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BUDGET: Wanted: ECU 5,000m. - and a reform package

Jacques Delors asks the Twelve to face up to their responsibilities.

Once more the European Community will be unable to balance its books if it tries to make do with its own resources. In a letter which he sent to the heads of government of the twelve member states in mid-April, the President of the European Commission, Jacques Delors, was of the opinion that the Twelve must both find over ECU 5,000m.\* between now and July and seriously envisage changes to the way in which the Community is financed.

The Community's own resources (VAT, custom duties, levies on agricultural imports and on sugar producers) will not be enough to allow it to meet all its commitments for 1987. The budget envisages total spending amounting to ECU 36,400m., but the European Commission believes an additional ECU 5,000m. will be needed.

Agricultural spending accounts for much of the overrun. Even if the Twelve accept the Commission's proposals on agricultural prices, with their emphasis on rigour and austerity, agricultural spending will exceed nearly by ECU 2,800m. the forecast made at the end of last year. This is largely because of the fall in the value of the dollar. For a long list of products the Community makes up to farmers the difference between their generally high prices and world market prices, calculated in U.S. dollars. Clearly the lower the dollar, the higher the compensation received by farmers.

The rest of the overspending represents the deficit for 1986, which has been carried forward into the 1987 budget (ECU 840m.) and the shortfall in the 1987 receipts (ECU 1,450m.). In other words, the Community's own resources do not cover even the budgeted expenditure.

In the immediate future the member states will have to advance the necessary sums to the Community, if they do not want Community aid to agriculture to dry up and to make the payments themselves. This is what the European Commission is asking them in fact.

In his letter President Delors has reminded the heads of government that "the present system of financing is exhausted, resulting in a recourse to expedients". The Commission proposed to the Twelve a new system in February, one intended to ensure the Community "adequate, stable and guaranteed" resources of its own. Mr Delors believes the Community's heads of state and government must adopt a solution along these lines during their next summit in Brussels, at the end of June.

\* 1 ECU = UK£ 0.71 or IR£ 0.78.

TRADE: Japan disappoints the Twelve

The situation continues to deteriorate despite Japanese promises.

The spring of 1987 has found the 12-nation European Community suffering from the imbalance in its trade with Japan even more than in the past. The fact was underlined by two representatives of the European Commission in mid-April.

In Brussels the external relations commissioner, Willy De Clercq, announced that Japanese moves to open up the country's market remained "desperately slow", while in Osaka, Japan, his deputy-director-general, Jos Loeff, declared the Community could not accept "structural imbalances which are growing every year".

The fact is that in 1986 Japan ran a record surplus of \$93 billion in its trade with the rest of the world, and an \$18 billion surplus in its trade with the European Community, a record in itself. The surplus increased again during the first quarter of this year: while there was a rise in Community exports to Japan, Japanese exports to the 12-nation Community rose twice as fast.

As Mr De Clercq pointed out, the Community is not blaming the Japanese for being competitive, but rather for (1) holding down the yen artificially in relation to European currencies and (2) keeping its home market "relatively closed" to European exports.

Under pressure from the Reagan Administration the Japanese authorities have allowed the yen to rise by 84% in terms of the dollar since 1985. However, during the same period the yen has gained no more than 7% in relation to the ECU. As a result, it is much easier for the Japanese to export to the Community than to the U.S.

In addition, as Mr Loeff underlined in his talk to the Osaka Chamber of Commerce and Industry, Japan continues to protect strongly those economic sectors in which it is uncompetitive. This is the case as regards both agriculture and traditional industries, including the motor car industry.

According to Mr De Clercq, despite Japanese promises, "their concessions have invariably proved very disappointing as regards their contents". Noting that the U.S. had obtained greater concessions than the Community, the external relations commissioner concluded that if the Community was more united it "could take greater advantage of its commercial strength vis-a-vis Japan".

TRADE: A single language for the world's customs officials

The 12-nation Community adopts the harmonized system of merchandise classification.

From next January customs officials in all European Community countries will designate sardines, whether fresh, chilled or frozen, with the number 0302.61 instead of 03.01 B. I d) 1 and d) 2. This change, insignificant though it may seem, should enable customs officials the world over - and their bosses, the trade ministers - to talk the same language.

The EC Council of Ministers adopted last month the new harmonized system of customs classification proposed by the Customs Cooperation Council, the body to which nearly all important trading nations belong.

The new system will replace the Brussels Tariff Nomenclature (BTN), established by the 1950 Brussels Convention and in use in the 12-nation European Community and other countries around the globe. The fact that the United States, Japan, Canada, the Soviet Union and China never adopted the BTN greatly reduced its usefulness.

The new system, which represents a revised version of the BTN, should be in use virtually throughout the world from 1 January 1988; it is enough that 17 countries ratify the international convention establishing the harmonized system. The recent Council decision adds 12 names to the list at one stroke.

