

EDITORIAL
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Euro-Crisis?

Just one year after its celebrated introduction, the Euro has lost about 25 percent of its value against the dollar. Disappointment has replaced the praises of the new currency offered by Europe's governments not too long ago. Instead, politicians now call upon the ECB to intervene in the foreign exchange markets and defend its currency.

But the call for interventions is unwarranted. All experience shows that central banks can stabilize exchange rates only if they are ready to accept higher interest rates. Foreign exchange market interventions that do not affect interest rates have short-lived effects on the exchange rate at best.

Interventions would, in any case, only cure the symptoms of the Euro's problems. The weakness of the new currency reflects the weaknesses of Europe's new monetary union. Investors from outside find it difficult to understand how the ECB's monetary policy is made compatible with the economic policy of the EMU member states. Who is responsible for what? Who makes the political decisions that affect the value of the currency? Who assures that the stability-oriented policy of the ECB will not be undermined by the economic policies of the member states?

For many years, French governments have pointed out that these questions must be answered convincingly to make the Euro a success. So far, however, all efforts to create the appropriate institutions were frustrated by German stubbornness. The French presidency in the European Council, due to start 1 July, offers a chance to finally solve the Euro's institutional problems.


Prof. Jürgen von Hagen

Public Provision of Services under the Scrutiny of EC State Aid Law

by Jürgen Kühling

One recent topic of interest from a German perspective is the extent to which certain powers of the German Federal States should be regulated by European state aid law: This especially concerns the scope of policies on the economy, the location of industry, the media and culture. Therefore, the ZEI research project group „public competition law“ devotes a great deal of time to this topic.

PROMOTING CULTURE

A first study was concerned with the Member States' possibilities for promoting culture in the face of an intense control of state aid. The result of the study was that the extension of the factual area of application of state aid control to include measures to promote culture coincides with a clarification of the exemption clauses, especially the provision regarding culture in Art. 87 paragraph 3 lit. d EC Treaty. It appears that the Commission has developed a sensible practice for the control of state aid in this context. Although measures to promote culture may be justified, perhaps even from an economic point of view, there must not be any areas not subject to control under competition law; any inadmissible extension of the reach of the control of state aid may only be avoided by means of a thorough examination of the individual elements. A block exemption regulation would be useful for specific instances of promoting culture such as operas and theatres. These results have been published in part (*Europäische Zeitschrift für Wirtschaftsrecht* 2000, p. 197).

POSITION OF FEDERAL STATES

Ever since the premiers of the Federal States drew attention to institutional issues under the heading of “Safeguarding the public provision of services under EC competition law“ in the build-up to the Intergovernmen-

tal Conference, this issue has proven to be of great interest to the public. The areas concerned range from the guarantee of public broadcasting corporations to the welfare services' ability to function – the Federal States, the governments of which have differing views, would like these areas to be protected by means of Treaty amendments or protocols annexed to the Treaties.

In view of these problems, one of the research group's studies focuses on the issue to what extent the exercise of these tasks is protected not only by the exceptions of EC state aid law, but also by the provision in Art. 86 paragraph 2 EC Treaty. Pursuant to Art. 86 paragraph 2 EC Treaty, public undertakings which have been „entrusted with the operation of services of general economic interest“ are only subject to competition law insofar as this „does not obstruct the performance, in law or in fact, of the particular tasks assigned to them“. At present, this exception seems to provide a basis for adequate consideration of the interests of the Federal States when exercising the public provision of services which mostly comes under this exception.

RESTRICTION OR GREATER SCOPE?

On the basis of these results and in view of the interest which the governments of the Federal States have shown in a more extensive overview of this area, ZEI organized a workshop in cooperation with the state chancellery of North Rhine-Westphalia on the topic “The public provision of services under scrutiny of European state aid law“. Numerous experts of the individual Federal States as well as several academics participated in this event which took place at ZEI on 10 March 2000.

Interestingly, there were significant divisions among the academics. While Professor Magiera (Post-Graduate School of Ad-

ministrative Sciences, Speyer) supported the position of the Federal States seeking a confirmation of their rights, Professor Christian Koenig, head of the Department of „Political, Legal and Institutional Issues“ at ZEI, argued that protocol declarations such as catalogues for the purpose of listing specific national features may even lead to counterproductive results. Furthermore, the scientists of ZEI pointed out that existing state aid law provides sufficient scope for discretion by means of the exemption clause contained in Art. 87 paragraphs 2 and 3 EC Treaty as well as Art. 86 paragraph 2 EC Treaty. From an economic point of view, Professor Jürgen von Hagen (head of the Department of „Economic and Social Issues“ at ZEI) submitted that the provisions of competition law should be interpreted strictly.

