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EC-WIDE COMPETITION IN PUBLIC CONTRACTS FOR SERVICES

Following the recent, final agreement by the Council of Ministers to open up public procurement works and supplies contracts to competition in the "excluded sectors" — energy, water, transport and telecommunications (for the Commission's proposal see EURECOM, April 1990) — the Commission has proposed a directive to expose government contracts for services to more competition.

At present, services comprise about 25% of all public contracts or 3% of Community GDP — and this proportion is growing — but they have been hitherto neglected under EC rules. Public contracts for services are awarded to firms from other member states even less often than contracts for supplies and construction: 99% of these contracts go to national firms.

The proposal would apply to contracts of at least 200,000 ecu (ecu1=\$1.33) for services where the potential for cross-frontier trade is greatest (e.g. road repairs and maintenance, insurance, waste removal, advertising and information technology). As of March 1992, public contracts for these services would have to be advertised in the EC's Official Journal and awarded on the basis of the best or lowest tender from anywhere in the Community. Architectural services would also be covered if they are part of a construction project worth at least 5 million ecu. Other areas such as legal, manpower and educational/vocational services, where there are good reasons to "buy local", would, at least initially, be subject only to transparency requirements.

For third countries, the directive has a reciprocity clause along the lines of the Second Banking Directive (see EURECOM, May 1989). Buyers would have to give a third country-bidder the same treatment as EC bidders unless Community bidders were being discriminated against in the third country. This is to ensure access to external markets and to influence the Uruguay Round negotiations of the GATT, where the liberalization of public procurement in the services sector is a burning issue.

Later this year the Commission will submit a directive to cover services in the "excluded sectors" to complement the "excluded sector" directive for works and supplies contracts which the Council of Ministers recently passed. The adopted directive applies only to contracts exceeding certain thresholds: 5 million ecu for works contracts; 400,000 ecu for supply contracts in general; and 600,000 ecu for supply contracts in the telecommunications sector.

EXCISE DUTY PROPOSALS COMPLETED

According to new proposals issued by EC Tax Commissioner Christiane Scrivener, companies would no longer have to pay excise taxes when shipping goods across EC internal frontiers.

The plan calls for an EC system of special bonded warehouses for alcohol, gas (and other fuels) and tobacco, wherein products could circulate across internal EC borders without having to pass customs or to pay excise duties. Excise payments would be collected in the country of final consumption at that country's tax

rate once the goods leave the system en route to their final destination. (At present, goods are exported from one member state to another tax free, but with excise duties imposed at the border.) Based on the principle of "mutual recognition", bonded warehouse operators established in one EC country would be able to set up in all member states.

The Commission would leave it to the individual member states to choose the appropriate means to implement and to police the system, which effectively moves tax frontiers from borders to the point of final sale within the member states. Each member state would be allowed to mark its goods with its



own fiscal stamps to make it more difficult for traders to buy in low-duty countries and then sell in high-duty member states.

For individuals, the plan would scrap limits on what nationals from one member state can buy in another and take home without paying duty. Hence, individuals could buy as much as they like in a lower tax country as long as it is for their "own private consumption". It would also eliminate duty-free purchases for individuals traveling by air or sea between EC states.

The new package means that the Commission has now completed its proposals under the 1992 program in the difficult field of indirect taxation. The rest is up to the Council and the European Parliament.

EC AND US ESTABLISH BIOTECH TASK FORCE

The EC Commission and the US government recently signed an administrative arrangement to create a "Task Force on Biotechnology". It will serve as a mechanism for exchanging information about research activities in biotechnology. The task force had its inaugural meetings in Washington in early September.

Given the potentially profound impact biotechnology could have on important sectors such as agriculture, public health and the environment, this area of research has been given top priority by both sides.

The newly-created task force is the first concrete result from a proposal put forth by EC Research Commissioner Filippo Pandolfi in Washington last March for wider scientific and technological cooperation. It could mark a turning point in EC-US science and technology collaboration, paving the way for increased joint research initiatives in many fields. Already Brussels and Washington have organized a number of workshops in the field of information technology, and major joint projects in energy and environmental research are in the offing.

US BUSINESS BULLISH ON THE "NEW EUROPE"...

