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## **COMMISSION BIDS FOR EXPANDED EC ROLE IN EASTERN EUROPE...**

Following the momentous events in the Soviet Union, the EC Commission, spearheaded by EC External Affairs Commissioner Frans Andriessen, has proposed a major augmentation of trade and political ties with all the countries of the former East Bloc.

First and foremost, the Commission seeks significantly more generous EC trade concessions in the ongoing negotiations for Association Agreements with Poland, Hungary and Czechoslovakia so that they can be concluded as soon as possible. Given the ongoing Uruguay Round of GATT negotiations and some member state objections to the Commission's trade proposals (e.g. a complete phase-out of textile import restrictions over six years), however, the talks are likely to drag on till year's end. Negotiations have stalled recently due to complaints of EC protectionism in sensitive sectors like agriculture, coal, steel and textiles—sectors which offer the best chances for the reforming countries to export to Western markets. Further, Andriessen supports a request by Poland, Hungary and Czechoslovakia to intensify their political dialogue (i.e. through European Political Cooperation) with the Community.

Second, the Commission has proposed the extension of association status to Romania and Bulgaria, believing that they are close enough to achieving pluralist democracy to justify a deeper relationship. These agreements would build on existing "first generation" trade and cooperation agreements with the EC.

Last, Andriessen has recommended exploratory talks for trade and cooperation pacts with Albania and the three newly independent (and officially recognized) Baltic States—Latvia, Lithuania and Estonia. In the meantime, he will propose that the G-24 countries extend their aid program for Eastern and Central Europe (PHARE) to these countries.

The EC already has a trade and cooperation agreement with the Soviet Union, and a 400 million ecu (1 ecu: \$1.21) technical assistance package from the EC, suspended at the time of the coup, is once again underway. Moscow recently sent a request to EC Commission President Jacques Delors for an additional 5-6 billion ecu in food aid for the coming winter, which the Commission is now studying.

## **...LEADING TO A COMMUNITY OF 24?**

According to Commissioner Andriessen, the changes in Eastern Europe and the Soviet Union, coupled with the growing number of membership applications (five are on file at present), will force the EC to prepare for a possible doubling of the current membership. Still, "it is quite clear that the present institutional structure of the EC is not conceived for a Community of 24 members or more," he said. For example, unanimous decision-making in a 24-member Council would be impossible, while a 30-member Commission and a significantly larger European Parliament would be too unwieldy.

He regrets that the ongoing intergovernmental conference (IGC) on Political Union omits the enlargement issue. Further, given the state of play in the negotiations, forthcoming changes in the EC institutions will not enable the absorption of so many new members.

"Ideally, we should change the [EC's] institutional structure first, and then tackle enlargement. Now we

shall have to do both together," he said. To this end, Commissioner Andriessen would like to see another IGC on EC enlargement in the mid-1990s.

## **MORE COMPETITION IN EC SKIES**

The Commission has released its third (and final) liberalization package for air transport, taking the EC a long flight toward completely open competition in the sky. It consists of three new regulations (which still need Council approval) covering the licensing of air carriers by governments; freedom of access to intra-Community routes, including fifth freedom and cabotage rights; and air fares. These new regulations would complete the partial liberalization achieved by the first two packages (see EURECOM, July 1990).

The first regulation establishes the requirements needed for a civil airline to operate throughout the EC.



An airline would have to secure an **air operator's certificate** from a member state, testifying to the technical and organizational expertise of the air carrier. Next, to obtain an **operator's license**, an airline would require minimum start-up capital of 100,000 ecu, and would have to submit its annual audited accounts to the competent member state authorities to verify the airline's financial viability. Further, the airline's majority shareholders would have to be EC nationals, and its headquarters and main business operations would have to be in EC territory.

In terms of market access, an EC-licensed air carrier would gain unrestricted fifth freedom rights, enabling it to pick up passengers in a member state other than the one in which the carrier is certified and to disembark them in a third member state. For example, Aer Lingus could transport passengers between London and Paris. In addition, the legislation would authorize cabotage, making it possible for carriers to take on and drop off travelers in a member state other than their own (e.g. British Airways could carry passengers between Rome and Milan.) Last, it provides for the elimination of capacity sharing among airlines for routes between member states, subject to certain safeguards for public service obligations.

Most important to consumers is the proposed regulation on fares, which would institute the "double disapproval" principle: New air fares could be blocked only if opposed by governments at both ends of a route. This would apply both to scheduled and charter flights and to new cargo rates.

The Commission has "scheduled" the package to come into force by January 1, 1993, although transitional periods for cabotage and fares may result.

### **COMMISSION ACCELERATES TRUCKING DEREGULATION**

What's good for the air is also good for the road. Because the gradual deregulation in the EC's road haulage sector has gone so smoothly (see EURECOM, December 1989), the Commission wants to eliminate

the remaining EC quantitative restrictions on international truckers by January 1, 1993 with two draft regulations.