On the other hand, the participants from the various state chancelleries and the ministries of the Federal States drew attention to their steadily declining scope of action. Dr. Tobias Traupel from the ministry of trade and commerce of North Rhine-Westphalia pointed out that an effective control of subsidies worked in favour of competitive undertakings. However, the Commission should rationalize its resources in order to be able to reach a quick decision on impor-

tant cases. Furthermore, the present activities of the Commission occurred in policy areas which are not primarily subject to competition rules. There was general agreement among the participants of the workshop that the Commission tends to unnecessarily limit the Member States' margins of discretion in cases such as the support for small and medium-sized enterprises (SMEs). Therefore, in the case of support for small and medium-sized enterprises, the planned block exemption regulation for SMEs should not fix the threshold for projects too low as necessary margins of discretion would be limited and the Com-



Prof. Dr. Siegfried Magiera, German Post-Graduate School of Administrative Sciences, Speyer Photo: ZEI

mission would not be relieved of a significant workload otherwise.

There are several areas in which there is further need for research and the founding of the study group on European state aid law („Studienkreis Europäisches Beihilfenrecht“) at ZEI in March 2000 must be seen against this background. The study group aims to establish an experts' forum for discussion influenced both by legal policy as well as independent academic research. The forum shall provide the possibility to exchange ideas in the field of EC state aid law for representatives of the Federal States, of the Commission,

the Federal Government, practitioners and academics.

Dr. Jürgen Kühling, LL.M. is Senior Research Fellow at ZEI and head of the research project group „Public Competition Law“.

Risk Management and the Monetary Transmission Mechanism

What are the impacts of financial derivatives on monetary policy? ZEI research shows new results.

by Ingo Fender

Reports relating to the phenomenal growth of global derivatives markets and its likely impact on macroeconomic and monetary policy issues figure quite prominently in the recent public debate. A casual glance into the press over the last few years seems to indicate that use of derivatives is, in fact, a dangerous business. What usually tends to get lost in the popular debate is the fact that the majority of corporations uses derivatives for hedging rather than speculation and that derivative usage is, in principle, beneficial to the economy. Particularly, derivatives are being used to lower the costs of diversifying portfolios, to stabilize a firm's finances, and to improve the general allocation of market risk across investors and firms. (Fig. 1 indicates the relative size of world derivatives markets).

Central bankers and other commentators have long argued that the widespread use of derivatives may have an important impact on the monetary transmission mechanism. Derivatives, by their very nature, allow firms and individuals to transform their financial exposures more quickly and cheaply than ever. This enables them to reduce their sensitivity to interest rate changes and to alter their response to monetary policy measures. This, in turn, is likely to change the monetary transmission mechanism in general.

RESEARCH APPROACH

Recent research from the ZEI group on „Macroeconomic Policies and Institutions in Europe“ tries to ascertain the impact of financial derivatives on monetary policy by focusing on a specific aspect of the transmission mechanism that is likely to be most strongly affected by the growth of world derivatives markets. Broadly speaking, the monetary transmission mechanism is generally considered to consist of three different channels: the interest rate or cost-of-capital channel, the exchange rate channel,

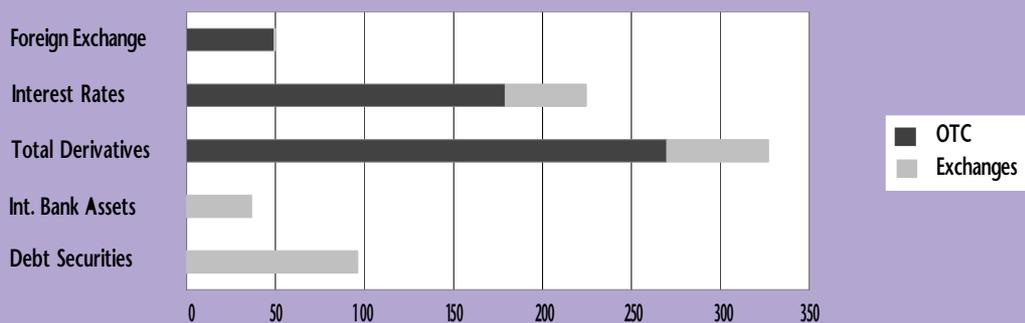
and the (broad) credit channel. The ZEI project focuses on the latter of these three channels, being the one that has figured most prominently in recent academic research. Using a simple model of such a (broad) credit channel, we explore the corporate finance foundations of monetary economics and investigate the impact of corporate risk management on the transmission of monetary policy.

