



Monthly newsletter on the single internal market

European Community and EFTA: the European Economic Area becomes a reality

■ by Jacques Delors, President of the European Commission

On 17 January 1989, when presenting the new Commission's orientations, I devoted a part of my exposition to the Community's relations with the other Europe, and launched the idea of a far-reaching discussion with the countries of the European Free Trade Association (EFTA)¹ on the possibility of a broader cooperation between us. The success obtained at Luxembourg on 21 October 1991 has given life to this initiative: the realization of a political agreement on all points of substance of what it has now become customary to call the European Economic Area.

Three objectives guided us. Firstly, extending the benefits of the single market to the EFTA countries, with the rights and obligations conferred by it, as well as the limits. Agriculture, therefore, is not included within the agreement for the present. Secondly, the beginnings of a partnership between the Community and EFTA. And thirdly, setting out an important marker for the establishment, in the medium term, of the architecture of the wider Europe. This agreement, concluded after 16 months of negotiations, was made possible thanks to breakthroughs in three areas: the transport agreement, with its links with the environment, the fisheries agreement and the cohesion fund.

The agreements reached in these three areas, which were the most controversial, must not allow us to forget the numerous other complex questions for which solutions had to be found. Without going into all the details, it must be stressed that the EFTA countries will accept the *acquis communautaire* in its entirety; it is relevant for the realization of the four freedoms — goods, capital, services and people — that they will organize themselves in the same way as the Community, to ensure conditions of fair competition.

The assumption, by 1993, of an *acquis communautaire* built up over a period of 30 years, will require a considerable effort on the part of the EFTA countries. It will represent a good part of the distance to be travelled by some countries on the road to membership. It was normal, in these conditions, that transitional periods or derogations be agreed on. The number of such provisions is limited and justified in the light of what had been provided for during the entry of new Member States. Even in very sensitive areas, such as agriculture, which are outside the scope of the agreement, considerable progress could be achieved. It was even possible for the EFTA countries to assume a part of the *acquis communautaire*, particularly as regards veterinary and phytosanitary matters. Four freedoms, equality in the terms of competition and contributions from EFTA towards the reduction of regional disparities: in addition to these three parts of the agreement, one has to underline the assumption, by the EFTA countries, of our *acquis* in the area of certain so-called 'horizontal' policies. I will mention, in particular, company law, social policy and environmental policy. In the light of all this, the present agreement is not aimed solely at extending the single market, but also at allowing the beginning of cooperation between the EC countries and those from EFTA.

The provisions and machinery of the agreement will ensure that the Community will remain fully autonomous when it comes to decision making. At the same time, they will allow EFTA to be adequately informed and involved in order to assert its interests just when decisions of interest to the European Economic Area have to be taken. This is why the institutional framework includes a political organ; the Council of the European Economic Area; a management body; the joint committee; a Court of Justice, and an independent Court of First Instance. Parliamentarians will cooperate within the framework of a joint parliamentary committee.

Finally, a consultative committee will provide the framework for cooperation between employers and trade unions. This implies of course that our EFTA partners will be kept informed of the development of the decision-making process. The Commission is very pleased, therefore, with the capacity for action displayed by the Community.

¹ EFTA: Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland.

10
NOVEMBER/
DECEMBER 1991

The text of this issue
was completed
on 5 November 1991.

target 1992

DECISIONS

■ 'European' pilots and planes

As from 1 January 1992 — a year before the date set for the completion of the single market — pilots, co-pilots, flight engineers and their aircraft will become 'European'. EC ministers reached agreement on 7 October on two 'European laws', the first of which requires each Member State to accept the professional licences delivered by the other EC countries and regard them as equivalent, pending a system of harmonized European requirements to be adopted by the Twelve before 1 January 1993. The second of the two 'European laws' harmonizes the technical standards and administrative procedures applicable to permits to operate and service aircraft and their equipment.

