	1.5	1.7
Balance of Payments and Trade:			
Total Exports [5]	75.2	76.3	72.0
Exports to United States [5]	7.6	8.7	8.4
Total Imports [5]	73.7	75.6	73.5
Imports from United States [5]	4.7	4.6	5.1
Trade Balance [5]	1.5	0.7	–1.5
Balance with United States [5]	3	4.1	3.3
External Public Debt [6]	75.6	68.2	61.2
Fiscal Deficit/GDP (pct) [6]	–0.1	0.7	–0.5
Current Account Surplus/GDP (pct)	9.8	11.6	10.1
Debt Service Payments/GDP (pct) [6]	0.9	0.9	0.9
Gold and Foreign Exchange Reserves [7]	40.2	40.9	52.2
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] All 2000 figures are estimates.
[2] Including Social Welfare Expenditures; 2000 figure is an Embassy estimate based on figures available through June.
[3] Full-time equivalent employment.
[4] Percentage change July 1999-July 2000.
[5] Merchandise trade excluding gold and other precious metals, jewels, artworks, antiques; Source: Swiss Customs Administration; 2000 figures are Embassy estimates based on figures available through August.
[6] Federal government only (i.e. excluding cantons and communities).
[7] As of August 2000.

1. General Policy Framework

Switzerland has a highly developed, internationally oriented, and open market. The economy is characterized by a sophisticated manufacturing sector, a highly skilled workforce, and a large services sector (i.e., banking and insurance). Per capita GDP is virtually the highest in Europe while unemployment is practically the lowest.

When Swiss voters decided in December 1992 to reject the European Economic Area (EEA) Treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, but not part of the EEA or a member of the EU. With some two-thirds of its exports going to Europe, the government pursues policies aimed at maintaining Switzerland's competitiveness in Europe while seeking to diversify its export markets. The Swiss parliament and a subsequent public referendum both approved the so-called bilateral agreements, which Switzerland concluded with the EU in December of 1998, which cover seven different sectors. Before the agreements can take effect they must first be ratified by all 15 EU member states which is expected by summer of 2001.

After strong economic growth during the eighties, the Swiss economy was western Europe's weakest between 1990–1996, with growth averaging around zero percent per year (unemployment, however, never rose above 5.5 percent). As a result of the economic stagnation, the country ran up large, unprecedented (for Switzerland) deficits, causing a corresponding accumulation of public debt. A public initiative that passed in 1998 essentially requires the federal budget to be balanced by 2001. The government is on track to achieve this, due to strict control of expenditures and higher tax receipts thanks to improved economic growth. GDP growth of 1.7 percent in 1999 is expected to improve to 3.2 percent in 2000 before falling back to around 2.4 percent in 2001.

No systematic use is made of fiscal policy to stimulate the economy. The Swiss National Bank (SNB) is independent from the Finance Ministry. The primary objective of the SNB's policy is price stability. Monetary policy is conducted through discount rate adjustments and open market operations.

2. Exchange Rate Policies

The Swiss franc is not pegged to any foreign currency. The SNB carefully watches for signs of upward pressure on the franc (the overvalued franc was partly to blame for the economic stagnation of the early/mid 1990s). The SNB has shown its willingness to follow an accommodating money supply policy, even to exceed its money supply growth targets when necessary, to minimize upward pressure on the franc.

3. Structural Policies

Few structural policies have a significant effect on U.S. exports. Two exceptions are telecommunications and agriculture. In 1998 a new law took effect that has brought liberalization and privatization to the Swiss telecommunications sector, opening the market to investment and competition from U.S. and other foreign firms. Since then, one U.S. firm (and its Swiss partner) has won one of the three licenses to provide cellular phone service. The same firm will also be building a large land network with fiber optic cabling. A significant number of U.S. firms are having success in the liberalized Swiss telecoms environment.

Agriculture is heavily regulated and supported by the federal government. Legislation that took effect January 1, 1999 is gradually reducing direct government intervention in the market to set prices, but the high level of direct support for Swiss agricultural production will continue. The goal of the 1999 legislation is to reduce government regulation of the market while maintaining agricultural production at current levels through import protection and direct payments linked to environmental protection.

In early 1996 a new Cartel Law came into effect, introducing the presumption that horizontal agreements setting prices, production volume, or territorial distribution diminish effective competition and are therefore unlawful. For years, Switzerland has had a heavily cartelized domestic economy. Over time, the effect of this law should be to improve competition generally in Switzerland. New draft legislation has been introduced in Parliament that would further strengthen competition laws by enhancing the impartiality of the government-appointed Competition Commission, and by allowing the government to punish firms for first offenses (currently punishment can only occur after a firm has received one warning).

As part of its Uruguay Round commitments, Switzerland enacted legislation in 1996 providing for nondiscrimination and national treatment in public procurement at the federal level. A separate law makes less extensive guarantees at the cantonal and community levels.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland.

5. Significant Barriers to U.S. Exports

Import Licenses: Import licenses for many agricultural products are subject to tariff-rate quotas and tied to an obligation for importers to take a certain percentage of domestic production. Tariffs remain quite high for most agricultural products that are also produced in Switzerland.

Services Barriers: The Swiss services sector features no significant barriers to U.S. exports. Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch here. Foreign insurers may offer only those types of insurance for which they are licensed in their home countries. Until recently, the most serious barriers to U.S. exports existed in the area of telecommunications. However, with the privatization and liberalization that became effective in this sector in 1998, this market has been greatly opened to foreign competitors.

Standards, Testing, Labeling, and Certification: The government must approve all genetically modified organism products before they can be sold and consumed in Switzerland. In addition, all food products with a GMO content above one percent must be labeled as such. A new law took effect in January 2000, which stipulates that fresh meat and eggs from abroad that are produced in a manner not permitted in Switzerland must be clearly labeled as such. Methods not allowed in Switzerland include the use of hormones, antibiotics and other anti-microbial substances in the raising of beef and pork as well as the production of eggs from chickens kept in certain types of battery cages. The United States will be monitoring developments in this matter for indications of any adverse influence on U.S. agriculture sales in Switzerland.

Government Procurement Practices: On the federal level, Switzerland is a signatory of the WTO Agreement on Government Procurement and fully complies with WTO rules concerning public procurement. On the cantonal and local levels, a law passed by the parliament in 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland reached agreement in 1996 to expand the scope of public procurement access on a bilateral basis.

With the exception of certain restrictions on some agricultural items, the Swiss market is essentially open for the import of U.S. goods.

6. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Switzerland is gradually reducing the export subsidies as required under World Trade Organization (WTO) rules.

7. Protection of U.S. Intellectual Property

Switzerland has one of the best regimes in the world for the protection of intellectual property and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty (PCT). A new Copyright Law in 1993 improved a regime that was already quite good. The law explicitly recognizes computer software as a literary work and establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment.

Since May 1998, Switzerland has been in compliance with its obligation under TRIPS to protect company test data required by national authorities in order to obtain approval to market pharmaceuticals. The new regulation enacted by the Swiss Intercantonal Office for the Control of Medicines mandates a 10-year protection period for such data.

According to industry sources, software piracy continues to be a problem. This appears to be largely due to illegal copying by individuals and some small and medium-sized establishments. It is highly unlikely that there are any exports. Industry sources estimate lost sales due to software piracy at $107 million in 1999. Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

Switzerland is not on the U.S. "Special 301 Watch List" or "Priority Watch List". Neither is it identified as a "Priority Foreign Country".