CREDIT CHANNEL EFFECTS

One result is that information asymmetries - which are at the heart of this class of models of the transmission mechanism - create incentives for corporate hedging based on cash-flow management. The notion of cash-flow hedging suggests that firms, operating under credit channel effects, should engineer their internal cash-flows as to meet their feasible investment needs and to avoid any further deadweight costs induced by underinvestment. Optimal risk management strategies, thus, manipulate the interest rate risk exposure of corporate cash-flows in an attempt to stabilize agency costs. This, in turn, can be shown to reduce monetary policy transmission to the pure cost-of-capital effect, which equals the impact of a given change in interest rates under Modigliani-Miller assumptions.

We run a set of vectorautoregressions (VARs) on quarterly US data, covering the period 1959 through 1991, to check whether

FIG. 1: DERIVATIVES IN COMPARISON (% OF 1999 WORLD GDP)



Derivatives Data: Nominal amounts outstanding
Source: BIS, IMF and own calculations

endogenous to the monetary policy regime in place and that the introduction of the Euro and a unified monetary policy will actually serve to remove any national differences in the European monetary transmission mechanisms over time. Applying our results to EMU, we would argue that, in presence of corporate hedging, this is also true for any broad credit channel effect. Hence, corporate hedging will tend to endogenously remove a potential source of differential responses in the trans-

the hypotheses on corporate hedging are broadly consistent with the empirical evidence. We find that the advent of liquid derivatives markets in the mid-70s serves as something like a turning point in the history of US monetary policy transmission. Credit channel effects are found to be in operation prior to the introduction of these markets, while any such effect tends to vanish afterwards. In addition and consistent with our theory, we are able to detect marked differences in the behavior of small and large firms up to the 1970s, in contrast to a broadly identical behavior in the period starting in 1976.

RESULTS AND CONCLUSIONS

The bottom line of our approach is that, with hedge incentives in place, firms will actually engage in corporate hedging strategies aiming to insulate the agency costs induced by asymmetric information from changes in interest rates. These hedging strategies are likely to significantly reduce the impact of a given monetary policy impulse on the real economy. However, due to positive costs of hedging, the hedging program implemented by a firm is most likely an imperfect one, making the impact of these strategies very uncertain. As a result, monetary policy will be increasingly unreliable when used to affect investment spending and real economic activity. This will make it harder for central banks and other market participants to forecast the impact of policy measures on the real economy with any reasonable degree of precision. The short-run, real effects of a monetary impulse will be more difficult to determine in advance and discretionary monetary policy will be more uncertain. Corporate hedging might, hence, serve as a disciplining device, urging central bankers to refrain from active

stabilization of short-run fluctuations and to focus on the medium-term and their ultimate goal of price stability instead. In addition, by diminishing broad credit channel effects, hedging will eliminate some of the distributional aspects of monetary policy, which serves to reduce the burden imposed on the smaller and less mature firms.

It has sometimes been argued that many aspects of a country's financial structure are

mission of monetary policy actions in the Euro area. It will, thus, help to synchronize the transmission of monetary policy in Europe. This would be good news for the ECB in Frankfurt.

Ingo Fender is Economist at ZEI, Department „Economic and Social Issues“.

NEW PUBLICATIONS

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Jarko Fidrmuc and Jan Fidrmuc: Integration, Disintegration and Trade in Europe: Evolution of Trade Relations During the 1990's

B 00-04

Christa Randzio-Plath: A New Political Culture in the EU – Democratic Accountability of the ECB

B 00-05

Jan Fidrmuc: Liberalization, Democracy and Economic Performance during Transition

B 00-06

Bernd Hayo: The Demand for Money in Austria

The ZEI Policy/Working Papers can be ordered free of charge. Please call +49-228-73-9218 or contact us by E-Mail: zei@uni-bonn.de.

A list of all ZEI publications which have been published so far is available on the Internet: <http://www.zei.de>.

Europe's Small States in the 21st Century



According to EU-standards, nine of the 13 states aspiring to join the EU belong to the smallest of the European states. This poses numerous problems in consideration of their acquiring EU-Membership. A new project at ZEI aims to support these states in the accession process.

by Romain Kirt

The geopolitical revolutions which came as a result of the fall of the Berlin Wall have led to a real "state inflation". Before the fall there were 35 states in Europe. Four of these states no longer exist (German Democratic Republic, The Soviet Union, Czechoslovakia, Yugoslavia). With the separation of Czechoslovakia, the break-up of the Soviet Union, and the disintegration of Yugoslavia, 22 new states were created in total, of which most can be categorized as "small states". Europe, which has no less than 53 States (OZSE), has advanced within a few years to a continent of small states *par excellence*.