■ Safety at building sites

Throughout the European Community, construction workers will have to follow a minimum of safety and health rules on building sites from 31 December 1993. On that date a Directive ('European law'), which EC ministers adopted on 14 October, will come into force. Under this law, those in charge of building sites will have to draw up a safety and health plan before work begins; in the case of very large construction sites they will have to inform the competent authorities. They will also have to inform their workers and consult with them. The Directive sets out a chain of responsibilities which involves those who have ordered the work to be carried out, those who direct and coordinate it, and all the employers and self-employed people who have a role in the execution of the work. This Directive is part of some eight 'laws' aimed at improving safety at work. With fewer than 10 % of the EC workforce, the construction industry accounts for 15 % of all accidents at work and 30 % of fatal accidents.

■ Safety-belts for rear seats

From 1 January 1993 those sitting in the rear seats of motorcars will have to fasten their safety-belts — provided the vehicle they are in is equipped with them. The EC Council of Ministers agreed

unanimously on 7 October on a draft 'European law' making it compulsory to wear seat-belts in the rear seats of vehicles with a maximum of nine seats. At present, passengers in the rear seats are required to fasten seat-belts in five of the 12 EC countries: the UK, Belgium, France, Germany and Luxembourg. The draft legislation does not require owners to have seat-belts installed in the rear seats of cars in which they were not fitted from the start. For children under 12 years of age, the text provides for a retaining system adapted to their size and weight. But each of the 12 Member States will be able to allow, within its own territory and if it so wishes, children to use safety-belts designed for adults.

■ No room for dangerous products

Manufacturers and distributors will not be able to market consumer products which are dangerous or present a risk of some kind in the single European market. The EC Council of Ministers reached agreement on 15 October on a Directive ('European law') designed to ensure that only products which are safe will be sold in the single market. The Directive must come into force two years after its definitive adoption. This could be from the end of 1993 if the Twelve hurry. This 'law' requires manufacturers to offer for sale only reliable products, distributors to hold back suspect products and government departments to check for conformity to European standards. In case of emergency the Directive provides for a rapid exchange of information between the Twelve and the European Commission, as well as a method of intervention which would allow the Commission to require that the product in question be withdrawn from sale.

■ Transporting animals more humanely

The completion of the single market will improve the lot of calves, pigs and other animals transported live from one point to another within the European Community. A Directive ('European law') adopted on 21 October by the EC Council of Ministers establishes standards aimed at ensuring the welfare of animals transported within the European Community or imported from third countries. In the case of imports, conformity to transport standards will be checked at the Community's external borders. At the same time, systematic checks at the internal borders will be ended.

■ 'European' rivers and canals

Rivers, canals and other waterways within the 12-nation European Community will acquire a European dimension from 1 January 1993. EC ministers adopted on 7 October two 'European laws' ending national privileges for the transport of goods and persons. The first of the two 'laws' authorizes cabotage — that is to say, transport within a given EC country by a firm registered in another. However, France and Germany will be able to limit cabotage within their respective territories until the end of 1994. Only firms in which nationals of EC countries have majority ownership will benefit from the new legislation. The second 'law' requires each of the Twelve to accept the permits issued by the other EC countries, authorizing their carriers to conduct business. Thus a boatman authorized to work in Belgium will be able to do so in France or the Netherlands also.

■ Research and the single market

The Twelve have decided to take advantage of the single market in the field of research. Their ministers adopted on 28 October a programme based on the judicious use of researchers particularly in the areas which influence the competitiveness of firms. With a total budget of ECU 488 million (1 ECU = UK£ 0.70 or IR£ 0.77) from now to the end of 1994, the programme should make the European Community more competitive on world markets. The fact is, the 12-nation EC has only 4 researchers per thousand of working population, as compared to 7 in Japan and 7.7 in the United States. The programme will consist of four areas

