

EUROPE 1992: EUROPE WORLD PARTNER
Information Memo P-117, 10 October 1988
Spokesman's Service of the European Commission

Europe a World Partner: the External Dimension of the Single Market
Reproduced from the Bulletin of the European Communities, No 10/1988

These two documents summarize the policy debate held by the Commission on
19 October 1988



**INFORMATION • INFORMATORISCHE AUFZEICHNUNG • INFORMATION MEMO • NOTE D'INFORMATION
ΠΛΗΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ • NOTA D'INFORMAZIONE • TER DOCUMENTATIE**

Brussels, 19 October 1988

EUROPE 1992 : EUROPE WORLD PARTNER

1992 Europe will be a "EUROPE WORLD PARTNER". This is the conclusion of the policy debate carried out by the European Commission on the external dimension of the 1992 single market. In the words of LORD COCKFIELD and MR DE CLERCQ, "the European Community is embarked upon the most important "quiet revolution" since it was set up in 1958. This operation will call for a mighty effort on the part of the Community Member States and the outcome should be to accentuate the Community's position as the world's leading trading power. As such, the Community will seek a greater liberalization of international trade : the 1992 Europe will not be a fortress Europe but a partnership Europe."

The Hanover European Council noted that "the internal market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries, and must negotiate with those countries where necessary to ensure access to their markets for Community exports. It will seek to preserve the balance of advantages accorded, while respecting the unity and the identity of the internal market of the Community", and it is on the basis of this approach that the Commission is finalizing its strategy for external economic and commercial policy. It has confirmed the principles which will determine its external economic policy in the 1992 context and also the approach which will adopt for its implementation, i.e. on a case-by-case basis.

THE PRINCIPLES

- 1992 will be of benefit to Community and non-Community countries alike

The single market will be of benefit not only to European companies but also to companies from non-Community countries, points out the Commission. What the single market will mean is that there will be only one frontier instead of twelve, that rules, standards, tests and certification procedures will be either uniform or equivalent, and that economies of scale will be possible thanks to the existence of a market of 320 million consumers. The completion of this single market will also give a major boost to the Community economy, a boost which will have favourable repercussions both inside and outside the Community.

- 1992 will not mean protectionism

All the relevant economic data demonstrate that it would be absurd for the Community to lean towards protectionism.

As the world's biggest exporter accounting for one fifth of world trade (United States : 15%; Japan : 9%) as highly dependent on international trade (since exports represent 10% of its GNP compared with 5% in the case of the United States), the Community has a fundamental stake in the existence of free and open international trade.

Like its trading partners, the Community will apply vigilantly the instruments of commercial policy which it has at its disposal.

- The Community will meet its international obligations

The development of the Community's external economic policy in the run-up to 1992 will take place in harmony with the Community's existing international obligations, whether multilateral (GATT, the OECD, etc.) or bilateral (EFTA, Lomé, the Mediterranean countries, etc.).

- 1992 must help strengthen the multilateral system on a reciprocal basis

Each step in Community integration is accompanied by a move to greater liberalization of the multilateral system. For 1992 as for the other steps, the Community's aim is to strengthen the multilateral system in accordance with the concept of balance of mutual benefits and reciprocity. These are two internationally accepted principles of trade policy both in GATT and in the OECD. The experience of the GATT shows that in those multilateral negotiations designed to liberalize market access, progress is achieved because all the participants exchange "concessions" so everyone achieves a balance of advantages from the negotiations.

In sectors where there are no multilateral rules, the Community will endeavour to obtain greater liberalization of world trade through the negotiation of new international agreements. The Uruguay Round negotiations provide an opportunity here which the Community will seize. It would be premature, however, to grant non-member countries automatic and unilateral access to the benefits of the internal liberalization process before such new agreements exist. Non-Community countries will benefit to the extent that a mutual balance of advantages in the spirit of the GATT can be secured. The Community may thus have to negotiate bilaterally with its partners in order to obtain satisfactory access to their markets.

In other words, the Commission reserves the right to make access to the benefits of 1992 for non-member countries' firms conditional upon a guarantee of similar opportunities - or at least non-discriminatory opportunities - in those firms' own countries. This means that the Community will offer free access to 1992 benefits for firms from countries whose market is already open or which are prepared to open up their markets on their own volition or through bilateral or multilateral agreements.

- What does this reciprocity not mean ?

It does not mean that all partners must make the same concessions nor even that the Community will insist on concessions from all its partners. For example, it will not ask the developing countries to make concessions that are beyond their means. Nor does reciprocity mean that the Community will ask its partners to adopt legislation identical to its own. Nor does it mean that the Community is seeking sectoral reciprocity based on comparative trade levels, this being a concept whose introduction into United States legislation has been fought by the Community.

SPECIFIC ASPECTS

A number of objectives which are internal to the Community have been set in the Single Act and it is only natural that this programme should lead to the extension and strengthening of the common external policy. This will be reflected not only in the harmonization of import rules but also in an extension of Community rules to sectors in which the single market had not hitherto been attained.

The Commission has paid particular attention to certain aspects of the external dimension of the single market as a means to setting out guidelines for finalizing policy in these fields on a case by case basis.