8. Worker Rights

a. *The Right of Association:* All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

b. *The Right to Organize and Bargain Collectively:* Swiss law gives workers the right to organize and bargain collectively and protects them from acts of antiunion discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and employers has meant fewer than 10 strikes per year since 1975. There was a significant demonstration in February against Adtranz, a locomotive manufacturer, following a merger and the prospect of layoffs. During October there were work stoppages and demonstrations against a Basel public service firm over low wages offered following privatization.

c. *Prohibition of Forced or Compulsory Labor:* There is no forced or compulsory labor, although there is no legal prohibition of it.

d. *Minimum Age for Employment of Children:* The minimum age for employment of children is 15 years. Children over 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated.

e. *Acceptable Conditions of Work:* There is no national minimum wage. Industrial wages are negotiated during the collective bargaining process. Such wage agreements are also widely observed by non-union establishments. The Labor Act establishes a maximum 45-hour workweek for blue and white collar workers in industry, services, and retail trades, and a 50-hour workweek for all other workers. The law prescribes a rest period during the workweek. Overtime is limited by law to 260 hours annually for these working 45 hours per week and to 220 hours annually for those working 50 hours per week.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor. There were no allegations of worker rights abuses from domestic or foreign sources.

f. *Rights in Sectors with U.S. Investments:* Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		271
Total Manufacturing		5,702
Food and Kindred Products	(1)	
Chemicals and Allied Products	3,051	
Primary and Fabricated Metals	178	
Industrial Machinery and Equipment	480	
Electric and Electronic Equipment	754	
Transportation Equipment	(1)	
Other Manufacturing	769	
Wholesale Trade		14,289
Banking		2,844
Finance/Insurance/Real Estate		25,684
Services		1,865
Other Industries		571
TOTAL ALL INDUSTRIES		51,227

(1) Suppressed to avoid disclosing data of individual companies.

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

TURKEY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
Nominal GNP	204.6	187.4	83.5 [1]
Real GNP Growth (pct)	3.8	–6.4	4.4 [1]
Real GNP growth by Sector (pct): [1]			
Agriculture	7.6	–4.6	1.7
Manufacturing	1.8	–5.0	3.5
Services (total)	19.4	–21.9	23.9
Government	0.6	2.7	2.2
Per Capita GNP (US$)	3,224	2,878	3,339 [2]
Labor Force (000s)	23,415	21,644	19,600 [3]
Unemployment Rate (pct)	6.2	7.3	8.3 [3]
Money and Prices (annual percent growth):			
Money Supply Growth (nominal M2)	106.2	105.3	76.7 [8]
Consumer Price Inflation (pct, year-to-date)	69.7	68.8	26.9 [4]
Exchange Rate (TL/US$ annual average)	260,040	417,581	591,315 [5]
Balance of Payments and Trade (suitcase trade included):			
Total Exports FOB	31.1	26.6	13.4 [6]
Exports to United States	2.2	2.4	1.5 [6]

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Total Imports CIF	45.5	40.7	25.0 [6]
Imports from United States	4.1	3.1	1.9 [6]
Trade Balance	–14.4	–14.1	–11.7 [6]
Balance with United States	–1.8	–0.5	–0.4 [6]
External Debt stock	102.0	105	120 [1]
Budget Deficit/GNP (pct)	–7.4	12	N/A [1]
Current Account Balance/GNP (pct)	0.9	–0.7	–6.7 [1]
External Debt Service Payments/GNP (pct)	8.0	9.9	12.0 [1]
Gold and Foreign Exchange Reserves [7]	31.6	35.0	25.3 [7]
Aid from United States	0.006	0.018	0.008
Aid from Other Sources	N/A	N/A	N/A

[1] First half of 2000.
[2] Turkish Treasury annual per capita income projection based on the GOT's economic targets.
[3] 1999 figures are as of October; 2000 figure is as of first quarter.
[4] As of end of September 2000.
[5] January–July 2000 average.
[6] The 2000 trade figures are as of June.
[7] As of September 22, 2000 and including reserves held by central bank and commercial banks.
[8] As of September 22, 2000.

Source: Turkish State Institute of Statistics, Turkish Treasury Undersecretariat, Central Bank of Turkey.

1. General Policy Framework

Since the early 1980s Turkey's economic policy makers have moved away from the statist principles on which the Republic was founded, abandoning protectionist policies and opening the economy to foreign trade and investment. These reforms unleashed the country's private sector and have brought impressive benefits. Turkey's efforts reached a new stage in January 1996 in terms of market opening, with the inauguration of a customs union with the European Union. Turkey has met most of its trade and industrial policy obligations under the customs union and has begun to reap the benefits of this harmonization, particularly in terms of improved economic efficiency. Although the Asian and Russian financial crises did not seriously affect Turkey's economy, a slowdown in the EU or U.S. economies (which take a 65 percent share of Turkey's exports) would restrict Turkey's ability to attract foreign capital and expand its exports.

Turkey has begun to tackle long-standing macroeconomic imbalances: large public sector deficits and resulting high inflation. The pace of reform picked up in the late summer of 1999, and in January 2000 Turkey introduced an IMF-backed three-year disinflation program to resolve its fundamental fiscal problems. This program has three pillars. First is fiscal discipline and fiscal structural adjustment under a consolidated government sector accounting system. Second is a monetary policy and exchange-rate regime based on a peg that crawls with targeted inflation, with a pre-announced exit strategy to a widening band in July 2001 and, as of 2003, a free float. Third is continued structural reform. The early stages of the program are promising: inflation is decreasing and the 4.2 percent first quarter GNP growth rate exceeded expectations. Steps taken to date include the first stage of reform of the deficit-ridden social security system, banking regulatory reform, initial measures to improve efficiency of tax administration, a revival of large-scale privatizations, and a move to market-based reform of the energy and telecommunications sectors. Much more remains to be done, e.g., thorough reform of the agricultural sector, consolidation of the banking sector, and rationalization of the state sector, which continues to represent almost a quarter of GDP. The impulse to reform shown by the current government, however, marks a potential turning point in improvement of export and investment conditions.

2. Exchange Rate Policy

The Turkish Lira (TL) depreciation against a dollar/euro basket is the nominal anchor to Turkey's disinflation program. The TL is fully convertible and the central bank follows a crawling peg exchange rate policy under the stand-by agreement signed by the IMF. The system was adopted on January 1, 2000, with a pre-announced rate of crawl over the course of the year. The central bank has also committed to various monetary targets to support this new exchange rate mechanism. A controlled exchange rate policy with a pre-announced exit strategy is one of the main tools of the disinflation program.

3. Structural Policies

Turkey has made substantial progress in liberalizing its trade, investment, and foreign exchange regimes. The resulting rapid economic growth and high rate of private business creation during the 1980s and 1990s generated tremendous demand for imported goods, particularly capital and intermediate goods and raw materials, which together account for over 85 percent of total imports.

Nevertheless, successive governments' failure to complete the structural reform measures needed to transform Turkey's economy into a liberal, market-directed economy has limited private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added. Although some of these firms are profitable, transfers to state firms constitute a substantial drain on the budget. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives (held in check before elections, accelerating after). The government actively supports the agricultural sector through both subsidized inputs and high support prices, although producer price increases for many crops were comparatively lower this year in line with Turkey's IMF commitments.

Turkey and the European Union entered into a customs union on January 1, 1996. Nearly all industrial goods from EU and EFTA countries now enter Turkey duty-free. Special tariffs and duty free concessions were also provided for imports of specific agricultural items. Turkey has adopted the EU's common external tariff for third countries, which has resulted in significantly lower tariffs for U.S. products. The government also has abolished various import surcharges. As part of the customs union agreement, Turkey revised its trade, competition, and incentive policies to meet EU standards. While these EU-related reforms in general help U.S. exporters, agricultural goods continue to face prohibitive tariffs.

4. Debt Management Policies

As of June 2000, Turkey's gross outstanding external debt was about $120 billion (or about 60 percent of GNP), 50.8 percent of which is government debt. Debt service payments in the first half of 2000 amounted to 12 percent of GNP (and 40 percent of current account receipts). Turkey has had no difficulty servicing its foreign debt in recent years.

In 2000 Turkey issued $4.5 billion in sovereign debt in the first half of the year, nearly meeting its 2000 target of $6 billion. Interest rates on Turkey's lira-denominated domestic debt decreased significantly in 2000 (from an average of 110 percent in 1999) to the 35 to 40 percent level as a result of the disinflation program, thus contributing to a decrease in the domestic debt stock.

5. Aid

In 1998 the United States ended its Economic Support Fund and Foreign Military Financing (market-rate loans) support for Turkey. In 2000 the United States provided Turkey $2.1 million in assistance under an USAID-funded family planning program, $1.5 million in International Military Education and Training funding, and $500,000 in counter-narcotics assistance. The United States also provided $3.8 million in emergency and relief assistance to the victims of the November 12 Duzce earthquake during fiscal year 2000. Significant grant and loan aid from the European Union had been on hold for several years as the result of political disputes with Greece. However, the EU began to disburse aid to Turkey following the December 1999 decision to confirm Turkey's status as an EU candidate state.

6. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from 11 percent to 6 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been six percent; nearly all these goods now enter Turkey duty-free. There have been few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. A significant number of U.S. companies have reported that the customs union has benefited them by reducing tariffs on goods they already exported to Turkey from European subsidiaries. The customs union does not cover agricultural trade or services; e.g., 200,000 tons of wheat and 19,000 tons of rice are allowed duty free entry from the EU. U.S. exporters have voiced increasing frustration over tariff and non-tariff barriers to agricultural trade. Although, the ban on breeding cattle imports was lifted in 1999, permits are limited by MARA regulations. Imports of feeder cattle and meat remain prohibited.

Import Licenses: While import licenses generally are not required for industrial products, products which need after-sales service (e.g., photocopiers, ADP equipment, diesel generators) and agricultural commodities require licenses. In addition, the government requires laboratory tests and certification that quality standards are met for imports of human and veterinary drugs and foodstuffs. While food import control certificates can be issued in one to two weeks, delays at MARA headquarters and limited government testing facilities adversely affects imports. Recent changes in procedures and standards for some imported foods products, like corn and bananas, also discouraged trade.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It nominally follows competitive bidding procedures for tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially large projects involving co-production, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers." In some cases, years have passed without the selection of a contractor.

The entry into force of a Bilateral Tax Treaty between the United States and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: Turkey has an open investment regime, however all companies, regardless of nationality are subject to excessive bureaucracy, political uncertainties, and a sometimes unclear legal environment. Consequently, aggregate foreign direct investment in Turkey from 1980–99 totaled only slightly more than $12 billion. There is a screening process for foreign investments, which the government applies on a MFN basis; once approved, firms with foreign capital are treated as local companies. In most cases, the Turkish government accepts binding international arbitration of investment disputes between foreign investors and the state; this principle is enshrined in the U.S.-Turkish Bilateral Investment Treaty (BIT). The exceptions are in "concessions" involving private (primarily foreign) investment in public services. Although most of the focus was on energy contracts, these amendments will allow arbitration in all public service contracts, including telecom. In August 1999 the Parliament passed a package of amendments to the constitution allowing foreign companies access to international arbitration for concessionary contracts. By January the Turkish government completed implementing legislation for arbitration. In April the government set out a procedure which permits companies to decide whether to add arbitration clauses in existing energy contracts or to officially designate them as commercial contracts not governed by concessions. The BIT entered into force in May 1990.

7. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and WTO standards. Barley, wheat, tobacco and sugar exports are subsidized heavily. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits also are available to exporters.

8. Protection of U.S. Intellectual Property

In 1995 as part of Turkey's harmonization with the EU in advance of a customs union, the Turkish Parliament approved new patent, trademark and copyright laws. Turkey also acceded to a number of multilateral intellectual property rights (IPR) conventions. Although the new laws provide an improved legal framework for protecting IPR, they require further amendments to be consistent with the standards contained in the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Turkey, a developing nation, was to have brought its IPR regime into compliance with the WTO TRIPS agreement by January 1, 2000, a deadline Turkey failed to meet. The government has declared that it intends to have a TRIPS-compatible IPR regime in place as soon as possible, and has volunteered for a WTO TRIPS review in late 2000. Amendments to the Copyright Law awaited final parliamentary approval as of October 2000.

Turkey has been on the Special 301 Priority Watch List since 1992. In the 1997 Special 301 review, USTR provided Turkey with a set of benchmarks necessary in order to improve its status in the 301 process. In April 1998 the United States announced that it would not consider requests to augment Turkey's benefits under the U.S. generalized system of preferences until further progress was made on the benchmarks. Out of the six benchmarks, Turkey has made significant progress on four and is in the process of addressing the problems identified in the fifth and sixth benchmarks (through legislation currently awaiting Parliamentary approval).

Taxes on the showing of foreign and domestic films were equalized in 1998. The Prime Minister issued a circular in 1998 directing all government agencies to legalize the software used in their offices. A public anti-piracy campaign was begun in 1998 and the government has made efforts to educate businesses, consumers, judges and prosecutors regarding the implications of its laws. Turkey extended patent protection to pharmaceutical products in January 1999 in accordance with Turkey's Customs Union commitments to the E U. Turkey currently is in the process of amending its copyright legislation. In August 1999 fines were increased by 800 percent and indexed to inflation. Turkish police and prosecutors are working closely with trademark, patent and copyright holders to conduct raids against pirates within Turkey. Although many seizures have been made (including by Turkish Customs officials at ports of entry), and several cases have been brought to conclusion successfully, U.S. industry remains concerned that fines and penalties levied by the courts are insufficient to serve as a significant deterrent.

9. Worker Rights

a. *The Right of Association:* Workers, except police and military personnel, have the right to associate freely and to form representative unions. This right encompasses civil servants, including school teachers. The constitutional right to strike is restricted. For example, the Constitution does not permit strikes among civil servants, workers engaged in the protection of life and property, and those in the mining and petroleum industries, sanitation services, national defense, and education. Turkish law requires collective bargaining before a strike. The law specifies the steps that a union must take before it may strike or before an employer may engage in a lockout. Nonbinding mediation is the last of those steps. Unions are forbidden to engage in secondary (solidarity), political , or general strikes, or in slowdowns. The right to strike is suspended for the first 10 years in free trade zones, although union organizing and collective bargaining are permitted. In sectors in which strikes are prohibited, disputes are resolved through binding arbitration.

b. *The Right to Organize and Bargain Collectively:* All industrial workers have the right to organize and bargain collectively, and most industrial and some public sector agricultural workers are organized. The law requires that, in order to become a bargaining agent, a union must represent not only 50 percent plus 1 of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. *Prohibition of Forced or Compulsory Labor:* The constitution and statutes prohibit compulsory labor, including that performed by children, and the government generally enforces these provisions in practice.

d. *Minimum Age for Employment of Children:* The constitution and labor laws forbid the full-time employment of children younger than age 15, with the exception that those 13 and 14 years of age may engage in light, part-time work if enrolled in school or vocational training. The constitution also states that "no one shall be required to perform work unsuited to his/her age, sex, and capacity." With this article and related laws, the Turkish government guarantees to protect children from engaging in physically demanding jobs such as underground mining and from working at night. The Ministry of Labor enforces these laws effectively only in the organized industrial sector.

In practice, many children work because families need the supplementary income. An informal system provides work for young boys at low wages, for example, in auto repair shops. Girls are rarely seen working in public, but many are kept out of school to work in handicrafts, especially in rural areas. The bulk of child labor occurs in rural areas and is often associated with traditional family economic activity, such as farming or animal husbandry. It is common for entire families to work together to bring in the crop during the harvest. The government has recognized the growing problem of child labor and has been working with the ILO to discover its dimension and to determine solutions. With the passage in 1997 of the eight-year compulsory education program the number of child workers was reduced significantly. Children enter school at age 6 or 7 and are required to attend until age 14 or 15.

e. *Acceptable Conditions of Work:* The Ministry of Labor is legally obliged to set minimum wages at least every two years through a tripartite government-union-industry board. In recent years, it has done so annually. However, during the year there were two adjustments: the nominal minimum wage was increased in January by 15 percent and again in July by 10 percent, compared to an annual inflation rate of nearly 34 percent. Public workers who are part of the collective labor agreements also received an inflation-indexed increase and a five percent prosperity rate increase. The Labor Law sets a 45 hour work week, although most unions have bargained for fewer hours. The law also limits the overtime that an employer may request. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. The law mandates occupational safety and health regulations and procedures, but in practice limited resources and lack of safety awareness often result in inadequate inspection and enforcement programs.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ in sectors with U.S. investment.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		79
Total Manufacturing		736
Food and Kindred Products	186	
Chemicals and Allied Products	88	
Primary and Fabricated Metals	173	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	–10	
Transportation Equipment	173	
Other Manufacturing	125	
Wholesale Trade		–27
Banking		292
Finance/Insurance/Real Estate		7
Services		67
Other Industries		146
TOTAL ALL INDUSTRIES		1,299