Many of these new as well as newly founded states would like to become members of the EU. Of the current 13 entry candidates – according to EU standards – nine are small states. This fact poses numerous problems not only for these small states themselves, but also for the organization in which they would like to become members.

ZEI has used this new geopolitical configuration of Europe and the connected problems as an invitation to execute a research project on "Europe's Small States in the 21st Century".

ZEI would also like to make a significant contribution to the promotion of the exchange of experience between the small states of Western Europe and the newly founded small states in middle and Eastern Europe.

The goal of the research project is to support the smaller Southern, South-Eastern and Eastern European states that would like to become members of the EU soon, so that one can profit from the experience that other small states have made, for example, Luxembourg *with* integration policy or Switzerland *without* integration policy.

The main emphasis of the project concerns the planned (Eastern) expansion of the EU and the specific problems related to

it, not only for the states *interested* in joining, but also for those states which are *capable* of joining (of which a majority are small or very small states), as well as for the EU itself.

The main activity will be the organization and execution of four Colloquia (the first already took place in the middle of March) in which the discussion centered on issues and problems that will be of central importance to Europe's small states in the 21st century:

- The inflation of small states following the break-up of the Soviet Union and the disintegration of Yugoslavia and the economic, security and social problems for all of Europe and the international system (ethno-nationalism, migration, failed/failing states, governability...);

- The economic survival of small states and autonomous regions in the time of globalization (future of niche-politics, competitive federalism, regionalism and *Rise of the Region-State*...);

- The future formation of foreign and security policy in small states (GASP, EVSP, government conference "Amsterdam II"...);

- The membership and the contributory rights of small states in international organizations – especially with respect to the planned eastern expansion of the European Union.

The publication of four anthologies (Europe's Small States I-IV), as well as the compiling of an encyclopedic reference should allow that in the future, researchers and others who wish to research the subject, can find a quick insight into the topic of small states.

Alongside the main activities, ZEI plans smaller activities which will play a part in the concept in the entire plan:

- Compilation of a list of literature on the topic "small states";

- Preparation of further Discussion Papers about the issues and topics which are especially relevant to Europe's small states;

- Promotion of a dissertation topic and distribution of new dissertation topics in the area of small state research;

- Invitation of Junior/Senior Fellows from Eastern European small states.

Romain Kirt is Political Advisor in Luxembourg und Senior Fellow at ZEI, Department of „European Value Systems, Cultures and Languages“.

EU Enlargement and the Fear of Foreign Infiltration

by Jan Fidrmuc

Jörg Haider insists that the countries of Central and Eastern Europe should be allowed to accede to the European Union only after their wages have equalized with those in Austria. While Mr. Haider may be bolder and more outspoken than other Western politicians, many share his anxiety over a large influx of Eastern European migrants in the wake of the enlargement. From Brussels to Vienna, scores of experts and non-experts are doing their best to *guesstimate* the potential post-enlargement migration. This migration, it is feared, will reduce wages and increase unemployment in the current member states of the EU. Not surprisingly, this anxiety is particularly strong in Austria and Germany, both of which share borders with the most likely first entrants.

From an economist's point of view, this anxiety appears exaggerated, to say the least. With or without migration barriers, the integration between East and West will have powerful repercussions on both sides of the former iron curtain. As argued by Robert Mundell already in 1957, free trade substitutes for factor mobility. The EU can, and will, take advantage of cheap and abundant Eastern European labor via trade flows, even if migration is restricted. Trade between the EU and the accession candidate countries has already been substantially liberalized. As a recent study¹ conducted at the Center for European Integration Studies shows, trade between the former cold-war adversaries reached its *normal* level (as predicted by the gravity model of trade) by 1998 and appears to be on a growing trajectory. Moreover, little barriers now stand in the way of capital flows between East and West. With free trade and unrestricted capital mobility, restricting labor flows may block the migration of workers from East to West, but will in turn also accelerate the migration of jobs from West to East.

¹ ZEI Working Paper B00/03: Integration, Disintegration and Trade in Europe: Evolution of Trade Relations During the 1990's (by Jarko Fidrmuc and Jan Fidrmuc)

Dr. Jan Fidrmuc is Senior Fellow at ZEI, Department of „Economic and Social Issues“.

1999 Communications Review

With its „1999 Communication Review“ the European Commission has put a number of urgent questions of European telecommunications law on the agenda. Apart from considerations about a fundamental harmonization, including inter alia a far-reaching unification and tightening of the Community's legislative framework, the Commission in particular discusses the (further) necessity of a sector-specific regulation, as progress-

ing competition throws up questions whether and to what extent the regulation of the telecommunications sector may be reduced and approximated to general competition law.