1. - External effects of the removal of physical frontiers

The establishment of the internal market will result in the removal of the remaining disparities in import and export arrangements. At present there are certain quantitative restrictions in the Member States of the Community affecting mainly East European countries and Japan and also involving the national quotas under the textile agreements or the GSP (generalized system of preferences). Completion of the single market will mean the removal of quantitative restrictions and will require unified import rules in respect of non-Community countries.

It is possible, however, that in a number of sensitive spheres, national measures will have to be replaced by Community measures. If this proves to be the case, the Community will adopt these measures in line with its international obligations and following discussions with its partners. These measures would not result in a higher level of protection than exists at present.

2. - Removal of technical barriers

* Standards and certification

The removal of technical barriers to trade, irrespective of whether these involve technical rules, standards, tests or certificates, will be done by harmonization or by mutual recognition.

As for mutual recognition of technical rules, any product which is introduced on the Community territory, as long as it satisfies the legislation of the importing country, and is admitted on its markets, will be entitled, as a matter of principle, to the benefit of free circulation throughout the Community. In the case of harmonization, European standards bodies (CEN, CENELEC, etc.) operate systematically on the basis of work done at international level. Where necessary, the harmonized technical rules would be established respecting the GATT rules. However, for tests and certification, the Community will negotiate mutual recognition agreements where needed.

* Public procurement

For sectors covered by the GATT code, 1992 will mean that the European subsidiaries of foreign firms will have the same access as European companies. Suppliers not established in the Community will still be subject to the GATT code, which lays down that the signatories accord one another non-discriminatory reciprocal access.

The 1992 programme nevertheless provides for the opening-up of sectors not covered by the GATT code (water, transport, energy and communications). In these sectors, the Community is prepared to negotiate with its partners access to the advantages of the internal market in order to ensure a balance of benefits.

*** Free movement of capital**

The Directive adopted by the Council embodies the principle of an "erga omnes" liberalization of capital movements.

*** Services**

The completion of the internal market is intended to eliminate the existing fragmentation of Community markets in services. Whenever Community rules do not exist in this field, the Community will seek to arrange access for firms from non-member countries on the basis of a reciprocal opening-up of the market in those countries.

The Community considers that four sectors are worth looking at in greater detail :

- financial services

The second banking Directive being discussed by the Council provides for the possibility of reciprocity for newcomers. However, there can be no question of depriving the subsidiaries of foreign firms already established in Community Member States of the rights they have acquired.

- transport

There are currently numerous bilateral agreements between Member States and non-member countries. The possibility of progressively replacing these bilateral agreements by Community agreements should be explored in the light of progress in the common transport policy.

- telecommunications

The Commission will propose that the reciprocal agreements which have been and continue to be negotiated by the Member States should be analysed and conclusions drawn for action at Community level.

- information services

Information services will benefit directly from the single market, since those currently sold in a single Member State will have access to the entire Community market. The Commission will examine the extent to which common external arrangements could be set up to establish provisions on market access.

*** Competition :**

Completion of the internal market will be accompanied by a strengthening of competition policy, and in particular tighter control of state aids. Cartels, agreements or abuses of a dominant position which have an effect in Community territory will come within the scope of Community law.

*** Take-overs**

Should any Community rules on take-over bids be drawn up, the possibility of including provision for obtaining comparable conditions for Community firms in the non-member country concerned should be considered in cases where a firm from a non-member country is the purchaser.

2. Europe a world partner: the external dimension of the single market

1.2.1. On 19 October the Commission held a general discussion on the external dimension of the single market that is to be established by the end of 1992. This enabled the Commission to finalize its strategy for trade and external economic policy and made it plain that the Community, whose role as the world's leading trading power is bound to increase, will be seeking greater liberalization of international trade. Europe in 1992 will be 'partner Europe'.

This approach is directly in line with the conclusions of the Hanover European Council, according to which 'The internal market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries, and must negotiate with those countries where necessary to ensure access to their markets for Community exports'.¹

The attitude which the Commission itself will adopt in its work in the run-up to 1992 is based on a number of key principles and guidelines to be followed case by case in the specific areas identified so far.

I — The principles

1992 will benefit Community and non-Community firms alike

1.2.2. The single market will involve the elimination of internal Community frontiers. Among other things, it will entail the harmonization or mutual recognition of regulations, standards, tests and certification procedures; and the existence of a market of 320 million consumers will allow significant economies of scale. The Community economy will be given a major boost, which will have favourable repercussions worldwide.

1992 will not mean protectionism

1.2.3. As the world's biggest exporter, the Community is highly dependent on international trade. its exports represent 10% of its gross national product, compared with 5% in the case of the United States. It therefore has a fundamental stake in an open international trading system.

¹ Bull. EC 6-1988, point 3.4.1.

The Community will meet its international obligations, both multilateral and bilateral

1.2.4. The Community will fulfil its multilateral commitments within GATT and the OECD and its bilateral commitments to countries or groups of countries, including the members of EFTA, the ACP group and Asean and the Mediterranean countries.