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

UKRAINE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [1]	40.76	30.78	13.14
Real GDP Growth (pct) [2]	–1.7	–0.4	4.0
GDP by Sector:			
Agriculture	4.48	3.33	0.64
Manufacturing	11.80	8.64	4.07
Services	16.7	12.68	5.78
Government	N/A	N/A	N/A
Per Capita GDP (US$)	850	619	N/A
Labor Force (millions)	22.3	22.7	N/A
Unemployment Rate (pct)	3.2	4.3	4.3
Money and Prices (annual percentage growth): [5]			
Money Supply Growth (M2)	24	41	38
Consumer Price Inflation	29.0	19.2	30
Exchange Rate (Hryvnia/US$ annual average)	2.7	5.22	5.5
Official	2.50	4.13	5.43
Balance of Payments and Trade: [5]			
Total Exports, FOB [3]	16.4	16.2	8.0
Exports to United States (US$ millions)	634	538	374.8
Total Imports, CIF [3]	17	15.2	7.34
Imports from United States (US$ millions)	887	568	187.8
Trade Balance [3]	–2,584	–482	N/A
Balance with United States (US$ millions)	253	–30	187

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
External Public Debt/GDP (pct)	29.0	44	34.4
Fiscal Surplus (Deficit)/GDP (pct)	2.5	–1.5	–2.0
Current Account Deficit/GDP (pct)	–2.8	2.7	4.0–5.0
Debt Service Payments/GDP (pct)	N/A	4.0	3.5
Gold and Foreign Exchange Reserves	1.2	1.09	1.00
Aid from United States (US$ millions) [4]	225	195	90
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 GDP figures are based on available monthly data for the first six months of 2000 only; they are not annual projections. Year end 2000 forecasts are not available. Source: International Center for Political Studies in Kiev and the Government of Ukraine.
[2] Percentage changes calculated in local currency, adjusted for inflation.
[3] Merchandise trade.
[4] Figures are actual FY expenditures. Cumulative budgeted assistance (credits and grants) for FY 92–99 totals approximately $2.88 billion.
[5] 2000 figures are based on available monthly data through August 2000.

1. General Policy Framework

Since achieving independence in August 1991, Ukraine has generally followed a course of democratic development and slow economic reform . Overall, its economic reform path has been marked by a series of advances followed by reversals. A tremendous amount of work still lies ahead in the area of economic development and in the creation of an economic environment governed by market forces that is conducive to foreign investment. Ukraine's transition to a market economy has been complicated by that fact that it inherited a large defense sector and energy-intensive heavy industry from the former Soviet Union. The country's principal resources and economic strengths include rich agricultural land, significant coal and more modest gas and oil reserves, a strong scientific establishment, and an educated, skilled workforce.

Despite its economic problems, Ukraine remains an emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East, and holds great potential as a new market for U.S. trade and investment. Foreign direct investment (FDI), at $55 per capita and $3 billion overall, is the lowest in the region. U.S. investment, at $570 million, is the largest single source of FDI in Ukraine. Private investment (including U.S. investment) is greatly hampered by rampant corruption, over-regulation, lack of transparency, high business taxes, and inconsistent application of local law.

The government has generally been successful in efforts to achieve macroeconomic stability but Ukraine still has much progress to make in key structural areas, including pushing ahead with strategic privatization, widening the tax base, and improving contract enforcement. Ukraine was initially hard hit by the August 1998 Russian financial crisis, but managed to weather the effects of this crisis relatively well in 1999. Economic growth in the formal sector shows signs of a modest recovery in 2000 after nearly a decade of decline. The overall GDP growth for the year 2000 is estimated at approximately four percent and inflation is expected to be 25 to 28 percent. The period January-August 2000 saw Ukrainian foreign currency reserves maintain a steady level at approximately $1.1 billion.

September 1998 saw the first disbursements to Ukraine from the International Monetary Fund (IMF) Extended Fund Facility (EFF). The three-year, $2.6 billion EFF program stipulates that the Ukrainian government must take steps towards tax reform, a lower budget deficit, deregulation, and other measures to encourage private investment. Several times during 1999 Ukraine fell out of compliance with IMF conditionalities, causing the IMF temporarily to hold up EFF disbursements. In most instances, Ukraine took steps to bring itself back in line with EFF requirements, and disbursements were resumed. In September 1999, however, the IMF halted programs due to slippages in project implementation.

As of late 2000, IMF programs have not yet been reinstated. In November 2000 Ukraine and the IMF reached an agreement on a core set of policies for restarting the EFF. On December 7 Ukraine passed a 2001 budget that met IMF guidelines. On that same day, the Rada (parliament) passed a law on banks and banking activities that was also a key prior condition for an IMF board meeting. With these prior actions complete, Prime Minister Yushchenko and National Bank Chairman Stelmakh signed a previously agreed letter of intent to the IMF on December 7. The IMF has scheduled a board meeting to approve Ukraine's program and decide on the resumption of the EFF on December 19.

Following the Asian and Russian financial crises, Ukraine's access to private foreign financing greatly diminished. Deterioration of the important Russian market for Ukrainian goods caused a significant drop in exports in 1999. Exports have recovered significantly in 2000; in the first six months they were up 20 percent. There is currently a petition before the U.S. Trade Representative to deprive Ukraine of its privileges under the Generalized System of Preferences (GSP), based upon Ukraine's poor record on the protection of Intellectual Property Rights (IPR). Loss of Ukraine's GSP status with the United States (Ukraine's second largest export market) would hamper the economy, especially given that exports outside the newly independent states of the former Soviet Union have increased this year, suggesting increasing diversification in Ukraine's trade structure..

The situation in the private banking sector, rife with non-performing loans and lacking good lending opportunities, remains precarious. Despite some progress in deregulation, Ukraine still awaits a much-needed surge in new investment. Domestic and foreign investors remain discouraged by a confusing and burdensome array of tax, customs and certification requirements, corruption, and the absence of an effective system of commercial law.

The exchange rate relative to the dollar remained steady within a narrow band in 1996 and 1997, but between August 1 and September 30, 1998, the hryvnia depreciated approximately 40 percent against the dollar before stabilizing. The hryvnia continued to drop in 1999, falling approximately another 50 percent against the dollar during the course of the year. In February 2000 Ukraine discontinued the currency band policy and decided to allow the hryvnia to float. Despite various pressures (e.g., low reserves and high debt service), the exchange rate has remained fairly stable this year at UAH/$5.40, owing to strong FDI and a market improvement in the current account.

Ukraine's budget deficit has largely been the result of excessive spending on a variety of programs as well as subsidies to both noncompetitive industries and private consumers. Inadequate revenue collection has also hampered the government's income. Deficit financing was achieved through a combination of issuance of T-Bills to domestic and foreign borrowers, borrowing from the National Bank of Ukraine (NBU), assistance from international financial institutions (IFIs), and accumulation of wage and pension arrears. With the onset of the Russian financial crisis in August 1998, however, the market for government debt largely dried up, and the government increasingly relied upon credits from international financial institutions (IFIs), especially the IMF and World Bank. Despite ongoing problems in establishing a sustainable budget process, the Ukrainian government managed to improve the quality of the budget somewhat in 2000 by eliminating noncash offsets for all obligations incurred after December 31, 1999 and by moving closer to a unified Treasury system of accounts to track expenditures more closely and keep the overall deficit contained. However, the better-than-expected fiscal position has been achieved in part by nonpayment of interest on NBU holdings of government T-bills. Such nonpayment has been a point of contention between the NBU and the Ukrainian government this year. In September 2000 the government agreed to restructure its $1.9 billion debt to the NBU.

2. Exchange Rate Policy

To maintain exchange rate stability in 2000, Ukraine has taken several measures. Although the NBU lifted most currency transaction restrictions in March-June 1999 (including a ban on advance payment on import contracts) and opened an interbank market for foreign exchange, enterprises are still obliged to sell 50 percent of their hard currency earnings. This stipulation was slated for removal in the spring of 2000, but remains in place. It is unclear when the NBU will issue a resolution removing the requirement, which is currently being used as a tool to maintain exchange rate stability.