If the Commission is able to realize its plans, the Review will become the basis of a completely renewed European telecommunications law. But the project faces legal, political and economical imponderabilities.

The Research Project Group „European Law of Telecommunications“ at ZEI will carefully analyze these questions and continue to critically observe the thus initiated process of discussion.

Democracy and Legitimacy of the European Union

Recently since the resignation of the EU Commission the question of the European Union's legitimacy was raised. The more the European process of integration advances and intervenes into domains of national sovereignty, the more necessary the democratic legitimacy for the European unification movement becomes. Within the internationally led dialog between scientific and political groups, ZEI, in cooperation with the Ministry of Foreign Affairs, organized a workshop in Berlin on 25 February 2000 dealing with this issue. The participants were members of the European Parliament, the German Parliament and the French Assemblée Nationale, as well as representatives of the EU Commission, civilian society and university professors. During the controversial debate especially the structural obstructions to obtaining legitimacy for the EU were pointed out (non-ex-

istence of a „European people“ (demos), lack of a European public etc). Fundamental methods for solution were articulated as well as the enhancement of efficiency for European politics (output-legitimacy) and the strengthening of democratic legitimacy of European governance (input-legitimacy). Whether a European constitution would contribute to diminishing the lack of democracy remained controversial among the participants. Firstly, a fundamental reform of the EU institutions before its enlargement was agreed upon. Moreover, the question came up of whether the national state as a model of reference and its categories were not out of date. With regard to the current governmental conference, which is expected to be completed before the end of the year under the French EU council presidency, one can only hope that such important and fundamental questions on the European agenda, such as democracy and legitimacy of the EU, will be entered into.

news in brief

On 28/29 January 2000, a conference, organized by ZEI and Sofia University, was held in Sofia. The conference inaugurated the „Open Network in European Studies for South Eastern Europe“. Partners from eleven countries of the Balkans participated, as did the universities of Saarbrücken and Limerick, Ireland. The primary goal was to analyse the current state of affairs of European Studies in the region and to design a follow-up on how to proceed. In the coming years, the network will bring together universities and institutions from all over Europe interested in strengthening and establishing European Studies

programmes in the region. The objective is to share experiences, drawing on West European knowledge, and to design innovative projects with the aim of educating the younger generation in SEE in European politics, economics and culture, thus contributing to the future of the whole region. The Steering Committee will be coordinated by ZEI's Task Force South Eastern Europe. Initial steps include designing a European Studies regional database and a homepage for the network, currently accessible through the homepage of ZEI/Task Force South Eastern Europe.

Volume 17 of the ZEI monograph series, published in cooperation with Nomos-Verlag, has been recently released: „50 Jahre Europarat“. The editor of the book, Uwe Holtz, was a member of the Parliamentary Assembly of the Council of Europe for over 20 years and has profound knowledge of the activities of the Council located in Strasbourg. As president of the Committee of Economic Affairs and Development, he particularly addressed issues of economics, north-south politics as well as democracy and human rights. The main focus of this book therefore centres around these issues.

On 17 January 2000, Gert Maichel, president of the VEW board, held a speech at ZEI titled „Central East Europe - Why German Entrepreneurs Commit Themselves There“. In his plea for a united Europe, Mr. Maichel emphasized that politics, society and economics were to support the process of European unification. He considered the capability to integrate the Central and East European countries to be less significant than the question of whether the will to do so really existed. In this context, he reported on VEW's positive experience in these countries and its involvement in the Kosovo firms' pool.

ZEI-CALENDAR ZEI-CALENDAR

JUNE 2000

15. ZEI-Expert Conference (10:00 a.m. - 6:00 p.m.): „Organe aus dem Reagenzglas auf Grundlage der Stammzellenforschung - Eine Herausforderung für die europäische Gesetzgebung?“ (Registration required).
20. ZEI Europadialog (12:30 p.m., ZEI): Prof. Dr. Faruk Sen, Director, Center for Turkish Studies (Zentrum für Türkeistudien): „Das Verhältnis der Türkei zur Europäischen Union nach dem Gipfel von Helsinki“.
21. ZEI Research Seminar (9:30 a.m. - 11:00 a.m.): Franz Seitz, University of Applied Science, Amberg-Weiden: „The Supply and Demand for Eurosystem Deposits - The first Year“.