It will strengthen the multilateral system based on a balance of mutual advantage

1.2.5. The Community's aim is to strengthen the multilateral system in accordance with the two principles of balance of mutual advantage and reciprocity, which are internationally accepted principles of trade policy both in GATT and in the OECD.

1.2.6. In areas where there are not yet any multilateral arrangements, such as financial services and the public procurement sectors excluded from the rules (energy, water, telecommunications and transport),¹ the Community will endeavour to obtain greater liberalization of world trade through the negotiation of new international agreements taking advantage of the Uruguay Round.

It would be premature, however, to grant non-member countries automatic unilateral access to the benefits of the internal liberalization process in the sectors concerned. In order to secure a mutual balance of advantage in the spirit of the GATT, the Community may have to negotiate with its partners in order to obtain satisfactory access to their markets. The Commission considers that a case-by-case approach should be adopted in this respect and reserves the right to make access to the benefits of 1992 for non-member countries' firms conditional upon a guarantee of similar opportunities — or at least non-discriminatory opportunities — in those firms' own countries for Community businesses.

1.2.7. Underlying this approach, the concept of reciprocity envisaged by the Commission does not mean that all partners should make the same concessions, nor even that the Community will insist on concessions from all its partners. For example, it will not ask the developing countries to make concessions that are beyond their means. Nor does reciprocity mean that the Community will ask its partners to adopt legislation identical with its own, or seek sectoral reciprocity, requiring balanced trade in each sector; indeed, it has resisted the introduction of this concept into United States legislation.²

II — Specific aspects

External effects of the removal of physical frontiers

1.2.8. The establishment of the internal market will remove the remaining disparities in import and export arrangements. At present there are certain quantitative restrictions in Member States affecting mainly East European countries and Japan, as well as the national quotas under the textile agreements or the generalized preferences system. Completion of the single market, when it will no longer be possible to resort to Article 115 of the Treaty, means the removal of quantitative restrictions and the harmonization of rules for imports from non-Community countries.

It is possible, however, that in a number of sensitive sectors the Community will have to replace national measures by Community measures, in line with its international obligations and following discussions with its partners, though these measures would not result in a higher level of protection than exists at present.

¹ The Commission has presented proposals for these sectors to the Council (Bull. EC 6-1988, point 2.1.51).

² Bull. EC 7/8-1988, points 2.2.20 and 3.6.1 *et seq.*

Removal of technical barriers

1.2.9. Technical barriers to trade, such as standards and certification procedures, will be removed by means of harmonization or mutual recognition, following the Council resolution of May 1985 setting out a new approach to the harmonization of technical rules,¹ whereby any product which can be legally imported and put into free circulation in one Member State will normally be entitled to move freely throughout the Community.

1.2.10. As regards public procurement, a distinction should be drawn between those sectors covered by the GATT code and the others.² In the first case, completion of the internal market will mean that the European subsidiaries of foreign firms will have the same access to government contracts as European companies. Suppliers not established in the Community will still be subject to the GATT code, which requires the signatories to accord one another non-discriminatory reciprocal access. In the second case, the Community is prepared to negotiate access to the internal market with its partners in order to ensure a balance of advantage in those sectors which are to be opened up under the 1992 programme (water, transport, energy and telecommunications).

1.2.11. As regards the free movement of capital, the Directive adopted by the Council in June embodies the principle of *erga omnes* liberalization.³ However, the Community is still free to make access by non-Community operators conditional on reciprocity.

1.2.12. The completion of the internal market in services should put an end to the existing fragmentation of the Community market. As there are no multilateral rules in this field, Community action will mainly involve arranging access for firms from non-

member countries in return for opening-up of the market in those countries. Four sectors require particular attention: financial services, transport, telecommunications and information services.

1.2.13. In order to ensure that European firms are competitive on world markets, the completion of the internal market will be accompanied by a strengthening of competition policy, with particular reference to the following aspects:

(i) restrictive agreements or abuses of a dominant position which have an effect in Community territory come under Articles 85 and 86 of the Treaty, whatever the origin of the firm or the place where the offending practice is engaged in, a principle recently confirmed by the Court of Justice in its 'Wood pulp' judgment (→ point 2.4.42);

(ii) the scope of the proposal for a Community merger-control Regulation⁴ should reflect the worldwide turnover of the firms involved, eliminating any discrimination between Community and non-Community firms;

(iii) the Commission will continue to keep a tight rein on State aids; it expects its GATT partners to observe similar disciplines, in order to avoid unfair subsidies and non-trade advantages.

1.2.14. In the preparation of Community rules on takeover bids, the possibility of including provision for obtaining comparable conditions for Community firms in the non-member country concerned will be considered in cases where a firm from a non-member country is the offeror.

¹ OJ C 136, 4.6.1985; Bull. EC 5-1985, point 1.3.1 *et seq.*

² OJ L 345, 9.12.1987 (Council Decision concerning the conclusion of the Protocol amending the GATT Agreement on government procurement).

³ Bull. EC 6-1988, point 2.1.8.

⁴ OJ C 92, 31.10.1973; OJ C 36, 12.2.1982; OJ C 51, 23.2.1984; Bull. EC 11-1987, point 2.1.92; point 2.1.52 of this Bulletin.