Exchange rate related restrictions have produced hardships for U.S. firms doing business with Ukraine since it is sometimes hard to convert all profits. U.S. exporters are reluctant to ship goods without prior payment, while U.S. businesses operating in Ukraine (many of which are highly dependent on imports) have had difficulties in obtaining materials necessary for their operations. Overall, Ukraine needs to introduce greater flexibility to the exchange rate, as this is key for underlying macroeconomic adjustment.

3. Structural Policies

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment as well as to domestic business development. Personal income and social security taxes remain high. Tax filing and collection procedures do not correspond to practices in Western countries. Import duties and excise taxes are often changed with little advance notice, giving foreign investors little time to adjust to new requirements. A new tax code is currently being considered by the Rada. According to the proposed new code, a number of taxes and duties will be reduced and others, such as an innovation fund tax, some insurance fund taxes and some local taxes would be eliminated. The VAT would be decreased by 1 percent, from 20 to 19 percent. The tax code would substantively reduce taxes without increasing the tax base by a commensurate amount, raising fiscal sustainability issues going forward. The Ukrainian government has agreed to slow the implementation of the tax code, per IMF recommendations. Nonetheless, it is imperative that the government take measures to widen the tax base to improve budget revenues and minimize the potential negative impact tax cuts alone could have on the overall fiscal outlook.

The regulatory environment is chaotic, and Ukraine's product certification system represents a serious obstacle to trade, investment, and the development of domestic business. The regulatory environment is closely linked to problems of corruption, which has worsened in recent years, according to Transparency International. Their statistics rank Ukraine as the world's third most corrupt nation in 2000. Procedures for obtaining various licenses remain complex, unpredictable and subject to graft. This significantly raises the cost of doing business in Ukraine and encourages the maintenance of the shadow economy. In June 2000 the Rada passed a law on licensing which identifies 70 types of business activity that require a license and establishes a procedure for obtaining a license. This would represent a vast improvement over the nearly 700 licensing bodies that currently exist. The law is intended to coordinate and simplify previously conflicting rules on licensing. In addition, the Rada is currently considering a draft law, which, if passed, will considerably reduce the list of goods and services subjected to compulsory certification. Compulsory certification will be reserved for those goods thought to be dangerous to people and the environment.

4. Debt Management Policies

As of September 2000 Ukraine's foreign debt stands at $10.58 billion, or roughly 40 percent of GDP. This represents a drop from the 1999 external debt of $12.4 billion, owing to a special agreement between Ukraine and Russia on energy-related debts. External debt service as a percent of GDP was 4 percent in 1999 and estimated to be about 3.5 percent in 2000. The largest individual creditors are the IMF, World Bank and other IFIs. In September 2000 general parameters for future state-debt policies (specifically 2001–2004) were issued to help curb the growing foreign debt. The parameters call for a more structured money borrowing policy, including the use of different lending sources from year to year. A new law, which would consolidate government debt, passed the first reading in parliament and is expected to advance to a second reading. Ukraine managed to restructure its private external debt in a comprehensive fashion in April 2000 to ease repayment crunches owing to the short-term nature of Ukraine's debts. Once Ukraine is back on track with the IMF, it will be able to pursue a formal Paris Club restructuring, which would help smooth debt payments.

5. Aid

Ukraine is one of the leading recipients of U.S. assistance. Nonetheless, aid assistance has decreased over the last three years. In 2000 under the Foreign Assistance Act the United States approved $89.99 million (down from $195 million in 1999) for Ukraine. This assistance was focused on economic reform and privatization, business development, energy and environment (including nuclear safety/Chornobyl), democracy and local government, legal reform, and health and social development. In addition, U.S. funding goes for exchange programs, Peace Corps, transport of humanitarian supplies, and the Nunn-Lugar Cooperative Threat Reduction Program.

U.S. assistance in the privatization of regional energy distribution companies (oblenergos) has helped Ukraine structure the sale of these assets in a way that minimized the participation of non-strategic, undesirable investors. The privatization of these oblenergos is proceeding in three tranches. The tenders for the first tranche were publicly issued on October 25, 2000, and the sale will officially close on February 22, 2000. Several western firms have submitted an expression of interest and were placed on a so-called "short list," which enabled Ukraine to meet an important condition for the disbursement of the EBRD Fossil Fuel loan.

U.S. assistance also reaches Ukraine indirectly through IFIs, such as the IMF and World Bank. In September 1998 the IMF approved a three-year, $2.2 billion EFF loan designed to overcome balance of payments difficulties and to promote fiscal reform and accelerated development of a market economy. Disbursements under the EFF were conditioned on Ukraine pursuing more aggressive economic reform, improving foreign reserve levels and achieving a lower budget deficit. As noted earlier, in September 1999 Ukraine fell out of compliance with IMF standards and disbursements under the EFF facility were suspended. Actual disbursements of EFF loans amounted to $965 million. The IMF and Ukraine have recently agreed on a new Letter of Intent for reinstating the EFF. This letter was signed by the Ukrainian government and the NBU on December 7, 2000 and sent to the IMF, after Ukraine had met prior conditions on the budget and banking laws. The program is scheduled to go to the IMF Board on December 19, at which time they will consider resumption of the loan. As of October 2000, Ukraine had repaid the IMF $765 million for 2000 debt service. Strong foreign inflows, stemming from solid FDI and an improvement in the current account, made it possible for the NBU to service IFI and other private sector debts in 2000.

World Bank lending has largely stopped due to the lapse of IMF programs. But in October 2000 the World Bank received a letter of comfort from the IMF regarding program discussion and the macroeconomic situation. This letter allowed the Bank to disburse the final, $70 million tranche of the Coal SECAL in the absence of renewed IMF lending to Ukraine. The conditions of the final Coal SECAL tranche had been met by Ukraine earlier in the year. Earlier World Bank loans have promoted agricultural reform, privatization, modernization of the financial sector, and reform in the energy sector. In 1999 the World Bank extended $390 million worth of loans to the Ukrainian government. In September 2000 the World Bank adopted a three-year Strategy of Assistance for Ukraine. According to the strategy, the value of Ukrainian credit lines would range between $305 million and $1.4 billion over the next three years, dependent on the pace of implementation of economic reforms. Movement to the higher figure will require a rapprochement between the IMF and Ukraine as well as additional progress on reforms. If Ukraine implements a key banking sector law, it be eligible for a final, $70 million tranche of the World Bank FSAL by year end. This legislation, the Law "on Banks and Banking Activity," was passed by the parliament on December 8, 2000, and the World Bank is once again considering resuming its lending.

6. Significant Barriers to U.S. Exports

A daunting menu of taxes represents a major obstacle to trade with, or investment in, Ukraine. These taxes include a VAT, import duties and excise taxes. Import duties differ and largely depend upon whether a similar item to that being imported is produced in Ukraine; if so, the rate may be higher. The maximum import duty in Ukraine is currently 25 percent. A decree from the Cabinet of Ministers to reduce the maximum import duty to 20 percent in 2001 is expected to be approved shortly. Excise duty rates are charged in addition to import duties and range from 10 to 300 percent of the declared customs value, plus customs duties and customs fees paid for importing products. This often results in duties and fees amounting to over 100 percent of the declared value of the item. A new law "on Introducing Changes in Certain Legal Acts Re Taxation of Excisable Goods" entered into force in January 2000. Under the law the number of excisable goods dropped. Goods still subject to excise taxes fall into five main groups: alcohol, tobacco, oil products, automobiles and jewelry. Previously there were 20 groups of excisable goods. All imported goods are also subject to the VAT tax (currently 20 percent). The sole exception is energy supplies, which are technically subject to a VAT but have a rate of zero.

Ukraine's domestic production standards and certification requirements are arduous but apply equally to domestically produced and imported products and can thus be seen as an impediment to business in general rather than just to U.S. exports. Product testing and certification generally relate to technical, safety and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at the company's expense. Unfortunately, testing is often done in sub-standard facilities and on a unit-by-unit basis rather than "type" testing. In cases where Ukrainian standards are not established, country of origin standards may prevail.

Import licenses are required for very few goods. Goods that do require licenses include medicines, pesticides, and some industrial chemical products. The United States is urging Ukraine to enact legislation for optical media production. These licensing requirements would help to combat the severe CD piracy problem in Ukraine.