The existence of a world-wide classification system will make it easier both to conduct international trade negotiations and compare the trade statistics of different nations. The new system should rapidly come into use in the new round of multilateral trade negotiations launched last autumn by the members of GATT\*, the Uruguay Round. The European Commission represents the Twelve at these negotiations.

Despite its 5,000 categories, the new harmonized system is inadequate when it comes to trade between the most advanced nations, especially the Community, the United States and Japan. They will therefore complete the basic system but without modifying it. For its part, the EC will introduce on 1 January 1988 an integrated Community tariff (under the acronym TARIC) which will be entirely computerized. Its basis will be in the international harmonized system.

\* General Agreement on Tariffs and Trade.

ENVIRONMENT: Keeping a watchful eye on cadmium

The European Commission declares war on a dangerous metal.

Restrict its use, limit emissions containing it and replace it as far as possible with other substances - these are among the principal measures proposed by the European Commission under its new action programme against cadmium pollution.

This dangerous metal is a naturally-occurring element. Cadmium pollution, however, is largely the result of man's own activities. The metal can accumulate in the kidneys and in the soil, and it is harmful to a large number of aquatic species. The World Health Organization has put the tolerable weekly intake at 400 to 500 micrograms per person, but this level has already been reached in some areas.

The European Commission proposes the monitoring of cadmium emissions from industrial installations and its accumulation in the soil. In both cases it wants to set limits. Emissions from waste incineration and coal burning would also be subject to limits.

The Commission envisages a ban on the use of cadmium in paint manufacture, except when essential, as well as measures to encourage the use of alternatives. The use of cadmium in food containers would be banned, while the recycling of products containing the metal, such as batteries, would be encouraged.

The Commission also wants the Community to set limits on the cadmium content of fertilizers. Given that some of them contain phosphates, produced in developing countries associated with the Community, the action programme provides for special financial aid to help them reduce the cadmium content of their exports of phosphate rock, phosphoric acid and phosphate fertilizers.

The European Commission will use the guidelines set out in the action programme as the basis for the detailed proposals it plans to make this year and the next to the twelve member states. But it believes that the national authorities must not adopt new regulations in the immediate future, as this would make it more difficult to draft Community regulations.

ECONOMY: Making a success of the 12-nation Europe without frontiers

Independent experts confirm the position taken by the Commission.

The construction of a frontier-free economic community consisting of twelve countries with very different living standards, economic characteristics and social systems is necessary for the prosperity of the European Community. But the project is not without dangers, if a certain number of precautions are not taken.

With this cautionary note as its starting point, a group of independent experts has made a series of recommendations to the Community, which it has summed up in the three words efficiency, stability and equity.

The study group was made up of seven Europeans of different nationalities and representing a variety of economic viewpoints. It was entrusted by the European Commission a year ago with the task of evaluating the economic consequences of two decisions taken in 1985: the Community's enlargement to include Spain and Portugal and the creation of a large market without internal frontiers by 31 December 1992.

At a recent press conference, held in the presence of President Delors, the chairman of the study group, Tommaso Padoa-Schioppa, deputy director-general of the Banca d'Italia and a former director of economic affairs in the European Commission, underlined the point that the success of the single internal market required further action to complement the measures the Twelve have already provided for.

Given the great diversity among the Twelve, and their present slow rate of economic growth, the experts believe the final elimination of the Community's internal frontiers could have a negative effect in the first instance, which could result in the failure of the operation. To avoid this they recommend stronger reliance on the principle of mutual recognition of national regulations, rather than the adoption of Community legislation. They favour a more selective choice of priority areas and less complex Community legislation, to be more effectively enforced.

The study group has recommended a strengthening of the European Monetary System in order, notably, to curb speculation. It has also called for an increase in financial aid to the regions facing the problems, especially those which are less developed or experiencing industrial decline.

The group regards a speed-up in the rate of economic growth as essential to the success of the internal market. It points out that the growth rate during the 1960s was nearly twice what it is today.

### THIRD WORLD: The growing role of NGOs in Community aid programmes

An annual general meeting and a striking balance sheet for Oxfam, the Red Cross and others.

In 1986 the European Community put ECU 45m.\* at the disposal of charitable organizations in its member states, the so-called NGOs (non-governmental organizations), to launch development projects in the Third World. The sum might seem very modest when compared to total Community aid to developing countries, which runs into billions of ECUs. But it is three times the amount earmarked for the NGOs five years ago and nearly 20 times as much as 10 years ago.

Clearly, the cooperation between the European Community and organizations such as the Red Cross, Oxfam and Caritas, inaugurated in 1976, has become increasingly important in the context of the Community's aid to developing countries. The recent annual general meeting of the European NGOs provided ample confirmation of this.