Under the first proposal, limits on the number of permits available to EC carriers for international trips would be scrapped. At present, a quota system exists whereby the number of permits available (67,000 are slated for 1992, up from 7,400 in 1986) are apportioned among the member states according to the size of their respective road transport sectors. In essence, the Commission is substituting qualitative requirements for existing quantitative restrictions: To obtain an operating permit, truckers will have to adhere to high safety, technical and financial requirements.

In addition, a forthcoming directive would allow unlimited road haulage cabotage—the transport of goods in an EC country by a carrier registered in another—throughout the Community.

### **TOWARD A SINGLE MARKET IN MEDICINES**

Just before the summer recess, the Internal Market Council reached a "political agreement" on a package of directives covering the labeling, legal classification (prescription or over-the-counter), distribution and advertising of medicines for human use.

Because of widely differing regulatory regimes in the member states, the pharmaceutical industry is one of the EC's most fragmented sectors.

The proposals, which still require parliamentary review and final Council approval, aim to make the 12 member states' drug regulatory systems more compatible, allowing manufacturers to sell medicines more freely across the EC while giving consumers adequate protection.

In terms of labeling, producers would have to list a product's ingredients and describe its proper use on the container and, either on the package or on an enclosed leaflet, more detailed information on precautions and possible side effects would be required. These practices are already standard in some EC countries.

Another directive sets out criteria for deciding whether a medicine requires a prescription or can be sold over-the-counter in the EC. It would not, however, establish a common list of drugs needing a prescription; differences among the member states would continue to exist. Further, the Commission will release a proposal for an EC agency to evaluate new medicines and to centralize the approval process, complementing the classification directive.

The package also contains rules for wholesale distributors of pharmaceuticals. These would require the distributor to possess adequate facilities for preserving medicines, to keep detailed inventory records and to have an emergency plan for withdrawing products from the market.

Last, and most controversial, advertising by pharmaceutical firms—both to consumers and to the medical profession—would be restricted. The ministers agreed (preliminarily) to forbid all advertising of prescription medicines to the general public and to prohibit misleading or unclear advertising of non-prescription drugs. Among other provisions, the directive would also curtail the drug companies' use of samples to market their wares to doctors.

### **SCANDAL SPURS EC DEPOSIT INSURANCE HARMONIZATION**

In the wake of the BCCI debacle, greater harmonization of national deposit insurance systems within the EC has gained fresh impetus.

According to the Commission, EC banking regulators favor a system in which the domicile country of a failed bank assumes responsibility for all losses, including losses of investors who deposit funds with a branch in another member state. This would be in line with a general trend in international banking regulation.

All EC member states except Portugal and Greece have depositor-protection programs, but there is no harmonized approach to the level of coverage provided or to the method of financing the



individual systems. For the Commission, the financing of each member state system would not require harmonization as long as each program is clearly solvent.

Representatives of the member state governments will meet on this issue before year's end. If a broad consensus emerges from the meeting, the Commission will start work on a directive early next year.

### **MANY EC CONSUMERS UNAWARE OF SINGLE MARKET**

Barriers come in many forms. According to the latest Eurobarometer poll, the greatest barriers for consumers in the single market are those of perception and awareness.

The survey revealed that an amazing 27% of EC citizens have not yet heard of the single market. Among the Twelve, Denmark exhibited the most awareness (85%) of the single market, while only 59% of those polled in Spain knew about the 1992 program. Further, less than one in 10 believes the program offers an improved opportunity to shop abroad for a wider range of goods and services.

Only 8% of the respondents had made a cross-border purchase of over 100 ecu during the past six months. Cited as the main impediments to more cross-frontier purchasing were the difficulty of after sales service (53%) and language difficulties (39%). 27% of those questioned believe it is hard to secure information and advice. Difficulties in payment and uncertainty about safety and quality standards proved less worrisome to the respondents.

While pan-European shopping fares poorly, better opportunities to travel and work in other countries are the chief benefit EC citizens see in the single market.

Said EC Consumer Affairs Commissioner Karel Van Miert: "It's not enough to create a single market for businessmen, banks and investors...it must be a single market for consumers too." To promote better consumer information, the Commission supports fledgling consumer organizations (particularly in the

**QUOTES**

*"Our position is that we expect consistency between declarations of good will and concrete executive decisions in the economic sphere."* **Jacek Sariusz-Wolski**, Poland's head negotiator in the recently stalled EC-Poland association agreement talks.

*"Russia needs help from the European Community, without whose support the republic will be unable to get on its feet. The past will be making itself felt for a long time to come."* Russian Federation President **Boris Yeltsin**.

*"We have preached the virtues of market economies and free trade to the East Europeans for 40 years. Now we have the chance to put those senti-*

*ments into practice. We must do so."* British Chancellor of the Exchequer **Norman Lamont**.