The significant progress made in the last few years on economic stabilization and the reduction in inflation have improved conditions for U.S. companies in Ukraine. However, foreign firms need to develop cautious and long-term strategies that take into full account the problematic commercial environment. The weak banking system, poor communications network, difficult tax and regulatory climate, prevalence of economic crime and corruption, non-transparent tender procedures, limited opportunities to participate in privatization, and lack of a well-functioning legal system, all serve to impede U.S. exports to and investment in Ukraine.

Ukraine currently has 21 Free and Special Economic Zones. Concessions granted to business entities that choose to operate in the zones include exemption from import duties and import VAT, as well as several other benefits. Rather than spurring new investments, these zones have primarily served to encourage existing firms to relocate to take advantage of tax breaks. There are also concerns that these zones are used to import simple consumption goods tax-free. IFIs have suggested that these zones be eliminated and that the government instead focus on improving the investment climate in the entire country. The government has agreed to study the effectiveness of these zones with the help of consultants and then to consider reducing their number.

7. Export Subsidies Policies

As part of its effort to balance the budget the government has significantly reduced the amount of direct subsidies it provides to state owned industry over the last several years. Nonetheless, subsidies remain an important part of Ukraine's economy, particularly in the coal and agriculture sectors. These subsidies, however, do not appear to be specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition to a market-based economy. The government does not target export subsidies specifically to small business.

In October 2000 the Council of Ministers of the European Union gave Ukraine the status of a country with a market economy. In addition to moving Ukraine closer to WTO accession, the new status indicates that subsidies to exporters are fewer in the eyes of pro-market entities, such as the World Bank, and will allow Ukraine to better protect its interests. Furthermore, in-kind subsidies (in the form of reduced tax payment) have been significantly reduced in the first half of 2000.

8. Protection of U.S. Intellectual Property

Since gaining its independence, Ukraine has made progress in enacting legislation and adopting international conventions to protect intellectual property rights, though much still needs to be done to reach the level required by Trade Related Intellectual Property Rights (TRIPS). Although the country's trademark laws should provide adequate protection, their enforcement has been weak. Piracy of well known consumer brand names is common business practice in Ukraine. Copyright piracy, espcially optical media piracy, is particularly severe. Whereas trademark piracy appears to be the work of many small-scale, apparently domestic interests, optical media piracy is highly organized and international in scope. In 1998 Ukraine was placed on the Special 301 Watch List because copyright piracy is extensive and enforcement is minimal, causing substantial losses to U.S. industry. On May 1, 1999 Ukraine was moved to the Priority Watch List. Ukraine has taken some steps to improve its IPR regime, in accordance with its two-year plan to make its IPR legislation TRIPS-compliant. In February 2000 Ukraine gained accession to the Geneva Phonogram Convention. However, Ukraine failed to extend the national regime to the holders of so-called neighboring rights (music producers) and has not provided for retroactive protection of existing rights. During President Clinton's visit in June of 2000, Ukraine and the United States agreed to a Joint Action Plan to combat Optical Media Piracy. The original goal was to fully implement the plan by November 1, 2000. The Ukrainian government failed to implement the plan. As of December 2000, the U.S. government was prepared to grant Ukraine an extension of the plan if it kept unauthorized production at the country's CD plants suspended and if it enacted the legislation foreseen in the Joint Action Plan by March 1, 2001. When the plan is fully implemented, it will be the most important IPR milestone in Ukraine to date.

Ukrainian legislation has inadequate criminal penalties for copyright piracy and none for infringement. Enforcement is negligible or non-existent. Courts do not provide a reliable means to address copyright infringement. According to the International Federation of the Phonographic Industry (IFPI) Ukraine is the world's biggest producer of pirate CDs, causing the music industry to lose at least $120 million annually. Inspections of several of the country's CD plants, a stipulation of the Joint Action Plan, confirmed reports that productive capacity far exceeds domestic demand for CDs. The inspections also revealed that Ukraine's manufacturers have been actively exploiting the severe deficits in Ukrainian copyright laws to export unlicensed music repertoire. Last spring the Ministry of Education and Science gained formal responsibility for IPR. Unfortunately, its leadership lacks the technical knowledge and management capabilities necessary to enact proper legislation or enforce said legislation. The government openly acknowledges its problems with piracy and actively seeks help from the United States in combating it. To achieve real reform continued U.S. assistance will be necessary.

Ukraine is a member of the Universal Copyright Convention, the Convention establishing the World Intellectual Property Organization (WIPO), the Paris Convention, the Madrid Agreement, the Patent Cooperation Treaty, the International Convention for the Protection of New Varieties of Plants, the Berne Convention, the Trademark Law Treaty, and the Budapest Treaty.

Ukraine intends to join the WTO. A working group in July with a bilateral follow-up in September met to discuss accession. The U.S. government has taken the strong position that Ukraine's IPR regime must be TRIPS-compliant at the time of accession, with no transition period.

9. Worker Rights

a. *The Right of Association:* The constitution provides for the right to join trade unions to defend "professional, social and economic interests." Under the constitution, all trade unions have equal status, and no government permission is required to establish a trade union. The 1992 Law on Citizens' Organizations (which includes trade unions) stipulates noninterference by public authorities in the activities of these organizations, which have the right to establish and join federations on a voluntary basis. Despite these constitutional assurances, however, a new trade union law signed by the president in September 1999 introduced a requirement for unions to register with the Ministry of Justice. It also established categories of unions and limited the ability of newer unions to represent workers in nation-wide negotiations. This was brought before the Supreme Court of Ukraine, and in November 2000 the court struck down several restrictive provisions of the law.

In principle, all workers and civil servants (including members of the armed forces) are free to form unions. In practice, the government discourages certain categories of workers, for example, nuclear power plant employees, from doing so. The successor to the Soviet trade unions, known as the Federation of Trade Unions (FPU), often works independently of the government, but most FPU affiliates are closer to management. Independent unions provide an alternative to the official-FPU unions in many sectors of the economy but are generally much smaller than FPU unions. The new 1999 trade union law, drafted with the help of the FPU, hampers the activities of independent unions. Although to date the consequences of the law have been mixed, it is potentially a dangerous hurdle for the development of free and truly independent worker representation. Specifically, Articles 11 (scope of union type) and 16 (registration) are criticized by independent unions and the International Labor Organization (ILO). In 1999 the ILO publicly stated that the law was not in compliance with its Convention #87 on the freedom of association, to which Ukraine is a party. In August 2000 the AFL–CIO filed a petition with the United States Trade Representative to strip Ukraine of its GSP status, in part due to this law. In October 2000 the Supreme Court of Ukraine began consideration of a constitutional challenge to the law, and in November the court found several provisions of the law unconstitutional, prompting both a positive response from the ILO and the refusal by the USTR to consider the AFL–CIO's petition on Ukraine.

b. *The Right to Organize and Bargain Collectively:* The Law on Enterprises states that joint worker-management commissions should resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level. The government, in agreement with trade unions, establishes wages in each industrial sector and invites all unions to participate in the negotiations. To participate in collective bargaining agreements, however, a union must obtain legal status through registration. In addition, to participate in nation-wide negotiations a union must meet requirements to be registered as a nation-wide union. Independent unions generally find the 1999 trade union law to be more restrictive than the old Soviet legislation because of difficulty in obtaining national status and registration. To acquire national status, a union must have representation in more than half of the regions of Ukraine, or at one third of the enterprises in a regionally based sector, or to have a majority of union members in the sector. Without a national level of registration the union cannot negotiate at the national level, in effect prejudicing the bargaining process against the independent unions and favoring the official unions. This aspect of the 1999 trade union law violates the ILO's Convention #87 on Freedom of Association and Collective Bargaining, to which Ukraine is a party. The law is further criticized by the ILO for its failure to amend an older collective bargaining provision whereby the largest unions (FPU) are permitted to represent all unions when a common bargaining strategy cannot be agreed upon. A new law, currently pending in Parliament, would give proportional representation to all unions engaged in collective bargaining negotiations. In the meantime, the Ukrainian Supreme Court struck down the provisions of this law requiring that certain benchmarks be met for a union to be able to bargain collectively at different levels.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits compulsory labor, and it is not known to occur. Human rights groups, however, describe the common use of army conscripts and youths in the alternative service for refurbishing and building private houses for army and government officials as compulsory labor. Student groups have protested against a Presidential Decree obliging college and university graduates whose studies have been paid for by the government to work in the public sector at government-designated jobs for three years or to repay fully the cost of their education. The extent to which the decree is enforced is unknown, but in 2000 there have been no recent reports of complaints from university students.

