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Mailed from Brussels X

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REGIONAL AND SOCIAL FUNDS: The Twelve set out the ground rules ...
... for ECU 141 billion of assistance, from 1994 to 1999.

Several months of debates and a night of discussions were needed before EC ministers were able to adopt, on the morning of July 20, some 200 pages of texts setting out the ground rules for the distribution of ECU 141 billion* from the EC's regional and social funds, between 1 January 1994 and 31 December 1999.

This aid, which is aimed at reducing regional disparities and fighting unemployment, follows on from the present system, introduced in 1989 and due to expire at the end of this year. This deadline implied that the Twelve would have to adopt the new system of regional and social aid before the end of July, if it were to come into operation as from the beginning of next year, thus avoiding any break in payments. Despite these difficulties, the claims of several countries and the inevitable horse-trading, the Twelve managed to meet their deadline.

EC ministers in fact adopted six "European laws". One of them sets out the system's basic principles. Four others define the rules for the operation of the four EC funds which will provide the aid in question - the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF - Guidance section) and, finally, the new Financial Instrument for Fisheries Guidance (FIFG). The sixth "law" seeks to coordinate the activities of these various funds, which must often intervene together in the same region or in favour of the same social grouping.

The Twelve also decided on the priorities for the new system of aids, which remain largely unchanged. The first of them - Objective 1, in Community jargon - is to support the efforts of regions which have fallen behind, in development terms, to catch up. These regions will receive more than ECU 96 billion between 1994 and 1999, or more than two-thirds of the total, according to the indications given at the Edinburgh "summit" last December. This explains why the Twelve found it so difficult to agree on the list of beneficiary regions.

As under the present system, Objective 1 will apply to all of Ireland, Greece and Portugal, as well as to northern Ireland, France's overseas departments, Corsica, the Italian Mezzogiorno, and Spain's southern and western regions - Andalusia, Asturias, Castile and Leon, Castile-La Mancha, Ceuta and Melilla, Valence, Extremadura, Galicia, the Canary Islands and Murcia. In Italy, the Abruzzi region will be covered by Objective 1 until the end of 1996 only.

To these regions the Twelve have added the Highlands and Islands and Merseyside; the Belgian Hainaut and the bordering French districts of Valenciennes, Douai and Avesnes; East Germany; Cantabria in Spain and Flevoland, the large suburb of Amsterdam, in the Netherlands.

Two other types of regions will benefit from Community assistance, but not to the same extent. They are the regions severely affected by industrial decline - Objective 2 - and fragile rural areas, which are threatened by depopulation - Objective 5b. The European Commission will have the task of drawing up the list of these regions, no doubt in the autumn, and in agreement with the nine countries involved - the Twelve less Ireland, Greece and Portugal.

In addition to these regional aids the new system, like the predecessor, will grant social aid also. The aim, as at present, will be to fight against long-term unemployment - generally more than one year - and to foster the integration into the labour market of people under 25 years of age as well as all those who are exposed to social exclusion. They are covered by Objective 3.

The Twelve have added measures aimed at facilitating the adaptation of workers to industrial change and to changes in production systems. SMEs will be the first to benefit from this new Objective, which is Objective 4.

Finally, under Objective 5a help will be given to occupations in agriculture and fisheries to adapt to market changes.

* 1 ECU = UK£0.78 or IR£0.80.

AGRICULTURE: Reforming the European wine market

European Commission wants to bring supply and demand into balance for the year 2000.

Even while Europeans are drinking less and less wine, their vineyards are producing more and more of it. As a result, there is a considerable surplus at the end of the year. The European Commission has set itself the goal of reaching a balance between supply and demand in the 12-nation European Community around the year 2000. The EC's agricultural commissioner, René Steichen, presented on July 22 the measure the Commission is proposing to encourage wine growers to adopt yield-reducing practices, in the framework of regional programmes, funded partly by the EC and partly by Member States.

Since the 1970s Community wine consumption has fallen regularly by some 2m. hectolitres per year, while yields have increased annually by some 500,000 hectolitres. The system introduced by the EC to slow down this increase has failed to do so. If the widening gap between consumption and production continues unchecked, the Community will find itself with a surplus of 39m. hectolitres by the year 2000, of which only 15m. hectolitres could be marketed, after distillation, on the wine market.