JULY 2000

11. ZEI Research Seminar (4:30 p.m. - 6:00 p.m., ZEI): Gabrielle Galati, Bank for International Settlement: „Perceived Central Bank Intervention and Market Expectations: An Empirical Study of the Yen/Dollar Exchange Rate, 1993-1996“

SEPTEMBER 2000

- 25./26. ZEI Conference in cooperation with the Academy of European Law in Trier „Institutional Reform of the European Union: Unfinished Business or Root and Branch Reform?“, Trier. Registration required: ERA-Website: www.era.int. (Seminar Fee 340 Euro).

NEW PUBLICATIONS

NEW PUBLICATIONS

VIEWPOINTS

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DISCUSSION PAPER SERIES:

C 60 2000

Ludger Kühnhardt: Europas Identität und die Kraft des Christentums. Gedanken zum Jahr 2000 nach Christus

C 61 2000

Kai Hafez: The West and Islam in the Mass Media: Cornerstones for a New International Culture of Communication in the 21st Century

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Sylvie Goulard: Französische Europapolitik und öffentliche Debatte in Frankreich

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Günter Joetze: European Security Landscape after Kosovo

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A list of all ZEI Discussion Papers which have been published so far is available on the Internet: <http://www.zei.de>.

SERIES OF PUBLICATIONS:

(SCHRIFTENREIHE DES ZEI IM NOMOS-VERLAG)

Band 12

Matthias Pape (ed.): Österreich – von der Monarchie zum EU-Partner, Baden-Baden: NOMOS Verlag 2000, 288 Seiten, DM 98,-

Band 13

Marek J. Siemek: Vernunft und Intersubjektivität. Zur philosophisch-politischen Identität der europäischen Moderne, Baden-Baden: NOMOS Verlag 2000, 259 Seiten, DM 89,-

Band 16

Andreas Beierwaltes: Demokratie und Medien. Der Begriff der Öffentlichkeit und seine Bedeutung für die Demokratie in Europa, Baden-Baden: NOMOS Verlag 2000, 291 Seiten, DM 98,-

Band 17

Uwe Holtz (ed.): Fünfzig Jahre Europarat, Baden-Baden: NOMOS Verlag 2000, 377 Seiten, DM 128,-

Band 18

Susanne Baier-Allen (ed.): The Future of Euro-Atlantic Relations, Baden-Baden: NOMOS Verlag 2000, 226 Seiten, DM 78,-

Band 20

Sven Arnswald/Marcus Wenig (eds.): German and American Policies towards the Baltic States. The Perspectives of EU and NATO Enlargement, Baden-Baden: NOMOS Verlag 2000, 120 Seiten, DM 48,-

Band 22

Jackson Janes/Oleg Kokoshinsky/Peter Wittschorek (eds.): Ukraine, Europe, and the United States. Towards a New Euro-Atlantic Security Architecture, Baden-Baden: NOMOS Verlag 2000, 179 Seiten, DM 68,-

Emil Mintchev

Dr. Emil Mintchev, Bulgarian Economist and Political Scientist, is Senior Fellow at ZEI and coordinates the ZEI Task Force - South Eastern Europe



ZEI: How would you characterize the prospects for the entry of Bulgaria into the European Union following the EU Summit in Helsinki?

Mintchev: The prospects have considerably improved. The beginning of candidacy negotiations between the EU and Bulgaria have a symbolic importance, because the beginning of negotiations also suggests a successful end. We must, however, stay within the bounds of reason and realize that Bulgaria has a difficult task before itself. The negotiations are subdivided into 31 chapters, and there are two schools of thought: One suggests that the negotiations should begin where the problems are the smallest, the other suggests the opposite course of action. The negotiations began in March 2000, and at present, six chapters are being discussed. At the end of candidacy negotiations with the "Luxembourg Group" of countries in 2002 or 2003, it would be safe to assume that a successful outcome of negotiations with the "Helsinki Group" of countries would also be successful in the not too distant future. An optimistic estimate is an end by the year 2005/2006. In respect to the large problems that the country faces, perhaps a more realistic estimate is the end of the first decade of this millennium. Ten years seems to be a realistic length of time.

Another reason for optimism besides the political stability of the country is the notable economic situation of the country, indicated by macroeconomic data. The currency, which is connected to the Deutsch Mark, is stable; the budget deficit has been reduced to three percent of the gross domestic product, inflation has fallen to one percent, and industrial production has risen 1-1 ½ percent despite the negative effects of the Kosovo war on Bulgarian foreign trade. The war did cause, however, one negative development on foreign trade and the balance of payments of the country. Exports to the border countries was drastically cut back. Transport routes such as the Danube were cut off due to the destruction of bridges in Serbia. These results show the progress the country has made. The government was reorganized in the middle of December in order to correspond to the other EU countries. An economic ministry was set up that previously had not existed. The next parliamentary and presidential election is planned for the year 2001. The government, which is supported by a comfortable majority in Parliament, will probably remain in power until then. Candidacy negotiations have promoted agreement among all political parties. Even the ex-communists are working together with the governmental parties to smooth the way for the country into the EU.