The European Commission plans to organize in future cooperation between the 12-nation Community, the African, Caribbean and Pacific (ACP) countries linked to it through the Lomé Convention and the NGOs. This should make it possible to coordinate the programmes financed by the European Development Fund, the Community agency for helping the ACP countries, and the generally more limited projects of the NGOs themselves.

During the first phase a pilot project will be undertaken in six ACP countries. In addition, the European Commission plans to modify the terms on which it will co-finance development projects with the NGOs.

Between 1976 and the end of 1986 some 2,206 projects were co-financed by the Community and 313 NGOs in 114 developing countries. The Community's contribution benefitted 47% of the ACP countries and represented, on average, 41% of the costs of the projects in question.

In addition to projects in the developing countries themselves, the European Commission has also co-financed several hundred activities undertaken by the NGOs to alert public opinion in Europe to the problems of the Third World. The NGOs have also cooperated with the Commission in the distribution of food and emergency aid and aid to refugees.

For the NGO Liaison Committee the role of its member organizations consists, above all, of "denouncing policies which prevent development" and of "taking account of the social factors in development" in the preparation of new policies.

\* 1 ECU = UK£ 0.71 or IR£ 0.78.

### A PEOPLE'S EUROPE: The European passport - an expensive business

The fees charged by member states vary a good deal.

Some member states do not issue the European passport and in others it is very expensive. It should have been introduced throughout the European Community by the end of 1984, but two years later it was still unavailable in Britain, Germany and the Netherlands. Spain and Portugal have until the end of 1988, however, to bring it in.

The problem, raised by the German Euro-MP, Hans Poetschki, is complicated because of the cost of the European passport. It is disproportionately high in some member countries, a fact which affects its distribution and use.

The European Commission has voiced its concern on several occasions, as the Commissioner responsible for the internal market, Lord Cockfield, has pointed out. It knows only too well that its excessive cost could discourage its use, especially in view of the fact that the much cheaper national identity card issued by some member states can be used in place of a passport for travel to many countries and, in particular, within the Community.

The Brussels-based executive has made its views known to the national capitals, so as to prevent the European passport from becoming a luxury item.

### ROADS: It's France for the byways, Germany for the highways ...

and Spain for its main roads.

Among the countries of the European Community, it is France which has the most extensive road network, motorways included, according to figures published recently by Eurostat, the European Community's statistical office. France had over 800,000 km. of motorable roads in 1984, while the Community as a whole had over 2.6m. km. This is far less than the United States (6.2m. km.) but far more than the Soviet Union (fewer than 1.4m. km.).

As for motorways, the longest network in the Community is to be found in Germany - over 8,200 km., as against 5,900 km. in Italy and 5,500 km. in France. But the countries with the densest network of motorways are Belgium and the Netherlands, with nearly 50 km. per 1,000 sq.m. of territory.

Main, or national, roads remain a Spanish speciality. It has 83,600 km. of them, out of a Community total of 253,000 km. Italy ranks second, with 45,100 km. and Germany third, with 31,500 km.



AIR TRAVEL: Another step on the long road to cheaper flights

Alitalia, Lufthansa and Olympic Airways agree in principle to abandon their restrictive practices.

Slowly, but probably surely, the stage is being set for cheaper flights within Europe. At the beginning of April three airlines - Alitalia, Lufthansa and Olympic Airways - officially confirmed to the European Commission that they were prepared to abandon their restrictive practices in principle. Through agreements among themselves national airlines have succeeded in keeping air fares artificially high so far.

Last June the European Commission initiated action against 10 European airlines, given that such agreements violate the European Community's competition rules. Seven airlines (Aer Lingus, Air France, British Airways, British Caledonian, KLM, Sabena and SAS) agreed to discuss the problem with the Commission and have since undertaken to modify their agreements.

Alitalia, Lufthansa and Olympic Airways initially refused to enter into discussions with the Commission, which took the next procedural step in March of this year. It decided, nevertheless, to delay matters for three weeks in order to allow the airlines a last opportunity to enter into a dialogue with it.

It should be possible, as a result of the discussions between the European Commission and the 10 airlines, to define precisely the changes each of them must make to existing agreements and practices.

CARS: Germany, the Community champion for all types ...

on the basis of the number of motor vehicles in use.

With more than 25 million cars on the road, including taxis and cars for rental, Germany held the European record in 1984, according to the latest statistics published by Eurostat, the European Community's statistical office. There were more than 95 million cars in the 10-nation Community in 1984 (i.e. prior to the entry of Spain and Portugal).

This works out at 351 cars for every 1,000 inhabitants for the Community as a whole. Germany led the field, with 412. It was above the Community average, along with Luxembourg (400) and Italy (366).

In the United States and Canada the number of cars for every 1,000 inhabitants was considerably higher - 540 and 429 respectively. But in the case of Japan the comparable figure was no more than 226, less than in Spain and not much more than in Ireland.