If the prosperity of this sector, and its ability to compete against imported wines, are to be safeguarded, the emphasis will have to be on quality, according to Mr. Steichen. To this end he has proposed the introduction of multiannual regional programmes, aimed at helping wine growers adjust to market conditions. These programmes would be drawn up in collaboration with wine growers themselves and EC governments. The basic idea is to get the Member States to accept greater responsibility, by both involving them in the conception of these programmes and getting them to help finance them.

The first part of these regional programmes, which would be aimed at limiting the areas devoted to vineyards, would be financed entirely by the EC. The Commission has proposed a sharp increase in the subsidy for the grubbing up of wines for a 10-year period. This grubbing up would be integrated into coherent local

... / ...

programmes, which would take into account environmental problems, land management and afforestation.

The second part of these regional programmes, co-financed by the EC, would be designed to encourage producers to reduce yields. Aid could be given, for example, for vineyards located on steep hillsides, where yields are lower, or on land subject to erosion or fires. Aid would also be used to promote environment-friendly cultivation techniques.

The Commission also intends to limit wine-making practices which contribute to increased yields. There would be restrictions on sugaring and enriching with concentrated musts, techniques used in the countries of northern Europe to compensate for the lack of sunshine and increase the minimum natural alcoholic strength.

Finally, the Commission has proposed a far-reaching reform of the present distillation arrangements, which allow surplus wine to be converted into alcoholic beverages. At present, Member States notify their production statistics to the Commission, which then decides how much wine is to be compulsorily distilled in relation to consumption. Under the new system the Commission would set national reference quantities for all wines - and not for table wines alone. All excess production would have to be distilled at a very low price. In addition, Member States would no longer be authorized to give aid to wine growers, to compensate them for the very low prices for compulsory distillation. The reference quantity would be calculated on the basis of the average production during the last four agricultural years, taking into account both imports and exports and forecasts for the coming year.

The wines which are to be gradually eliminated from the market are poor-quality wines, according to Commissioner Steichen. Among EC countries, it is Greece which produces the most table wines (over 90%), followed by Italy (80%), Portugal (72%), Spain (63%) and France (53%). On the other hand, over 90% of German and Luxembourg production is of quality wines.

TAXES AND SOCIAL CONTRIBUTIONS: Generally higher in 1991 ...

... when the level of taxes and social contributions paid by Europeans was the highest since 1981.

Measured as a proportion of gross domestic product (GDP), taxes and social contributions in the 12-nation European Community rose from 39% in 1981 to 41% in 1991, the highest level recorded over this 10-year period. The latest statistics published by the EC's statistical office, Eurostat, point to considerable differences between the Member States. Thus receipts from taxes and social contributions (as a percentage of GDP) rose between 1981 and 1991 in 7 out of 10 EC countries (Greece and Portugal having failed to provide the necessary figures); only in Britain, Belgium and Germany was there a fall.

In 1991 these percentages ranged from 35% to 49%, depending on the Member State. The sharpest increases were recorded in Italy and Spain; but they are also the two EC countries with the lowest levels in 1981. The sharpest fall was recorded by Britain - 35% in 1991 as compared to 38% in 1981. This was also the lowest percentage for any EC country. Total receipts, as a percentage of GDP, were highest in Luxembourg, Denmark, the Netherlands, Belgium and France.

If one looks at taxes and social contributions separately, but still in relation to GDP, considerable differences appear between the 12 EC countries. Thus the proportion of social contributions varies from under 2% in Denmark to more than 19% in France, while that of taxes varies from 23% in Spain to nearly 47% in Denmark. On average, taxes account for 27% of GDP and social contributions 14%. Between 1986 and 1991 tax receipts rose in six EC countries and social security contributions in eight of them. In Germany, France, Luxembourg and the Netherlands a fall in one set of receipts was accompanied by a rise in the other; in Italy and Spain both sets of receipts rose while in Britain and Ireland both sets fell.

Income and wealth taxes remained the bedrock of tax systems in all EC countries between 1981 and 1991, accounting for half or more of all tax receipts. Taxes linked to production and imports fell slightly on average between 1986 and 1991 (from 26% to 24%); VAT receipts rose from 23% in 1986 to 24% in 1991, while capital taxes rose from 0.79% to 1% of total receipts.

COMMUNITY LAW: It was properly applied in 1992

More than 90% of EC legislation was transposed by the Twelve.

According to the European Commission report in monitoring the application of Community law in 1992, the Twelve have made considerable efforts to transpose EC directives into their national legislation during 1992. By the end of the year, more than 91% of the "European laws" had been put into effect in the Member States.