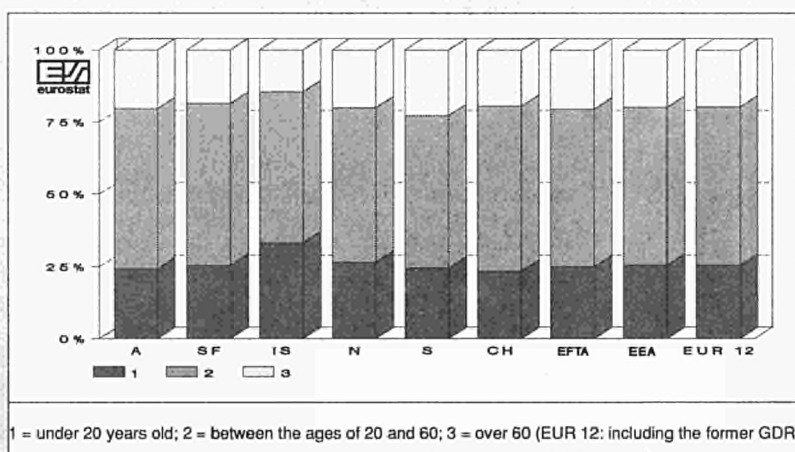
A MARKET OF 376 MILLION PEOPLE

The agreement reached on 21 October between the European Community and the seven members of the European Free Trade Association (EFTA) will give birth on 1 January 1993 to a European Economic Area (EEA) of 376 million people — the 343 million living in the Community and the 33 million who live in EFTA. In many ways this new economic area will amount to an extension of the single market: there will be free movement of people, goods, services and capital, with some derogations for the EFTA countries, but in general, not extending beyond 1995. The EEA will also allow the EFTA countries to participate more actively in certain Community policies: the exchange programme for students, researchers and teachers; environmental protection; scientific research; activities in favour of small and medium-sized enterprises (SMEs); consumer protection; social policy and the promotion of the audiovisual and tourist industries. In order to make the EEA agreement possible, the two Alpine members of EFTA, Switzerland and Austria, had to accept the heavy goods traffic between the Community's northern and southern regions. However, greater use is to be made of the railways and combined road/rail transport. For their part, the EC countries have had to agree to open their markets to EFTA goods and services. The EFTA countries have undertaken, in return, to give them ECU 500 million in grants over five years and lend them ECU 1.5 billion over 10 years, on very favourable terms. The beneficiaries are Ireland, Greece, Portugal and the poorer regions of Spain. As for the fisheries sector, which is extremely important for the economies of the Nordic countries, specific arrangements had to be worked out, as a derogation to Community rules. It should be pointed out that checks at the borders between the EC and EFTA countries will continue, despite the scale on which freedom of movement is countenanced by the European Economic Area. The countries of EFTA must still ratify the agreement.

European Economic Area (EEA)

Age structure of the population, in %, 1990

Demography of the EEA



The EEA covers an area of 3.6 million sq. km and has a population of almost 376 million, 343.5 million of whom belong to the Community.

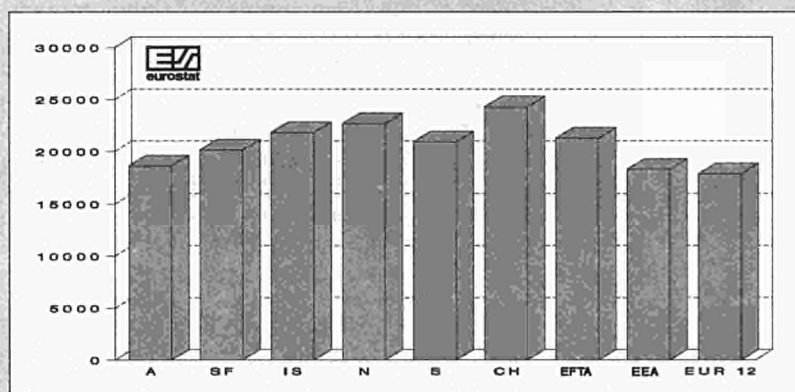
The population structure of the EFTA countries is very similar to that of the Community: about 25% of the population is under 20 and 20% over 60.