ZEI: What do you see as the largest challenges for Bulgaria to enter into the EU?

Mintchev: The first challenge concerns energy. Central to this discussion is the closing of the nuclear power plant in Kosloduj. The first reactor block will be closed by the end of 2002, and reactor blocks three and four will be closed between 2004 and 2006. Bulgaria will receive 200 million Euros in compensation from the EU for closing off the oldest and most dangerous reactor block, and will receive a loan of 200 million Euros for the conversion of reactor blocks five and six. Many international firms such as Siemens have applied for the contract to carry out the conversion work.

Despite the positive economic development, Bulgaria has a lot of work to do to catch up in the per-person income in respect to the gross domestic product, which has the lowest ratio along with Romania. The reality is better because the activity of the black economy is not taken into account in the figures.

The average parameters of the EU will be unreachable for a long time. But with the current speed of reform, macroeconomic stabilization and the accession help from the EU of around six billion Euro over the next

six years gives the situation reason for hope that Bulgaria can reach the average EU figures within ten years.

The implementation of EU legislation is also well underway. It is to a degree problematic due to the lack of a legal culture in the country, but the maturity of the country will become evident. Other problem areas are the fight against corruption and unemployment of almost 20 percent, against which the government is not able to show any success as yet.

ZEI: What can Bulgaria contribute to the stabilization of South Eastern Europe?

Mintchev: Due to its geographic location, Bulgaria can act as an anchor for stability in the crisis-plagued region. Infrastructure projects place high importance on the participation of Bulgaria. The invitation by the EU for Bulgaria to enter into accession negotiations sent a signal to the other countries of the region that good behavior towards oneself and others is rewarded. It is especially important to export stability from the eastern to the western Balkans, where the focus of conflicts is located. The islands of stability in the region will be increased, which until now had included only Greece. As a candidate for the EU and a member of the Stability Pact for South Eastern Europe, Bulgaria can play an important role in the stabilization of the entire region. It can be an example to its neighbors with its policies. This could have an impact on the further development of Serbia. A comparison between the two countries cannot be made in favor of the actions of President Slobodan Milosevic. In connection to this, American President Clinton's speech in Sofia in early December last year had special importance. He said among other things: "See what Bulgaria has done here in such a short time. Serbia can do the same if it is prepared to take the same path." Bulgaria could equally make a significant contribution to the strengthening of European security and defense. Similarly the Balkan-Corps stationed in Plovdiv could be integrated into the Rapid Reaction Force of the EU. Finally, with the apparent entry of Bulgaria into the EU, its outer borders would become part of the community. The Bulgarian government has the task of building a border and duty system according to the example of the EU. Meanwhile Bulgaria has also changed its visa policy according to the regulations of the EU. The candidacy prospects raise the pressure on Bulgaria in a positive way, which has a positive effect on the stability of the entire region.

The Ministry for Science and Education (BMBF) has approved a one-year project to develop a research proposal on improving resource use efficiency in the agriculture of the Aral Sea Basin. The Aral Sea has lost 80% of its water volume compared with 1960 when intensive irrigation projects were started in the area of its largest affluent, the Amu Darya River. The proposal will be an integrated research project developed by all three ZEF departments, together with research partners in Uzbekistan and UNESCO, Paris.

The Federal Ministry of Economic Cooperation and Development (BMZ) has approved a grant to ZEF of around three million German Marks over the next four years. The funds will be used to promote up and coming young scientists from developing and transition countries within the framework of ZEF's International Doctoral Studies Program.

From 15-17 August 2000, within the framework of EXPO 2000 in Hanover, ZEF will hold a Global Dialogue, the theme being "The Role of the Village in the 21st Century - Crops, Jobs and Livelihood". The Dialogue will bring together an international group consisting of village and city representatives, scientists, practitioners, politicians and business leaders. The discussion will focus on the future of the villages with the aim of jointly finding solutions to current and emerging problems of development.

An International Nutrition Index has recently been developed by ZEF which in future will enable evaluation of individual countries in their efforts to combat hunger and mal-nutrition. The Index reflects successes as well as deficits of different countries in the fight against hunger and mal-nutrition and encompasses the years 1981, 1992 and 1997. The data will be updated on a regular basis.