In its report the Commission sums up the infringement proceedings launched in 1992 against Member States which were not in conformity. If the number of warning letters, the starting point of the procedure, rose to 1,210 in 1992, as against 853 in the previous year, the number of reasoned opinions, which represent the second stage, fell sharply - from 411 to 248. This points to the effort by the Twelve to conform as quickly as possible to Community law. Finally, the number of cases referred to the European Court of Justice, the third and final stage in the procedure, remained virtually unchanged (it fell marginally from 65 to 64).

The main infringements were in the internal market sector (574 letters, 121 reasoned opinions and 21 Court referrals), in agriculture (339, 25 and 30 respectively) and in the environmental sector (143, 26 and 9 respectively). Italy was the target of the largest number of infringement proceedings, with Denmark still "head of the class", with barely 45 letters and no Court referrals.

The report also notes that the number of Court judgments which have not been complied with has fallen from 105 to 100. According to the Commission this positive trend could be due to the fact that the Court has laid down the principle that the Member States have an obligation to compensate individuals who have suffered damages as a result of their failure to implement a Community directive. What is more, under Article 171 of the Maastricht Treaty, the Court of Justice may impose a lump sum or penalty payment on a Member State which it finds has not complied with its judgment.

INFLATION: Unchanged in June
3.3% for the EC as a whole.

Price rises in June were very moderate in relation to May: 0.2% for the EC as a whole. The annual rate of inflation was therefore unchanged from the previous month: 3.3%, which was well below the 4.4% recorded in June 1992.

During the first six months of this year prices rose by 2.1% in the 12-nation Community, as compared to 2.3% during the same period last year. The rate of inflation slowed down in eight EC countries, but gathered pace in Germany, France, Luxembourg and, in particular, Greece.

However, in no EC country, except Greece, did the rate of inflation vary by more than 2.5 percentage points from the Community average. Denmark and Ireland recorded the lowest rates - 0.9% - and Portugal the highest - 5.5%, if Greece is excluded. With an inflation rate of 15.8%, Greece is the only EC country in which prices rose over the 12-month period to June, 1993.

PURCHASING POWER: Unified, Germany is not as rich as Italy ...
... but slightly richer than the Netherlands.

The gross domestic product (GDP) of unified Germany is just 5% above the EC average, measured in terms of purchasing power; West Germany by itself was nearly 19% above the EC average, according to calculations made by the experts at Eurostat, the EC's statistical office, on the basis of 1991 figures.

The results, published in mid-June, show a unified Germany well behind Luxembourg (132.2, the EC average being 100) but also France (115), Denmark (110.9), Belgium (108.3) and Italy (106.2). At 105.1 it was ahead of the Netherlands (104), however.

The other EC countries were below the EC average: Britain (98.7), Spain (80), Ireland (72.2), Portugal (60.6) and, finally, Greece (49.5). Eurostat included two countries currently negotiating to join the EC: Sweden, at 105.9 was slightly ahead of a unified Germany, while Austria, at 108.8, was slightly above Belgium. As for Switzerland, it outranked even Luxembourg, at 136.6.

TEXTILES: Outward processing traffic with low-wage countries is in the dock
European Commission proposes common rules to the Twelve.

Garments labelled "Made in France" or "Made in Germany" in many cases are partly made in North Africa or Eastern Europe, for example. European Community garment manufacturers ship fabrics to low-wage countries, where many of the labour-intensive operations are carried out, after which they re-import the garment, to be finished and sold under their own label. This operation, known in the trade as "outward processing traffic", or OPT, remains subject to national quotas. In order that it conform to the rules of the single market, the European Commission proposed to the Twelve in mid-July that such traffic be covered by rules valid throughout the EC.

The Commission takes the view that thanks to OPT it is possible to maintain both production and jobs in the EC, on condition that certain ground rules are respected and that straightforward imports are not disguised as OPT. It is a fact that if European manufacturers produce their entire output domestically, they will often be too expensive and will be forced to close down.

The Commission has proposed that national OPT quotas be replaced by quotas valid for the Community as a whole. To take advantage of such quotas, European manufacturers would have to produce at least 50% of their turnover within the EC.

In 1992 re-imports under OPT accounted for 9.9% of total garment imports into the Community. The countries which resorted to OPT the most were Germany (West) and Denmark: 10.7% and 10% of their total garment imports were under OPT. Next came the Benelux countries (5.3%) and France (5.2%).

As for the non-EC countries engaged in OPT with the Community, Yugoslavia led the way in 1991; it was followed by Poland, Hungary, Morocco and Tunisia.