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FIGHT AGAINST BSE SKULL, TONSILS AND SPINAL CORD MUST BE REMOVED ☐ PROPOSAL MAY PROMPT TRADE FRICTION WITH US

Ministers agree ban on animal parts

By Michael Smith in Luxembourg

European Union countries will have to remove the brains and spinal chords of most cattle, sheep and goats from the food chain, farm ministers agreed yesterday after a three-year debate.

The ban on some parts of animals, part of the EU's fight against BSE or mad cow disease, could cause friction with trading partners, including the US. The European Commission, architect of the proposal, says the ban should apply to non-EU countries from next April unless they can prove to be BSE-free.

The US and Australia argue there should be no reason for them to remove the parts since they do not suffer from BSE. However, the EU may be reluctant to classify them as risk-free.

In yesterday's vote in Luxembourg, 10 of the EU's 15 farm ministers voted for a measure which will force the removal of the skull, tonsils and spinal cord of cattle, sheep and goats above 12 months.

In the UK and Portugal, where the incidence of BSE is highest, slaughterhouses will also have to remove a longer list of parts, including spleens and intestines from cattle over six months.

In Luxembourg yesterday, Greece, Finland, Spain and Austria voted against the measures while Germany abstained. Most of them objected to the EU-wide measure which will apply even to countries where there have been no recoreded cases of BSE.

Yesterday's vote fell short of the qualified majority necessary. However, under EU rules, the European Commission, which has long championed a ban, can implement a prohibition provided there is no majority of states against.

David Byrne, food safety commissioner, said he would be seeking a Commission decision in the next few weeks so the ban could be implemented on October 1 for EU countries and from April next year for non-EU countries. He said the main effect of the ban would be on animal food manufacturers rather than makers of food for people.

Dirk Dobbelaere, secretary-general of Clitravi, representing European meat manufacturers, said the ban would not affect the companies he represented because they already took the specified materials out of the food chain.

The BDVF, which represents German food manufacturers, said none of its members used the animal parts earmarked for a ban as a raw material.

None the less there are suspicions in Brussels that some EU manufacturers may use the banned materials either on purpose or because of contamination.

PORTUGAL SUMMIT BANKING SECRECY REMAINS AN OBSTACLE IN DISPUTE OVER TAXATION

Luxembourg and Austria oppose savings deal

By Neil Buckley in Feira, Portugal

Austria and Luxembourg yesterday replaced the UK as the final obstacles to a long-delayed agreement on ensuring taxation of non-resident savings across the EU.

But the compromise broadly accepted by 13 states was much watered-down from the European Commission's original proposals, with get-out clauses that could delay the legislation's entry into force for several years.

The situation was also a dramatic reversal from that six months ago at the EU's Helsinki summit. Then, the UK found itself isolated against plans to allow EU states to choose between imposing a withholding tax of at least 20 per cent on non-resident savings or exchanging information with tax authorities in non-residents' home countries.

British officials claimed yesterday they had won the argument in favour of an information exchange system, rather than a withholding tax – which the UK has long said could seriously damage the City of London's €3,000bn ($2,880bn) eurobond market.

The new compromise would still allow countries to choose between a tax and information exchange – but only for five years. Then all would shift to information-sharing, meaning countries with banking secrecy laws – notably Austria and Luxembourg – would have to drop them.

Crucially, however, there would be a delay of at least two years before the new EU-wide measures came into force, to allow negotiations with a specified list of non-EU financial centres over adopting similar measures.

EU leaders would have to agree unanimously that satisfactory arrangements had been made with third countries before the new EU regime could begin operating.

Several countries have insisted on this to ensure capital is not driven out of the EU into offshore tax havens.

Grasser: Austria will seek an opt-out — Reuters

Karl-Heinz Grasser, finance minister from Austria's far-right Freedom Party, said the success of the new EU system was dependent on financial centres from Switzerland to the Caribbean accepting similar measures, which was highly questionable.

Austria, he added, would seek an opt-out if the other 14 EU states agreed to go ahead, similar to that won by several states from the euro. But that could be legally difficult.

Additional reporting by Quentin Peel, Brian Groom and Peter Wise

EU opens way for 'flexibility' in integration

By Quentin Peel in Feira

Leaders of the European Union yesterday gave the go-ahead for new forms of flexible co-operation to be added to their reform agenda, opening the way for smaller groups of member states to press ahead with closer integration, without involving the whole EU.

They also left open the possibility of incorporating both defence co-operation and a charter of human rights in the next EU treaty, due to be finalised in December at their summit in Nice.

The idea of introducing greater flexibility is intended to allow the EU members to press ahead with integration even after enlargement to include 13 or more new member states.

The subject of such closer co-operation will now be formally put on the agenda for the inter-governmental conference that is supposed to draft constitutional amendments for the EU to prepare for enlargement.

Agreement was reached at the EU summit in Feira, in spite of doubts expressed by several leaders about how such flexibility might be used and what it would do to the cohesion of the organisation as a whole.

Jacques Chirac, the French president, said closer co-operation would happen between governments, whether within the EU institutions or not.

Tony Blair, the British prime minister, said he could see the need for greater flexibility but he said that precisely how it should work, and whether it would still require unanimous agreement, would depend on the policies being considered.