ZEF closely cooperates with the Center for European Integration Studies (ZEI). The two centers together constitute the International Academic Forum (IWB) at the University of Bonn. ZEF is an international, interdisciplinary research institute that contributes to resolving global development problems. Further information: <http://www.zef.de>

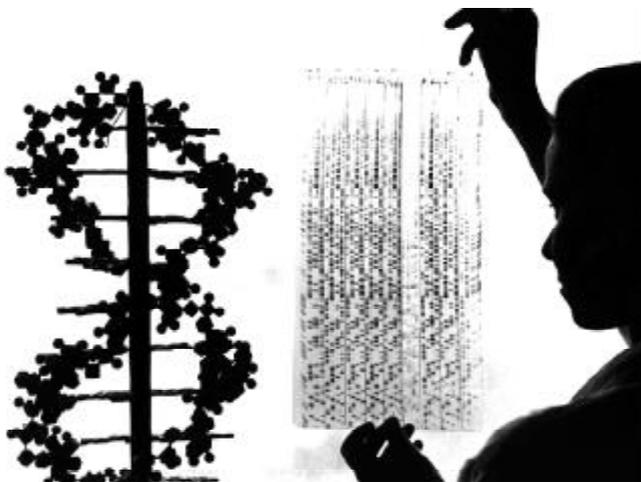
The Legal Protection of Biotechnological Inventions - the Danger of "Life Patents"

The boundaries surrounding the patentibility of genetic engineering of humans and animals are becoming increasingly less definable. The role of the European Directive of the EC is to provide clarification. The scope in its interpretation, however, remains considerable.

by Eva-Maria Müller

Biotechnology and genetic engineering play an important role in the treatment of human diseases. Medical products resulting from biotechnical processes are often based on elements similar in structure to cells of the human body. A current example is the reproduction and controlled differentiation of human embryonic stem cells having the potential to generate tissues that can be used for the repair of diseased organs. Their use can eliminate or at least reduce the risk of immune rejection. Consequently the pharmaceutical industry will accomplish new technologies via the incentive of patentibility. But there are always attempts to substantially restrict biotechnology, because opponents to generic biology lay emphasis on an inherent danger of abuse. Patent laws, however, are the appropriate instrument to implement bioethical demands. An exclusive right encourages research into biotechnological processes which are needed to combat hereditary diseases. It helps to stimulate innovation and the international competition of industry. Besides, the patent itself does not authorize its holder to implement the invention, because patent laws do not prevail over national laws regulating biomedical technologies, for example, the prohibition of cloning techniques or engineering the human germ line. Though, the ethical standards differ in each Member State and inventions should not be considered unpatentable merely because their commercial exploitation is restricted or prohibited by law.

In order to maintain investment in the field of biomedical research a harmonised protection of biotechnological inventions throughout the Member States is substantial, because differences in national patent laws could impede the industrial develop-



Comprehensive analysis and documenting of human and animal genomes is only a short distance away. As a consequence, researchers are hopeful of making enormous progress, particularly in the field of medicine. But are the legal foundations sufficient in order to prevent a monopoly and exploitation?

Photo: E. Lichtenscheidt, Bonn

ment in the European Community and contravening the internal market's principles. In 1998, the Directive of the European Parliament and of the Council on the legal protection of biotechnological inventions 98/44/EC was issued in order to remove legal uncertainty resulting from different national patent laws. The Directive expressly states the principle that inventions must be excluded from legal protection "where their commercial exploitation would be contrary to *ordre public* or morality". So Article 6 paragraph 2 considers unpatentable "processes for cloning human beings", "processes for modifying the germ line genetic identity" and "uses of human embryos for industrial or commercial purposes". The Directive has already been adopted in the implementing regulations (*Ausführungsordnung*) to the Convention on the Grant of European Patents (of 13 October 1999), which is directly applicable. Therefore it is directly binding upon the European Patent Office. In February 2000, Green Peace protested against a patent the European Patent Office granted on engineering human embryonic stem cells and questioned the legality of such "patent on life" with regard to the restrictive European patent legislation. But the underlying Directive does not define core terms like "cloning", "embryo" or "human being". The result is that a definition is left to each state itself. Moreover, indeterminate notions such as "embryo"

imply a wide margin of appreciation. Therefore, proponents of therapeutic embryo research try to circumvent legal barriers against it. In Germany, embryonic stem cells are classified as embryos, so experiments based on stem cells and also patents on inventions concerning them are prohibited. But in contrast to Germany's Embryonic Protection Act (1990) the United Kingdom's Human Fertilization

and Embryology Act allows research projects concerning human embryos up to 14 days after fertilization, so that patents on the cloning of embryos are legal.

An effective legal regime in the field of "life patents" requires indispensably to specify the European Directive 98/44/EC.

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