Of the EFTA countries, Iceland has the youngest population but in the EEA as a whole, Ireland has the greatest number of young people.

	A	SF	IS	N	S	CH	EFTA	EEA	EUR 12
Population ('000)	7 660.3	4 998.5	254.8	4 233.0	8 527.0	6 673.9	32 347.5	375 817.8	343 470.3
Area ('000 sq. km)	83.9	338.1	103.0	323.9	450.0	41.3	1 340.2	3 600.0	2 259.8

Per capita GDP, in purchasing power standards (PPS), 1990

Standard of living

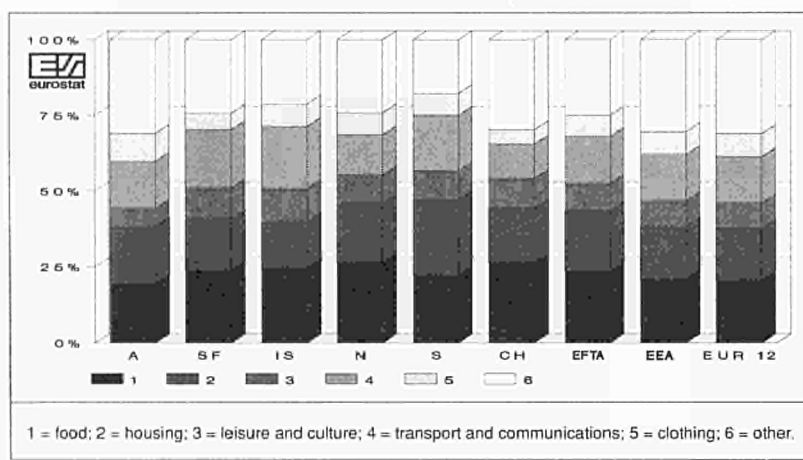


With a per capita GDP approaching 21 300 PPS, EFTA represents a market with a high purchasing power. All EFTA countries have a per capita GDP greater than the Community average, which stands at 17 857 PPS.

Within the European Community, however, those Member States with a high standard of living are on the same level as EFTA as a whole. The reason for the difference between the Community and EFTA is that the disparities between EFTA countries are less pronounced than those between Community countries.

	A	SF	IS	N	S	CH	EFTA	EEA	EUR 12
Per capita GDP, in PPS, 1990	18 615	20 140	21 828	22 679	20 936	24 308	21 291	18 300	17 857

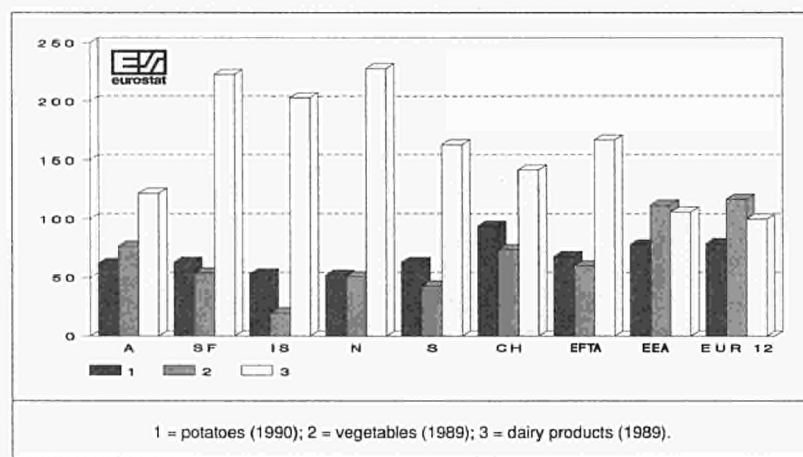
Final consumption by sector, in %, 1989



Sectors of consumption

The relative size of the purposes of consumption varies from country to country, but certain trends are discernible: in EFTA, food accounts for between 19.5 and 26.4% of total consumption, whereas in the EC the variation is much greater, between 19.4 and 39%.

