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EURECOM

Monthly bulletin of European Community Economic and Financial News

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Dear Reader,

Welcome to the first issue of EURECOM, the new publication which will keep you up to date with developments in the European Community which are important to you.

EURECOM will concentrate on bringing you news of EC legislative measures which are part of a package of proposals designed to achieve the goal of 1992. That is the date targeted for the removal of many of the barriers which divide the 12 EC member states.

It is an ambitious program that aims to give the EC's 320 million citizens the rights that citizens of the United States can take for granted - the freedom to trade goods and services, to invest money, to settle down, start a business or to take a job, all without having to take account of borders between states.

Closer integration will provide a significant economic boost as businesses take advantage of access to a larger home market, of economies of scale, and of greater investment opportunities. Consumers will benefit from lower prices for goods resulting from sharper competition between manufacturers.

These developments will have important implications for the United States, which is not only the EC's closest trading partner but which also shares with it many economic, political and cultural links and values that transcend

the mere give-and-take of the market place.

While many of our readers may already be familiar with much of the 1992 package, we thought it would be useful to devote the first issue of EURECOM to a general explanation of its major objectives and how they are to be achieved.

In our next issue we will concentrate on what 1992 means for third countries, particularly the United States, whose economy is increasingly interdependent with that of the European Community.

Subsequent issues will take a look at different elements of the 1992 package, such as technical standardization, taxation and the financial services sector, and will keep you in step with the progress of measures through the legislative process.

EURECOM is not intended to be an exhaustive or all-embracing chronicle. What we will try to do is provide succinct reporting of the most prominent developments. On the back page you will find details of how you can obtain additional information on items that are of particular interest to you.

We hope you will enjoy reading EURECOM and that you will recommend it to your friends and associates who are interested in 1992.



Peter Doyle
EDITOR

1992 will not be just any other year. It sees the 500th Anniversary of the discovery of America by Christopher Columbus, a historic occasion that will be marked on both sides of the Atlantic. It will also see the staging of the next Olympic Games, coincidentally in Spain where Columbus found financial backing for his epic voyage.

But 1992 has an added significance for Europeans, particularly the 320 million citizens of the European Community. By the end of that year, a vast legislative program is due to be completed which should sweep away the remaining barriers that today prevent the free flow of goods, services, capital and people between the 12 EC member states (Belgium, Denmark, France, Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, United Kingdom).

This ambitious venture has captured the imagination of Europeans who are tired of the frustrations they encounter in their daily lives as they contend with a bewildering array of technical standards, a dozen different currencies, delays at borders when they are travelling on holiday or on business, or regulations which prevent them investing their savings where they will obtain the best rate of interest.

The EC's founding Treaty of Rome, which was signed in 1957, aimed to abolish the main restrictions in little more than a decade. But weak political will, combined with cumbersome legislative procedures, stalled the

drive towards economic integration. As a result, the EC remained a feeble, fragmented market whose industries, lacking the large domestic base enjoyed by competitors like the United States and Japan, fell further and further behind.

A growing consensus between political and business leaders in the face of this relentless decline paved the way for two key developments that have put the EC back on track. One was the publication in 1985 of a blueprint that mapped out an eight-year strategy (1985-1992) for creating a large single market. The other was the signing of an update of the Treaty of Rome, a move designed to speed up the political decision-making necessary for the implementation of the 1992 program.

THE BENEFITS OF 1992

A recent study sponsored by the European Commission to evaluate the economic benefits projected that the creation of a unified EC market would add about 5 % to the Community's gross domestic product, a gain of about \$ 250 billion dollars. In the medium term, the study¹ found that the program would also create as many as 2 million new jobs and keep average consumer prices 6 % lower than they would be if the market remained divided.

¹ THE EUROPEAN CHALLENGE 1992: The Benefits of a Single Market, by Paolo Cecchini, Wildwood House Ltd., Gower Publishing Co., Old Post Road, Brookfield, VT 05036. \$ 13.95 paper, \$ 33.95 hardback.

Triple-track approach

The 1992 strategy was drawn up by the European Commission, the Brussels-based "executive" of the EC. Its role is to bring into legislative form the principles for cooperative action between the 12 member states which are outlined in the Treaty of Rome. The Commission drafts legislation which must then be approved by the Council of Ministers, which represents the member states, and by the European Parliament, which is directly elected by the people.