A recent KPMG Peat Marwick survey polled 700 top US executives on their attitudes and behavior vis-a-vis the "New Europe" (defined as the EC, EFTA, Eastern Europe and the Soviet Union), revealing that 65% of the companies surveyed plan to expand or have expanded their production or service capacity in Europe. In addition, 58% plan to merge, acquire or form a joint venture with a European partner (or have already done so), and nearly half plan to change or have already changed their distribution arrangements. In a similar KPMG survey conducted last autumn, which was before the crumbling of the Berlin Wall and did not cover attitudes toward Eastern Europe, only 36% planned to expand (or had expanded) production. The current survey found that the larger companies, particularly those in high tech, transport and manufacturing, are the most active.

As for the single market program, the majority of US executives believe it will not be a reality by the target date of December 31, 1992, but almost one-third already perceive Europe as a single market. Moreover, virtually all of the respondents (95%) expect EC 1992 to have a positive impact on the EC member states and 75% believe it will benefit the world economy. Regarding the US economy, however, only 53% believe the single market will have a positive influence. In fact, executives are more optimistic about EC 1992's impact on their industries in the EC (70%) and in Eastern Europe (52%) than in the US (32%). According to KPMG, this may be attributable to the 48% that believe European companies will become stronger competitors in the US.

The survey also indicates a keen interest in Eastern Europe. Nearly two-thirds of the respondents admit they need to evaluate opportunities in Eastern Europe, and since the fall of the Berlin Wall (November 9, 1989), 43% have sent a representative there to investigate business opportunities.

...BUT US SMALL BUSINESS UNPREPARED FOR 1992

In another recent but somewhat different survey by Market Access Europe SA, US CEOs of non-Fortune 500 companies openly admit a severe shortage of understanding and information vis-a-vis the single market measures affecting their businesses.

Although 70% of the CEOs polled believe US corporations do either an outstanding, good or adequate job of defending their interests, 51% maintain that their own company's response to EC developments has been poor or very poor. Further, 89% of the respondents judge their company's knowledge of the single market legislation affecting their businesses as insufficient. Over the last 12 months an astonishing 64% took no action whatsoever concerning the EC, while only 17% secured literature or data, only 15% modified their business plan, 5% sent a delegation and 3% hired consultants.

Perhaps for geographical and historical reasons, US small business remains firmly fixed on the domestic market: 57% of all the participants believe that their best prospects for new business lie in the US.

PROPOSED OVERHAUL OF EC PAYMENTS SYSTEM

EC Commissioner for financial services Sir Leon Brittan recently delivered a "discussion paper" on payment systems (i.e. cash transfers, electronic transfers, checks and payment cards) to the Commission, seeking to reduce the delays and costs of moving money across the Twelve. According to Sir Leon, the EC will never get the full benefit of a single market after 1992 — and a possible single currency later — if money cannot be moved among the member states easily and cheaply. Earlier this year he established principles for cross-frontier bank transfers (see EURECOM, April 1990).

In general, efficient payment systems



exist within each member state, but they are poorly connected with each other. Hence, transfrontier payments are slower, more expensive and less reliable than within a single EC country.

The Commission endorsed Brittan's proposal to create a "Payments Systems Coordinating Group" by early 1991, which would consist of experts from commercial banks, national clearing houses and central banks. This group would study ways to improve the cross-border payments system, coordinate and perhaps sponsor feasibility studies and facilitate the implementation of agreed improvements.

The report stops short of proposing binding legislation, preferring to encourage the member states and banks to make the necessary changes, with the Commission serving as a catalyst.

NEW RULES FOR NUTRITIONAL CLAIMS

Health-conscious consumers in the Community can take heart: EC Internal Market Ministers have adopted a directive governing nutritional information, marking an important step toward a single market in food products.

The directive aims to raise food labelling standards in the EC in order to protect consumers from false or exaggerated nutritional claims by food manufacturers. Although the directive's detailed rules only become compulsory where food producers make such claims (see EURECOM, April 1990), it will enable consumers to check for themselves assertions of "low-fat" or "high-protein".

The legislation also sets out strict guidelines for expressing and presenting nutritional information on packaging.

MORE SLOTS FOR SMALLER AIRLINES

In order to increase airline competition and thereby reduce fares, the EC Commission is drafting legislation to make more take-off and landing slots available to new or small airlines at major airports.