In overall terms, expenditure on food and housing is greater in the EFTA countries than in the EC.

Consumption of certain food products, 1989
(kg per capita per year)

Consumption patterns

There is no common pattern of food consumption in the EFTA countries. Consumption of dairy products varies from 228 kg in Norway to 122 kg in Austria (as against 100 in the Community).

Moreover, pride of place is given to potatoes in Switzerland, whereas vegetables seem of marginal importance in Iceland: 20 kg as against 117 kg in the Community (and 225 kg in Greece).

EFTA: European Free Trade Association, comprising Austria (A), Finland (SF), Iceland (IS), Norway (N), Sweden (S) and Switzerland (CH); Liechtenstein joined on 1 September 1991.

PPS (purchasing power standard): since exchange rates do not necessarily reflect the purchasing power of a currency on the national territory, Eurostat uses the PPS to eliminate general price differences among countries in order to improve the comparability of figures.

of activity: (1) the creation of a European system of training scholarships for holders of doctorates; (2) the creation of a cooperation network linking research centres and laboratories in the different EC countries, with the emphasis on the more disadvantaged regions; (3) giving young researchers access to scientific installations in EC countries of a kind not to be found in their own countries, and (4) the introduction of a system of 'Euroconferences', with a view to allowing researchers from different EC countries, and at different levels, to share experiences and information.

■ Telecom lines for lease

In the single European market firms throughout the European Community will be able to lease telecommunication lines from national companies, such as British Telecom, regardless of their nationality. Ministers from the 12 EC countries reached agreement on 4 November on a Directive ('European law') which sets out the terms of access to networks and public services. This 'law' which has still to be examined by the European Parliament, harmonizes conditions of use, the bases for setting prices, ordering methods and dispute settlement procedures in the event of disagreement between user and supplier. Leased lines are of growing importance for firms, whether used for their own communication needs or to provide services, such as the transmission of data or funds.

□ BRIEFLY

From 30 June 1993 employers will have to inform **new employees** in writing of the basic features of their contract or working relationship, no later than two months after the start of work. Ministers from the EC countries adopted a Directive ('European law') to this effect on 14 October.

The EC Council of Ministers adopted definitively on 1 October the **new anti-pollution standards for diesel-powered trucks** and other commercial vehicles. These standards, which were adopted in March (see *Target 92*, No 5/91), will reduce noxious emissions as from next year in the case of all new models, and in 1993 in the case of all new engines put on sale.

INITIATIVES

● Help for the textile industry

Those regions in difficulty in the European Community which are suffering from an excessive dependence on the textile sector should receive financial aid for restructuring purposes over a five-year period starting in 1993. The European Commission has adopted in principle the Retex programme, which has been drawn up along the lines of earlier programmes in favour of areas dependent on the coal, steel and shipbuilding industries. At the same time, the Commission has proposed to the Twelve a strategy for adapting the textile and clothing sectors to the single market and international competition. The key elements of the strategy are vocational training, research and technology, information, globalization of companies and export promotion.

● A single-dialling code for 1993?

It is possible that from 1 January 1993 you will be able to use the same dialling code to link up with the international telephone network in any of the 12 European Community countries. The fact is, the EC Council of Ministers agreed on 4 November on the introduction of '00' as the international code from 31 December 1992 at the latest; in any case, from 1 January 1999, as the agreement in question, which still awaits examination by the European Parliament, authorizes Member States 'facing specific technical, financial or organizational problems' to put off the introduction of the common code until 31 December 1998. The proposed code is already in use in six of the 12 EC countries: Belgium, Luxembourg, Germany, Italy, Greece and Portugal. In order to

telephone 'abroad' from the other EC countries you must put up with a variety of codes: 010 in the UK, 19 in France, 09 in the Netherlands, 07 in Spain, 009 in Denmark and 16 in Ireland.