The UK government is concerned that allowing smaller groups of member states to agree on common policies might clash with the common rules of the internal market. However, there is wider agreement that such rules might apply to police and judicial co-operation – matters that fall under the so-called third pillar of the EU treaty.the summit suggested that some issues, such as defence policy and the planned charter of human rights in the new EU treaty, should be left open for later decision.

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Yannos Papantoniou: "Deregulation is a priority"

INTERVIEW: YANNOS PAPANTONIOU

Greece labours to change

The country has qualified to join the single currency, but its structural reforms have barely begun, writes **Kerin Hope**

Ask Yannos Papantoniou about his student days and he gives an embarrassed smile. Then he recalls how, in his PhD dissertation at Cambridge university in the mid-1970s, he argued that membership of the then European Economic Community would have a disastrous impact on Greek companies.

Mr Papantoniou's conversion could not be more complete. As Greece's finance minister, he has spent the past six years preparing Greece for economic and monetary union.

His efforts were rewarded yesterday when European Union leaders, meeting at Santa Maria da Fiera in Portugal, approved Greece's application to join the euro-zone on January 1.

For a country that was dubbed Europe's "black sheep" in the early 1990s, because of its stubbornly high inflation rate and budget deficit, becoming a member of Europe's inner core of euro-zone countries marks an unprecedented change.

But the hard part is still to come. For would-be investors, the business environment in Greece is still less friendly than in other small EU member states.

The government took full advantage of derogations offered by the EU to delay liberalising telecommunications and opening up the energy market to private sector competition. While Greece has achieved all the Maastricht treaty requirements for adopting the euro, structural reforms have lagged behind thos eof other member states.

In spite of generous investment incentives and a shortage of five-star hotels in Greece, international investors have found it hard to penetrate the country's tourism sector. The tourism industry is Greece's biggest, bringing in about $10bn (£6.5bn) a year in foreign exchange and employing about 9 per cent of the workforce. But there is still room for investment.

Loyalward, a UK group that launched a £500m project six years ago to build a luxury resort on a remote peninsula on the island of Crete, has faced a succession of delays. The group overcame the difficulty of acquiring land by leasing the site from a charitable foundation set up by the owner, the Orthodox monastery of Toplou. But it has run into problems with local authorities over land-use regulations and has faced opposition from several leading hoteliers on the island.

"The system is complicated but we'll get through it," says Tim Hill, a Loyalward director. "We're still committed because we have strong backing from our shareholders and we don't have bank borrowings. But for other companies, the temptation is to go to Spain or Portugal, because you can get planning approval quickly and expect to have a resort up and running within four years."

'Vested interest groups are skilled at putting obstacles in the path of investors'

Mr Papantoniou has asked Kepe, the state planning organisation, to study how to streamline the system for issuing permits and certificates for construction projects. Up to 25 separate permits may be required from different government departments and local authorities, "a ludicrous number that must be reduced by next year", he says.

However, domestic investors may encounter just as many obstacles. Several Greek shipping companies that have invested in building state-of-the-art fast ferries are pressing the government to liberalise a 50-year-old licensing system under which domestic ferry operators control routes in the Aegean islands.

The merchant marine ministry carries out a yearly round of negotiations with shipowners on issuing licences and setting fares. But the routes are still dominated by island-based companies operating elderly ferries.

Until these companies acquire new vessels, the ministry is reluctant to give licences to operators of fast ferries that would cut the present journey times in half.

Attica Enterprises, listed on the Athens stock exchange, operates six fast ferries on the Adriatic crossing between Greece and Italy. The company competes with half a dozen Greek and Italian operators to carry trucks and tourist vehicles. But Attica's next pair of German-built ferries will ply routes in the Baltic Sea because it failed to win a licence to operate in Greek waters.

"Why should tourists pay three times more per kilometre to travel to the east Aegean islands than on the Adriatic crossing," says Yannis Criticos, Attica's corporate marketing director.

Mr Papantoniou says deregulation of the coastal shipping industry will take place before next year's tourist season. The government may consider auctioning licences for profitable routes to popular Aegean islands like Mykonos and Crete, and use a slice of the proceeds to subsidise year-round services to islands that attract few visitors.

"There's a built-in resistance to change in traditional sectors like shipping," he says. "But unless we open up key segments of the tourist market, such as transport, we won't be able to improve the quality of services."

The minister believes such changes are needed across the economy. "Deregulation is a priority," he says. "Greece had a strong tradition of protecting different sectors of the economy against new entrants, both foreigners and domestic investors from the private sector. Vested interest groups are skilled at putting obstacles in the path of outside investors."

But Mr Papantoniou admits market liberalisation will make slow progress without trade union backing. While the unions are firm supporters of the Socialists, they are resisting moves by the government to make the labour market more flexible by increasing opportunities for part-time work. "The unemployment rate has risen sharply in the past year, so we hope to build consensus through quiet negotiations," he says.

Brave words, but Mr Papantoniou will need all his willpower to force through reform. Barbara Vernikos, owner of Atalanti, a retailing chain that sells imported clothes and accessories, is impatient for change. She leads a retailers' campaign to extend shopping hours at Village Park, a new entertainment and shopping centre in Renti, a low-income district of Athens.

"This is an area of high unemployment where we're offering part-time evening jobs," she says. "But instead of welcoming us with open arms, the local employee organisations refuse to consider our proposals."