The 1992 program consists of 300 legislative proposals from the Commission. In its approach, the Commission identified three types of barriers which needed to be removed: *physical, technical and fiscal*.

Physical barriers

Unlike the United States, citizens of the EC moving from one State to another, whether for business or on vacation, have to pass through customs and immigration controls. This is costly for a business and irritating for an individual. Progress has been made in reducing delays, such as the introduction at the beginning of 1988 of a single transit document which truckers can use to travel throughout the EC, and which replaced up to 70 separate forms. For individual travellers, many frontier points have special lines for

EC citizens and a common format EC passport is now in use, although it is still issued by national authorities.

A major target is the abolition of all checks and formalities at frontiers when goods are being transported. Examples of how things can be speeded up are the use of spot-checks instead of systematic examination of every cargo ; cooperation between national authorities by avoiding duplication of controls on both sides of the border ; the computerization of all frontier post operations throughout the EC. There is also a need to reduce controls by bringing in common health and safety rules.

While individual citizens are no longer stopped systematically at border crossings, at least in Continental Europe, many travellers are held up by police identity checks or by checks on their belongings for tax reasons. Some form of police checks will remain unavoidable so long as crime, terrorism and drug-trafficking remain features of everyday life. A key target for 1992 is greater cooperation between national authorities, supported by more coordinated surveillance at the EC's external frontiers.

Technical barriers

The elimination of frontier controls would not make much sense if, within individual countries, EC citizens, whether on business or hoping to take up a job, continued to

come up against a whole range of obstacles because of differences in national laws. That is why the European Commission has listed a number of measures needed in order to dismantle the so-called technical barriers that still inhibit the free circulation of goods, services, capital and persons.

For example, many goods cannot be freely traded because of different national standards and technical regulations, many of which are linked to health, safety or environmental protection. The EC is now operating a more simplified system to bring about common standards by 1992.

The problem of public procurement is also being tackled, so that firms can bid for public works and supply contracts throughout the EC, instead of being restricted to their own country, as is the case with the bulk of such contracts at present. This will be an important step because such contracts account for around 15 % of the EC's gross product.

The 1992 objectives also include legislation to open up competition in such areas as transport and financial services. In the transport sector, for example, most trucking firms depend on licenses granted under bilateral agreements between Governments to carry goods between member states; the aim is to eventually replace these licenses by an EC license, a system which is already in operation in a limited

way. Another major plan of the legislative drive is a degree of deregulation in the airline business. In the financial services sector, legislation has been approved or is in the pipeline to enable banks, insurance companies and the like to set up business in any member state or to trade their services across frontiers.

This degree of economic integration could not be achieved without removing restrictions on the free circulation of capital. Some member states still maintain these restrictions on the export of capital to other member states. The EC is aiming to gradually abolish such restrictions so that firms can invest under the most effective conditions. Similar arrangements will also be made for individuals.

In a true Community, private citizens must have the right to work or live where they please, just as they can in the United States. At present, most EC citizens are free to go to work for a firm in another country, but there are restrictions on certain professions. Similarly, right of residence is at present usually restricted to persons engaged in some economic activity, whether as an employee or self-employed. The question of voting rights, at least in local elections, must also be tackled.

Fiscal barriers

One of the biggest challenges will be the elimination of fiscal

frontiers. At present, wide variations in sales taxes and excise duties hamper free trade in goods and services between the member states. The aim is not to harmonize the rates but to reduce the differences between them, so that the gaps are not greater than those which exist between individual states in the U.S.

ARE WE ON TARGET?

The 1992 objectives are nothing new. The general targets were established as long ago as 1957, by the Treaty of Rome. However, it proved difficult to break down national barriers because many legislative proposals made by the European Commission were blocked in the Council of Ministers until unanimity could be achieved. In mid-1987, the Single European

Act, which modified parts of the Treaty of Rome, especially its decision-making procedures, came into operation, and now many decisions can be taken by majority vote. This has speeded things up. However, the elimination of fiscal barriers remains subject to the unanimity rule.

Of the 300 proposals outlined in the 1992 White Paper, around one third have already been adopted by

the Council. The Commission expects to bring forward most of the remainder of its proposals by the end of 1988. While progress in some areas has been disappointingly slow, the whole 1992 process has achieved an irreversible momentum. There are undoubtedly major obstacles to be overcome but there is ample evidence that the political will exists to create a true common market by the target date.

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