○ BRIEFLY

Will there be a single market in gambling? Before even trying to answer this question the European Commission called for a report on the situation in the 12-nation European Community. Its conclusions were published on 11 October. They reveal that Europeans spent some ECU 46 billion in 1989 on lotteries, betting, the pools, in casinos and at bingo. The biggest markets are the British (ECU 13 billion), French and German (ECU 9 billion) and Spanish (ECU 7 billion). You can indulge in certain forms of gambling in some EC countries but not in others.

Private pension funds based in one European Community country will be able to invest freely in all the others if the Twelve adopt a 'European law' proposed by the European Commission on 16 October. These funds together hold approximately ECU 700 billion in assets.

SEEN FROM ABROAD

▶ EFTA: from EEA to European Community

Both before and after the conclusion of the agreement of 21 October on the European Economic Area (EEA), the countries of EFTA have not overlooked opportunities for positioning themselves in relation to the European Community and eventual membership of it. The negotiations between the EC and EFTA had no sooner ended in Luxembourg than the Swiss Foreign Affairs Minister, René Felber, declared that 'the goal hereafter is Switzerland's entry into the Community'. A poll had already revealed on 20 October that a majority of the Swiss (55.3 %) were in favour of EC membership for their country. On 23 October several influential Swiss newspapers saw in the EEA a step towards membership. In Austria the Foreign Affairs Minister, Alois Mock, stated on 22 October that the agreement on the EEA was going 'to speed up' the country's entry into the EC. As for the Swedes, their Prime Minister, Carl Bildt, declared in Brussels on 22 October that he hoped Sweden would join the Community in 1995. For her part, the Norwegian Prime Minister, Mrs Gro Harlem Brundtland, simply noted that the agreement 'opens a new phase in the co-operation' with the Community. The thought of eventual Community membership continues to divide Norwegian public opinion — as well as public opinion in Finland, where some 10 000 farmers demonstrated against their country's eventual entry into the EC in Helsinki on 22 October. As for Iceland, its Trade Minister announced on 3 October that he envisaged tying the country's currency to the ecu in 1993. As a transitional measure, it is to be tied to a basket of currencies — the ecu, US dollar and yen — from 1 January 1992.

▷ BRIEFLY

Israel would like to join the European Economic Area, Prime Minister Shamir told the European Parliament in Strasbourg on 22 October. 'We would like closer economic cooperation with the Community', he declared. The EC is already Israel's major trading partner.

The European Economic Area will reduce **the cost of banking services in the EFTA countries** in spectacular fashion: by 67 % in Austria, 50 % in Switzerland, 40 % in Sweden, 36 % in Norway and 20 % in Finland. This was disclosed by the director of Finland's banking association, Matti Sipilä, based on the results of calculations carried out by EFTA.

In a **joint declaration signed in Cracow (Poland)** on 6 October, the Polish President, Lech Walesa, and the Czechoslovak President, Vaclav Havel, as well as the Hungarian Prime Minister, Jozsef Antall, stressed that their main objective is membership of the European Community. 'Entry into the EC as quickly as possible is of capital importance for the political stability of our region', Mr Havel declared.

◆ A panorama of European companies

How many companies are there within the borders of the 12-nation European Community? How many of them can be regarded as small and medium-sized enterprises (SMEs)? In which sectors of economic activity are SMEs most important? The 1991-92 edition of *Panorama of EC industry*, published in October by the Commission of the European Communities, offers some answers to these, and other, questions.

Thus in 1986, the latest year for which figures are available, there were some 13.4 million industrial and service companies within the EC. They employed roughly 92.4 million people. Some 14 % of them were in the manufacturing sector, 13 % in the construction and 73 % in the services sector.

In the absence of a uniform definition of SMEs, the 'Panorama' classifies companies as follows:

- (i) fewer than 10 employees, including the self-employed: micro-firms;
- (ii) from 10 to 99 employees: small firms;
- (iii) from 100 to 499 employees: medium-sized firms;
- (iv) more than 500 employees: large firms.