d. *Minimum Age for Employment of Children:* The minimum employment age is 17 years. In certain non-hazardous industries, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent. The government does not specifically prohibit forced and bonded labor of children, but the only reports of such practices involve girls trafficked for sexual exploitation.

e. *Acceptable Conditions of Work:* The Labor Code provides for a maximum 40-hour workweek, a 24-hour day of rest per week, and at least 24 days of paid vacation per year. The law contains occupational safety and health standards, but these are frequently ignored in practice. Conditions are especially hazardous for miners. Mining accidents claimed the lives of 212 miners during the first half of the year. It is estimated there are 5.2 deaths for every one million tons of coal extracted. According to official statistics, 85 serious industrial accidents in which 141 workers were killed and 332 injured occurred in the first half of this year. In theory, workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. Independent trade unionists have reported, however, that asserting this right would result in retaliation or perhaps dismissal by management. In addition to poor conditions, many workers go without pay for months due to the poor status of the economy and the inability of many older enterprises to earn income.

f. *Rights in Sectors with U.S. Investment:* Enterprises with U.S. investment frequently offer higher salaries and are more observant of regulations than their domestic counterparts. Otherwise, conditions do not differ significantly in sectors with U.S. investment from those in the economy in general.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment in Ukraine—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food and Kindred Products	6	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		–52
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		56
TOTAL ALL INDUSTRIES		50

(1) Suppressed to avoid disclosing data of individual companies.

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

UNITED KINGDOM

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated][1]

	1998	1999	2000[2]
Income, Production and Employment:			
Nominal GDP	1,413.7	1,443.6	1,441.8
Real GDP Growth (pct)	2.6	2.2	3.2
GDP by Sector:[3]			
Agriculture	16.2	15.1	N/A
Mining	25.0	29.1	N/A
Manufacturing	251.0	239.3	N/A
Services	895.9	924.9	N/A
Government	65.8	65.1	N/A
Per Capita GDP (U.S.$)	23,866	24,262	24,130
Labor Force (millions)	29.1	29.1	29.1
Unemployment Rate (pct)	6.3	6.0	5.6
Money and Prices (annual percentage growth):			
Money Supply Growth[4]	5.3	11.8	3.8
Consumer Price Inflation	3.4	1.6	3.0
Exchange Rate (US$/BPS—annual average)	1.66	1.62	1.56
Balance of Payments and Trade:[5]			
Total Exports FOB	272.5	268.4	282.0
Exports to United States	36.1	39.4	43.9
Total Imports CIF	306.9	311.7	325.8
Imports from United States	41.3	39.6	41.6
Trade Balance	–34.4	–43.3	–43.7
Balance with United States	–5.3	–0.2	2.3
Total Public Debt/GDP (pct)	40.7	38.6	35.4
Fiscal Deficit/GDP (pct)	0.4	1.3	1.1
Current Account Deficit/GDP (pct)	0.0	–1.2	–1.8
Gold and Foreign Exchange Reserves	35.4	34.1	37.6
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Converted from British Pound Sterling (BPS) at the average exchange rate for each year.
[2] All 2000 figures are forecasts, unless otherwise indicated.
[3] Gross value added at current basic prices. "Agriculture" includes hunting, forestry and fishing. "Services" includes electricity, gas, and water supply, construction, wholesale and retail trade, transport and communication, financial intermediation, adjustment for financial services, education, health, social work, and other services. "Government" reflects only public administration and defense.
[4] Notes and coins in circulation in the United Kingdom plus banks' official deposits with the Banking Department.
[5] Merchandise trade, converted at average exchange rate for the applicable year.

Sources: The Oxford Economic Forecasting and London Business School 2000 Economic Outlook, the UK Office for National Statistics, and the Bank of England.

1. General Policy Framework

The United Kingdom (UK) has the fourth largest economy in the industrialized world, with an estimated nominal GDP of about $1.4 trillion in 2000. The UK's 59.8 million inhabitants live in an area the size of New York and Pennsylvania (which have a population about half the size). Per capita income is forecast to be approximately $24,130 in 2000.

The UK is in its eighth year of economic expansion since the 1991–92 recession. Real GDP growth was 2.2 percent in 1999, down from 3.5 and 2.6 percent in 1997 and 1998, respectively. The slowdown was caused largely by a sharp drop in exports in 1998 and the first part of 1999, as tight monetary and fiscal policies strengthened the pound while the global economy was still reeling from the Asian and Russian financial crisis. The Bank of England's Monetary Policy Committee (MPC) reacted to these conditions by cutting interest rates seven times between October 1998 and June 1999 (from 7.5 percent to 5.0 percent), possibly preventing a more serious downturn in the economy. The lower interest rates sparked substantial growth in both business and consumer confidence, and economic activity improved steadily throughout 1999. Growth in the first half averaged 2.3 percent, but rose to 3.4 percent in the second half as consumer spending surged. In response, the MPC raised the interest rate to six percent in the first two months of 2000. Real GDP is predicted to grow between 2.75 and 3.2 percent in 2000, although it is forecast to return to trend in 2001 with an expansion of 2.6 percent.

The main engine of growth in the UK economy is the services sector, which accounts for about 75 percent of GDP. Business, finance, transport, storage and communication services were the principal drivers in service growth, as the sector continued to strengthen across all regions well into 2000. The manufacturing sector, which accounts for just over 20 percent of GDP, fell in the first quarter of 2000. It has since recovered, but still is expected to fall below the budget forecast range of 1.75 percent to 2.25 percent in 2000. Unemployment continues to fall, reaching a low of 5.3 percent in July 2000 (down continuously from a high of 10.5 percent in 1993). Employment expanded by 218,000 new jobs during the first eight months of 2000, and more people are employed in Britain than ever before. Earnings growth, at about four percent, has slowed to its lowest levels since August 1996.

Since breaking even in 1998, the current account deficit continues to widen. In 1999 the deficit equaled 1.2 percent of GDP. Although this is relatively modest (the deficit was 4.6 percent of GDP in 1989), there is no sign of improvement, and the deficit is predicted to worsen to 1.8 percent of GDP in 2000. Even though the pound has weakened slightly since May, the balance of trade continues to move against the UK as increases in export volumes of 11.4 percent over the prior year (attributed to the global economic recovery) are more than offset by a 12.2 percent jump in imports. Unlike previous years, the UK is forecast to have a trade surplus of $2.3 billion with the United States in 2000.

Inflation remains under control. Quarterly inflation rates are forecast to remain between 2.3 percent and 3.3 percent for 2000, averaging 3.0 percent for the year. Although this is slightly higher than the preceding year, it is within the government's target range.

Fiscal Policy: The Labour government has adhered to its "Code for Fiscal Stability" since it was elected into office in May 1997, as the balance of current government receipts and expenditures has turned into a surplus. In 1998 the surplus was a modest 0.4 percent of GDP, climbing to 1.3 percent of GDP in 1999. The surplus in 2000 is expected to fall slightly to 1.1 percent of GDP. The government of Prime Minister Tony Blair is also on its way to accomplishing ahead of schedule its goal of reducing public debt from 41 percent of GDP in 1998 to 37 percent by fiscal year 2001–02, as the forecast for public debt in 2000 is only 35.4 percent of GDP.