QUOTES

*"The European Community is not, and should not be, exclusive. I welcome the probability of further expansion as a major potential contribution to peace, stability and prosperity in Europe. Countries which apply to join must understand, however, — as Britain perhaps failed to do in 1973 — the full implications of membership... We must ensure that enlargement, far from diluting the EC, serves to make it a still more effective vehicle for meeting the economic and political needs of the peoples of Europe." EC Commissioner **Sir Leon Brittan.***

"The symbol of the new economic game is January 1, 1993 — the integration of the Common Market. In the 1980s...the Pacific Rim was the clear economic winner. I think it is very clear at this point that the Europeans at least have the chance to make the 1990s the decade of Europe." Massachusetts

*Institute of Technology Economist **Lester Thurow.***

*"It (the Gulf crisis) is a unique chance for this Community to make the new qualitative leap which will make (it) the cornerstone of the greater Europe of tomorrow and...an actor of stature equal to its responsibilities on the world stage. It has underlined the need to give Europe a stronger foreign policy identity." EC Commission President **Jacques Delors.***

*"The process of European integration will allow Germany — like all its partners — to be bound willingly and closely into the Community, so rendering less plausible any fear of isolated behavior." UK Deputy Prime Minister **Sir Geoffrey Howe.***

*"If there is not a sufficiently certain prospect of economic and monetary union, we fear there would be a more unstable situation than at present." Belgian Finance Minister **Philippe Maystadt.***

At present, major hub airports like Heathrow (London) and Frankfurt are overloaded, and major airlines are keeping every available slot, preventing new or small carriers from establishing routes. To ensure a more equitable allocation, the Commission would like to participate in the biannual conferences of the International Air Transport Association where slots are distributed. Under the draft proposal, the Commission seeks the power to force airlines with more than eight slots per day at a particular airport to relinquish some of their routes, and the power to reassign slots which are not used frequently. At least half of the new, unused and relinquished slots would be distributed among airlines wanting to open new routes.

On a related subject, the Commission will soon release a policy paper on how to deal with the growing number of airline mergers, joint ventures and strategic alliances which could severely limit airline competition.

...IN BRIEF

...The Conference Board recently reported that Western Europe netted 52% of all US manufacturing foreign direct investments (FDI) in the first half of this year. 80% of these investments went to EC countries, led by the UK (16 projects), France and Germany (each with 8). About half of all the US manufacturing FDI in this period involved the acquisition of existing firms.

...In a surprise move, the UK government decided to bring the pound sterling into the European Monetary System's (EMS) Exchange Rate Mechanism (ERM) on October 8. As a result, the pound will now be allowed to fluctuate only within a 6% band above or below bilateral central exchange rates with the other ERM currencies, with an aim to move into the standard 2.25% band as soon as economic conditions allow. It marks a significant step on the way toward Economic and Monetary Union (EMU),

and will contribute greatly to exchange rate stability.

...According to EC Budget Commissioner Peter Schmidhuber, a prolonged Gulf crisis could cost the Community almost half of its forecast economic growth in 1991 as well as ignite an upsurge in inflation. Even if oil prices peak at \$30 per barrel in the first half of 1991 and then fall back to the \$20 to \$24 range, this would chop off 0.8 to 0.9 percentage points from the earlier estimate of 3.1% GDP growth. If oil were to stay at \$30 to \$35 per barrel, however, "we would have to figure on a reduction of economic growth of as much as 1.5 (percentage points) next year," said Schmidhuber.

The Gulf crisis has already lifted average year-on-year inflation in the Community to 5.9%, the highest level in five years.

...To prepare for the new EC tax environment after the single market's completion, Luxembourg will cut personal tax rates next year. The top personal tax rate will be cut from 53% to 50% in calendar year 1991, tax deductions for married couples will be increased and low-income families will be taxed less.

Luxembourg, the smallest EC member state, has some of the highest personal tax rates in the EC, but it charges lower VAT (value-added tax) rates (ranging from 6 to 14%) than the other member states. According to a govern-

ment spokesman, the advent of the single market probably means that Luxembourg would have to increase VAT. The recent agreement to trim personal taxes gives the government room to bring the Grand Duchy into line with the rest of the Community on VAT.

...European cross-border M&A activity fell dramatically during August to less than 1 billion ecu, according to Translink's 1992 M&A Monthly. It concludes that the August drop — the sharpest in two years — stems primarily from the gulf crisis, although a seasonal factor (European vacation

time) also contributed some. August 1990 M&A activity totaled one-third of the previous August's value and only one-fifth of this past July's.

...New York's loss is a "capitol" gain. Peter Doyle, who had been Director of Press and Public Affairs in the EC Commission's New York office since 1987, is the new Director of Press and Public Affairs at the Commission's Washington Delegation. He will have overall responsibility for press relations and for the Commission's information activities throughout the US. Best of luck, Peter!

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