In the European Community, micro-firms account for just over 91 % of the 13.4 million companies; small firms 8 % while the medium-sized and large enterprises represent only 0.5 and 0.1 % respectively of the total. However, the great majority of micro-firms are made up of the self-employed — in other words, firms without salaried staff, who represent 52 % of all Community enterprises. There are differences between the various economic sectors: the micro-firms are more numerous in manufacturing industry where they represent 83 % of the total for the sector, while in the construction and services sectors they represent 91 and 93 % respectively. SMEs, in the strict sense of the word — from 10 to 499 employees — constitute nearly 9 % of all enterprises in the EC. They are more numerous in manufacturing industry — 17 % of the total for the sector — and closer to the Community average in the construction and service sectors: 9 and 7 % respectively.

In terms of contribution to employment, SMEs are by far the most important, with an average of 45 % of the total. Their contribution varies from 51 % in the construction sector to 43 % in the services sector, while it is close to the Community average — 46 % — in the manufacturing sector.

More detailed information, on a country and sector basis, has already appeared in *Enterprises in the European Community* (October 1990), published by the Commission of the European Communities. The statistics were for 1986. They will be updated for 1988 and will cover more detailed sectors; they will also take into account the size of SMEs in terms of production (turnover, value-added, etc.). They will be published by the Commission at the beginning of 1992.

◆ The BICs in East European countries

The network of Business and Innovation Centres (BICs) is now spreading to Central and Eastern Europe: Prague, Brno and

Bratislava in Czechoslovakia and Wroclaw in Poland. These new centres are partly financed by the Phare programme of western aid to the new Eastern European democracies and coordinated by the European Business and Innovation Centre network, the network of existing BICs. A new push towards the East is envisaged, notably in Hungary.

A total of 66 Business and Innovation Centres are to be found spread over the territory of the EC. Supported in part by Community Funds, the BICs are to be found alongside innovative SMEs, both during their start-up and expansion periods. They help unearth interesting projects and carry out feasibility studies. The rate of success of SMEs (beyond 3 to 5 years) having worked with a BIC is roughly 80 %.

◆ Value: the result of research

The main aim of the European Value programme is the spreading and utilization of the results of Community research and technological development.

It is in this context that the Commission is inviting SMEs to draft proposals. This invitation, which appeared in the *Official Journal of the European Communities* C 148 of 7 June 1991, is thus addressed to all small and medium-sized enterprises which are interested in the results of Community research. The proposals sought, based on the use made of earlier research, is aimed at increasing the access SMEs have to the new technologies, in order to make them more competitive. The Commission has envisaged financial support for the proposals that are retained: it covers travel expenses to take part in meetings aimed at finding out if the new technology corresponds to the needs of the firm acquiring it, as well as the costs associated with the transfer to technology. Given that research is continually leading to fresh results, the proposals can be sent to the Commission at any time.

◆ European services for business

The department of the European Commission with responsibility for SMEs (Directorate-General XXIII) has undertaken to promote information about, and the use of, Community services on offer to SMEs: the Euro-Info-Centres for information, the Business Cooperation Network (BC-Net), the Business Cooperation Centre, Europartenariat and Enterprise, for interbusiness cooperation.

Many among the Community's managing directors are still unaware of these instruments or, if they know them at all, regard them as bureaucracies unsuited to meeting their needs.

An awareness campaign was launched in November 1991 in all the EC countries, through the trade press, in order to reach company managers more effectively. The campaign is being extended into 1992 and will be widened to take in professional publications aimed at SMEs. It will focus on the SME training programme for the Europe of 1992 and the Euromanagement programme, designed to facilitate participation by SMEs in Community research programmes.

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Commission of the European Communities
Directorate-General Audiovisual, Information, Communication and Culture, and Directorate-General Enterprise Policy,
Distributive Trades, Tourism and Cooperatives, Rue de la Loi 200 — B-1049 Brussels



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OF THE EUROPEAN COMMUNITIES

L-2985 Luxembourg

Catalogue number: CC-AI-91-010-EN-C