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THE NEED FOR FREE TRADE IN FINANCIAL SERVICES

The prosperity and peace enjoyed by the West in the post-war years has in large part been built on a liberal system of international trade. Today that system is under pressure as a result of economic recession; protectionism is making progress. It is the view of the European Community, and I believe the view of the US Government, that these national protectionist pressures should be resisted. As major trading partners, we have a common interest in ensuring that this is done.

I wish today to speak about a specific aspect of the increasingly important trade in services, namely financial services. There is in this area scope not only for resisting current protectionist pressures, but for reversing the trend and creating

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a greater degree of open trade. This would be in the interests of financial institutions here as well as in Europe. Trade in services generally has already been placed on the international agenda by the initiatives of the US within OECD and GATT. Given the increasing importance of services in the economies of industrialised nations, and the parallel increase in the share of services in our trade, it is sensible that we should examine closely recent international developments in this sector, especially since it is not covered by existing free trade rules.

In the 1970's, exports of all services accounted for an average of 26% of total exports of OECD countries; in the case of individual countries such as the USA or the UK, the figure was even higher, between 35% and 40%. Unfortunately, the increasing importance of this trade in services has not been accompanied by a dismantling of national barriers. Indeed in some cases new barriers have been erected in an attempt to protect national service industries against foreign competition.

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In financial services, too, we find this tendency towards protection. This is true not only in industrialised countries but also in the developing countries, as illustrated by the activities of the group of 77 countries within UNCTAD. Protective measures are facilitated by the absence of an international free trade code concerning services such as exists for trade in goods under the rules and principles of GATT or the Tokyo Round. A further factor is that national restrictions on trade in services, and especially financial services, are much more difficult to define than in the case of the reduction of customs duties and quantitative restrictions applying to the trade of goods, since they derive from a large number of national legal provisions or administrative practices. In banking and insurance, they consist mainly in the restriction of freedom of establishment for foreign companies, in special requirements regarding the capital endowment of such companies, in obstacles to the free movement of capital, and often in elaborate provisions allegedly aiming at the protection of the saver or the insured but in fact curtailing competition and thereby international trade.

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Let me attempt to summarize for you the approach of the European Community to financial services, and how we see this affecting our relations with other countries.

An important principle of the Treaty of Rome on which the European Community is based is the creation of a European-wide market for financial services guaranteeing freedom of establishment, freedom to provide services and free capital movement between European countries. Considerable progress is being achieved at present in the banking area in setting up close cooperation between supervisory authorities of Community Member States, and in formulating a minimum amount of harmonized regulations, for instance on licensing, accounting and consolidated supervision, necessary for the gradual creation of a European banking market. The aim of our work is not a single set of rules on these matters but a comparable approach by the supervisory authorities. For insurance companies, European legislation has been introduced guaranteeing free establishment both in life and non-life insurance within the Community, and we have set up coordinated rules in particular for the financial guarantees of European based insurance companies.

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In coordinating the national legislation of our Member States in this field, we have been particularly careful to avoid any discrimination against banks or insurance companies from non-European countries. I would like to stress that a special provision of the Treaty of Rome (Article 58) gives for subsidiaries of non-European companies which have been formed in accordance with the law of one Member State, the right to establish branches throughout the entire Common Market. I think it is fair to say that our approach to banks and insurers from third countries has been liberal. We do not want to create European markets in banking and insurance which turn their back on the rest of the world. On the contrary, we want them to enjoy the benefit of international competition.

The US market is also relatively open in this area. European banks and insurance companies have not so far encountered major difficulties in setting up subsidiaries, branches or agencies in your country. This open approach has however been affected significantly by the International Banking Act and the subsequent implementing measures which introduced far-reaching reporting requirements which are particularly onerous for foreign banks whose branches or subsidiaries are

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now required to report on the position of the entire group, including their head office abroad. These changes were strongly criticized by the European banking community and we asked for some improvements in them.

Much more difficulty has arisen in the Japanese market. During the last four years, the European Commission as well as the US government have tried to convince the Japanese to move towards liberalization of their very restrictive legal and administrative practices which serve to limit the scope of activity for foreign banks and insurers. I had the opportunity to start a dialogue between Japan and the European Community on financial services when I visited Japan in 1978 and we have been supported strongly by European bankers in Tokyo. Some results have been achieved, but lately we have been disappointed at the lack of progress. The European Commission and the US Government continue to argue that Japan, as one of the world's foremost trading countries should move towards a modernisation of its financial standards and allow a broader international exchange of financial services. Japanese financial institutions for their part derive considerable benefits from the liberal practices applied in this country and in Europe.

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In the insurance sector, entry into the Japanese market by foreign companies is made particularly difficult by the fact that the Japanese supervisory authorities have created a very highly regulated market which operates against the interests of foreign companies which wish to offer a flexible range of services. In fact, the number of life and non-life insurance companies working on the Japanese market is very small compared to the large numbers of such firms operating in the European or US insurance markets. In spite of recent moves by the Japanese government to open up the insurance industry to a certain extent to foreign competition, the share of foreign companies - mostly American - in the total premium income of that market has remained extremely small: 0.7% in life insurance and less than 3% in the non-life insurance sector.

We Europeans have been following with great interest the US initiative on discussions about the removal of barriers to trade in services. Various institutions such as the US Chamber of Commerce, the International Service Industry Committee, or the Coalition of Service Industries which has been set up recently by a number of well-known American service sector undertakings, have done much to highlight the

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existing barriers to trade in this field. We know from Trade Representative Brock that the US Government is firmly determined to reduce service sector protectionism, whether multilaterally or bilaterally. In the OECD, at the instigation of the US Government, the Exchange Committee decided in 1979 to examine existing restrictions in four specific services sectors. Banking and insurance are included among these priority areas, and I am glad to be able to say that the European Commission is backing this operation fully and stressing its priority to our Member States.

American initiatives in this field call for a positive European reaction. Given the common interest we have in promoting our service industries by reducing international trade barriers in this field, it seems to me that the US and the Community should act as natural allies in future multilateral negotiations. I doubt that world-wide reciprocity is a realistic objective for any such negotiations. Legislation and supervision of banking and insurance activities differ too much between the different industrialized countries. But what we can present as a realistic objective is abolition of national discrimination. This should be a common starting point, a minimum objective to be accepted by industrialized and developing countries alike, and implemented quickly at any rate by the industrialized countries. There should also be a prohibition against new obstacles to international trade in financial services, / and these

and these policies should be examined regularly at international level.

Ladies and Gentlemen, this is as far as I can take this topic today. But I want to finish by saying that there is immense scope for international trade in financial services, and that as we develop these possibilities we shall find - as we did for trade in goods - that all those participating derive advantages either in the form of increased outlets for their production or in reduced costs. To realize these gains we need clear presentation of the case for liberal policies rather than the national protectionist measures which can present a spurious attraction in times of economic recession.

Thank you.