Tax Policy: With the economy expanding healthily and inflation low, the Labour Party increased its efforts in 1999 to erase its public image as a high-tax party. Chancellor Gordon Brown's budget plan for 2000, 2001, and 2002 sought to take advantage of the booming economy in order to provide additional tax cuts and credits. In March 1999 the Chancellor announced a new 10 percent "starting rate" of tax, the lowest since 1962, on the first 1,500 pounds (now 1,520) of taxable income. In March 2000 the budget included further increases in public spending for health and education along with more cuts in taxes. In keeping with the Labour government's promise from last year, the income tax "basic rate" (applied to taxable earnings from 1,521 to 28,400 pounds) will be reduced from 23 percent to 22 percent for the 2000–2001 tax year. The government will also extend the New Deal and Working Families Tax Credit Program in 2001. Many new measures will be established to ease the transition between coming off welfare and going to work, including one-off grants of up to 400 pounds and efforts to assist in purchasing cars, tools or interview suits. In line with the government's central theme of promoting modernization through investment in high-tech industries, the Chancellor announced that capital gains taxes for businesses in operation over five years will be reduced from 40 percent to 10 percent (previously only companies in business over ten years received this lower rate). These plans are predominantly aimed at helping the working poor; high-income earners will experience a greater tax burden through a number of tax increases.

Monetary Policy: In 1997 Chancellor Gordon Brown granted the Bank of England independence in setting monetary policy to achieve the inflation target of 2.5 percent. The Bank of England's dominant policy instrument is its ability to set the interest rate each month in order to maintain price stability. Since cutting interest rates repeatedly from October 1998 to June 1999 in response to worries of a recession, the Bank's Monetary Policy Committee (MPC) has maintained the interest rate at a steady six percent since March 2000 and kept the inflation rate within one percent of the government's target.

2. Exchange Rate Policy

Since the UK's withdrawal from the European Union's (EU) Exchange Rate Mechanism in January 1993, the pound has floated freely. Sterling appreciated significantly between the beginning of 1996 and early-to-mid-1998, with the trade-weighted exchange rate index (1990=100) rising from a low of 83.5 to a high of 107.1 in April 1998. The Asian financial crisis and relatively high real UK interest rates contributed to the flight to sterling. Given worsening domestic economic projections, the pound began to soften once the MPC began to cut the UK's relatively high short-term interest rates in October 1998. The sterling index fell to 99.6 in January 1999, but steadily strengthened to 110.1 by April 2000 as the UK economy recovered. The pound is expected to lose ground against the dollar in 2000, but forecasts for 2001–03 show a recovery. In contrast, the pound is expected to strengthen against the euro in 2000, but weaken in the following three years.

The Labour government favors joining the new European common currency in principle but determined that doing so when the euro currency was launched on January 1, 1999 would not be in the UK's interests. Chancellor Gordon Brown promised the UK would not adopt the euro unless five economic tests (economic convergence, flexibility for the British economy, investment impact, financial services industry and jobs) were passed. At present, the government is concentrating on convincing voters that the UK's economic future and global leadership role depend on its membership and strong participation in the EU. While Tony Blair's government tries to prevent the euro from becoming the main point of contention in the next general election, Conservatives, maintaining their position against the euro, hope to take advantage of what polls indicate is the public's opposition to the UK's adopting the euro. Following Denmark's rejection of the euro in 2000, the Conservatives used the Danes' referendum to counter Labour's claim that Britain would be isolated if it kept the pound. The Labour government, meanwhile, insists that Denmark's decision is not a setback and is continuing with plans for its own referendum sometime after the next election.

3. Structural Policies

The UK economy is characterized by free markets and open competition, which the government actively promotes within the EU and international fora. The UK's labor market flexibility and relatively low labor costs are often credited as major factors influencing the UK's success in attracting foreign investment. However, relatively low manufacturing labor productivity remains a concern.

Market forces establish prices for virtually all goods and services. The government still sets prices for prescription drugs and services in those few sectors where it is still a direct provider, such as urban transportation. In addition, government regulatory bodies monitor prices charged by telecommunications firms and set price ceilings for electric, natural gas, and water utilities. The UK's participation in the EU's Common Agricultural Policy significantly affects the prices for raw and processed food items, but prices in wholesale and retail markets are not fixed for any of these items.

The Labour government inherited an economy that underwent significant structural reforms under the previous administration, which deregulated the financial services and transportation industries and sold the government's interests in the automotive, steel, coal mining, aircraft, and aviation sectors. Electric power, rail transport, and water supply utilities were also privatized. Subsidies were cut substantially and capital controls lifted. Employment legislation significantly increased labor market flexibility, democratized unions, and increased union accountability for the industrial acts of their members. The Labour government modified this approach, including a new national minimum wage and union recognition rules, but kept significant parts of previous legislation intact, such as outlawing union shops and secondary boycotts.

4. Debt Management Policies

The UK has no meaningful external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to developing countries. The government is an active participant in the Paris Club and other multilateral debt negotiations.

5. Significant Barriers to U.S. Exports

Structural reforms and open market policies make it relatively easy for U.S. firms to enter UK markets. The UK does not maintain any barriers to U.S. exports other than those implemented as a result of EU policies. (See the report on the European Union for details).

The U.S.–UK Bilateral Aviation Agreement is highly restrictive, particularly in limiting the number and access of carriers serving London Heathrow Airport and the European destinations beyond UK airports to which U.S. airlines may fly. Talks over the last two years to explore liberalization of cargo and passenger services on a bilateral basis have not been successful. The U.S. goal continues to be to negotiate an agreement that benefits as many cities, airlines, and consumers as possible.

6. Export Subsidies Policies

The government opposes export subsidies as a general principle, and UK trade-financing mechanisms do not significantly distort trade. The Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States, was partially privatized in 1991.

The UK's development assistance program has certain "tied aid" characteristics. In 1998, the last year for which figures are available, some 20 percent of development assistance was tied. Agricultural and humanitarian assistance are not tied. In addition, various waivers of tied aid requirements are available to UK officials administering development assistance.

The UK government has indicated that it will provide financial support to Airbus for the development of the A380 megaliner. The exact terms of its financial support have not been decided at the time of writing.

7. Protection of U.S. Intellectual Property

UK intellectual property laws are strict, comprehensive, and rigorously enforced. The UK is a signatory to all relevant international conventions, including the convention establishing the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention, and the Universal Copyright Convention.

New copyright legislation simplified the British copyright process and permitted the UK to join the most recent text of the Bern Convention. The United Kingdom's positions in international fora are very similar to those of the United States.

8. Worker Rights

a. *The Right of Association:* Unionization of the work force in the UK is prohibited only in the armed forces, public sector security services, and police force.

b. *The Right to Organize and Bargain Collectively:* Nearly nine million workers, about one-third of the work force, are organized. Employers are barred from discriminating based on union membership. New legislation passed in July 1999 determines under what conditions an employer must bargain with a trade union. Employers are no longer allowed to pay workers who do not join a union higher wages than union members performing the same work.

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be legally dismissed, and voluntary work stoppage is considered a breach of contract. Unions do not have immunity from prosecution for secondary strikes or for actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is not the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is unknown in the UK.

d. *Minimum Age for Employment of Children:* Children under the age of 16 may work in an industrial enterprise only as part of an educational course. Local education authorities can limit employment of children under 16 if working will interfere with the child's education.

e. *Acceptable Conditions of Work:* A new national minimum wage, established in 1998, took effect in April 1999. The initial minimum was set at 3.60 pounds per hour, based on the recommendations of a tri-partite commission. The minimum rate was raised to 3.70 pounds per hour as of October 1, 2000. Daily and weekly working hours are limited by law, according to an EU directive outlawing mandatory workweeks longer than 48 hours.

The Health and Safety at Work Act of 1974 banned hazardous working conditions. A Health and Safety Commission submits regulatory proposals, appoints investigatory committees, conducts research, and trains workers. The Health and Safety Executive enforces health and safety regulations and may initiate criminal proceedings. The system is efficient and fully involves worker representation.

f. *Rights in Sectors with U.S. Investment:* U.S. firms operating in the UK are obliged to obey all worker rights legislation.

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

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		7,443
Total Manufacturing		49,699
Food and Kindred Products	5,795	
Chemicals and Allied Products	16,582	
Primary and Fabricated Metals	1,953	
Industrial Machinery and Equipment	10,066	
Electric and Electronic Equipment	3,562	
Transportation Equipment	3,213	
Other Manufacturing	8,528	
Wholesale Trade		7,175
Banking		9,778
Finance/Insurance/Real Estate		86,659
Services		14,285
Other Industries		28,031
TOTAL ALL INDUSTRIES		213,070

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