*"The Community must decide whether it wants to stay a settled rich man's club, or to become an entity which exercises an influence in the world."* EC Commission President **Jacques Delors**.

*"The European Community is already Europe's main region of stability. A standstill in the Community's development would not only be a standstill for its member states but would impede the process of pan-European unification as well."* German Foreign Minister **Hans-Dietrich Genscher**.

EC's southern-tier member states) and funds cross-border consumer information centers.

### **SIR LEON TO SIGN EC-US ANTI-TRUST ACCORD**

EC Competition Commissioner Sir Leon Brittan will travel to Washington later this month where he is expected to sign an anti-trust treaty with the US, signaling a new era in transatlantic regulatory cooperation. It will establish formal links between the Commission and US Department of Justice on competition policy matters, opening a formal channel for sharing information on firms seeking approval for mergers and acquisitions or suspected of illegal activities. For some time, Sir Leon has called for an EC-US accord to deal with possible conflicts of jurisdiction in competition matters as industries globalize and the EC's anti-trust powers increase (see EURECOM, May 1990).

While in Washington, Brittan will also participate in a conference sponsored by the International Organization of Securities Commissions and chaired by Securities and Exchange Commission Chairman Richard Breeden. Sharing the

podium with Sir Leon will be US Treasury Secretary Nicholas Brady, Federal Reserve Chairman Alan Greenspan and Chairman of the Council of Economic Advisors Michael Boskin.

### **...IN BRIEF**

...According to a new study by the UN Centre on Transnational Corporations, multinational companies' foreign investments have been growing three times faster than world trade since 1983, and these investments, over 80% of world capital flows, are concentrated in the so-called triad: the US, the EC and Japan. Increasingly, patterns of trade, financial flows and technology transfer are determined by corporate investment.

The first study to analyze the investment relationships of the triad with each other and the rest of the world, its findings lend credence to the belief that the world is dividing into three powerful trading blocs. Foreign investments by EC, Japanese and US firms skyrocketed in the second half of the 1980s, averaging \$105 billion a year compared with \$44 billion between 1980 and 1984. Japanese firms increased their foreign investments six-fold in the 1980s, and the US became

the largest recipient of foreign direct investment, taking nearly half of international investment annually since 1983.

...After an eight year investigation, the Commission has levied a record fine of 75 million ecu on Swiss-based Tetra Pak, one of the world's largest packaging conglomerates, for anti-trust violations. According to the Commission, Tetra Pak, through restrictive contracts with customers, carried out a deliberate policy to eliminate actual or potential competitors. It enjoys a virtual monopoly in several segments of the EC's packaging industry. Tetra Pak will appeal the Commission's decision.

Before the fine was issued, Tetra Pak had its merger with the Swedish food processing firm Alfa L aval cleared by the EC's Merger Task Force (see EURECOM, June 1991).

...Unemployment, the EC's scourge during the second half of the 1970s and most of the 1980s, is on the rise again. Adding insult to injury, unemployment is more widespread in poorer, less developed regions, where there is a substantial risk that the situation will further deteriorate. These are some conclusions of the Commission's third annual report on employment.

While over 9 million new jobs were generated in the EC between 1985 and 1990, only one-third of these jobs went to

the unemployed. Long-term unemployment in the Community has become endemic; over half of the EC's unemployed have been out of work for over a year.

...The EC delegations in New York and Washington, in cooperation with the New York Public Library, are sponsoring a *one-day workshop* entitled "**EC 1992 and Beyond: Access to Information**". It will take place in the Trustees' Room of the NY Public Library on November 8 from 10:00 am to 5:00 pm.

The program is designed to give information managers and professional librarians a better understanding of the

EC and its institutions, documents and publications and how to access and use EC materials. It includes a tour of the EC depository collection at the Public Library and a lunch sponsored by the NY delegation. There will be a \$25.00 fee for course materials. Registration will be limited to 150 participants. For registration forms, please send a written request to:

Documentation Course  
Delegation of the European Communities  
Press and Public Affairs  
3 Dag Hammarskjold Plaza  
305 East 47th Street  
New York, NY 10017

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If you would like additional information on any article in this issue, please write or telephone Christopher Matthews or Kerstin Erickson at (212) 371-3804.

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EURECOM is published by Barbara No l, Director of Press and Public Affairs, the Commission of the European Communities, 3 Dag Hammarskjold Plaza, 305 East 47th St., New York, NY 10017. It is edited by Christopher Matthews. The contents of EURECOM do not necessarily reflect the views of the European Communities' institutions or of the member states. Any article may be reproduced without express permission. However, acknowledgement of the source and a copy of any material published would be appreciated.



Commission of the European Communities  
3 Dag Hammarskjold Plaza, 305 East 47th St., New York, NY 10017  
Telephone (212) 371-3804