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## EC, EFTA CREATE A LARGER COMMON MARKET

After 16 months of tortuous negotiations (and against long odds), the EC and the seven European Free Trade Association (EFTA) countries—Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland—have agreed to create the world's largest trading area. Encompassing 19 European nations and 380 million people, the European Economic Area (EEA) will allow the free flow of capital, services, workers and most goods throughout an enlarged "common market" as of January 1, 1993—just as the EC's single market initiative comes due. The EEA will account for 40% of total world trade.

The deal was agreed only after last minute compromises in three major areas of dispute: fishing rights, alpine trucking rights and a "cohesion" fund for the EC's poorer members to compensate for better EFTA access to EC markets.

Under the agreement, goods originating in the 19 EC and EFTA countries will move freely throughout the EEA as of January 1, 1993, albeit with special arrangements for agricultural products, fish, energy, coal and steel. However, the EEA is not a customs union: both the EC and the individual EFTA nations will retain their own tariff schedules on imports from third countries. EFTA will remain outside of the EC's Common Agricultural Policy.

Not only will EFTA adopt EC competition laws as part of the "acquis communautaire", including those on anti-trust, abuse of dominant position, public procurement and state aid, but it will also take over EC rules on company law, consumer protection, education, environment, research and development and social policy. EFTA will establish a special surveillance body to ensure companies do not break competition rules, and an independent, joint EC-EFTA court will be formed to resolve EEA-related disputes.

Capital movements will be totally freed in the EFTA countries (with a few derogations) to match the EC's playing field, and the EC's "single passport" for financial services groups to establish branches will be valid across the entire EEA.

From 1993 there will be mutual recognition of professional qualifications throughout the EEA, and individuals should be able to live, work and offer services throughout the area. Switzerland, which has strict immigration laws, received an additional five years to comply fully in this area.

Before the treaty takes effect, it must be ratified by the 19 individual parliaments and the European Parliament. Although EFTA will be consulted on EC legislation, EFTA countries will have no vote on future EC laws. An EEA Council of Ministers will decide by consensus whether to extend new EC rules to EFTA.

For Swedish Prime Minister Carl Bildt, whose country has applied for EC membership in parallel to the EEA, the accord is "an important building block in the construction of a new Europe." Undoubtedly, the agreement sets the stage for EC enlargement, as most economic issues which could hinder an EFTA country's entry into the EC have been resolved through the EEA negotiations. Further, Switzerland has already indicated it will apply for full membership, Finland will take a position on a membership application this spring and Austria wants to start negotiations on its application as soon as possible. EC Commission President Jacques Delors predicted that the accord would provide valuable experience for EFTA countries seeking full EC membership, and while EC External Affairs Commissioner Frans Andriessen believes the EEA could give the Community some breathing space before further enlargement, it "also shows that we [the EC] can handle the complexity of the enlargement problem."

## EC-US SUMMIT ENDS ON POSITIVE NOTE

At the EC-US summit held on November 9 in The Hague, the latest of the twice-yearly meetings between the EC and the US established by the Transatlantic Declaration in November 1990, both sides agreed they had made progress on reviving the moribund Uruguay Round world trade talks of the GATT.

Attended by President Bush, EC Commission President Jacques Delors and Dutch Prime Minister Ruud Lubbers (representing the EC Council presidency), the summit achieved a commitment from both sides to secure an Uruguay Round deal by year's end.

"For the first time, I am reasonably optimistic about the possibility of reaching an agreement...This is a very important signal to the world economy," said Mr. Delors.

President Bush echoed this view and stated that progress had been made in the agriculture dispute between the EC and the US, which has been largely responsible for blocking the completion of the GATT talks. Said Delors on agriculture: "We intend to produce less, to import more, and to export less...if we produce less, we put less pressure on the world market and this is a contribution to the GATT round."

The summit declaration also indicated that the US and the EC were close to agreement on how to strengthen GATT rules and on limiting trade-distorting subsidies. Further, they pledged to seek a more effective system for resolving trade disputes, "one that reduces the dangers of retaliatory actions by...channelling our differences into a multilateral, rule-based system."

## EC INDUSTRY IMPROVES COMPETITIVE POSITION

Over the past six years, EC industry has consolidated its competitive position in the world—37 EC companies are now in the world's top 100 enterprises, compared with 30 in 1985—but it still trails its US and Japanese rivals in terms of overall growth. Further, Europe's industrial strength remains concentrated in sectors where it has been traditionally strong, like in metallurgy and chemicals. Among the world's 100 largest firms, however, there is still no EC informatics company.

These are just a few of the findings in the "Panorama of EC Industry", a 1,500 page reference volume published by the EC Commission which provides various statistical data on 200 industrial and service sectors in the EC, including comparisons with Japan and the US.

According to the study, the EC's manufacturing export surplus decreased from 116 billion ecu (1ecu=$1.19) in 1985 to 50 billion ecu in 1990, reflecting the faster growth of EC imports due to stronger aggregate economic growth within the Community. In addition, European firms have paid more attention to the expanding EC market: intra-EC exports increased by 40% between 1985 and 1990.

Of all EC industries, machinery for the transformation of plastics registered the highest growth in the 1985-90 period at 9% per anum. Somewhat surprisingly, electrical lighting equipment took second place with 7.5% annual growth. Only in third position did a "high-growth" industry, namely aerospace, show up. Other sectors that significantly exceeded the average EC industry growth rate of 4.4% per year include electronic apparatus, plastics, consumer appliances, petrochemicals, wooden furniture, automobiles, metal-cutting machine tools and printing. At the other end of the scale, railroad materials, shipbuilding, footwear, mining, steel tubing and clothing all shrank by more than 2% per year.

The report detailed some remarkable developments in EC industry in the 1980s, including: the economic recovery of the European iron and steel industries, which shed 41% of its personnel during the 1980s; the large-scale replacement of traditional machinery by computer-aided equipment throughout the economy; the decline of energy consumption in EC industry by 10% since 1973, while at the same time energy consumption in transport increased by 72%; and the increasing German share of the top 100 EC firms' turnover, which went from 22% in 1983 to 30% in 1989.

## NEW RULES FOR PENSION FUNDS

To ensure the free movement of capital and to eliminate obstacles to cross-border pension management, the Commission has proposed a directive to scrap restrictive government controls on pension fund investments in the EC by June 1993. National authorities would no longer be able to force funds to hold their assets locally or to invest a certain percentage of their assets in local government securities (as some member states require at present). In addition, member states could no longer subject the investment decisions of pension funds to any kind of prior approval. Member state rules on currency matching (of assets to liabilities) would also be limited. Obligatory member state pension plans that are classified as part of the social security system would be exempt from the proposed rules.

The legislation, which still requires parliamentary review and Council approval, defines standards for the "prudent" investment of pension funds, requiring such funds to ensure "the security, quality, liquidity and profitability" of their portfolios.

Freedom of cross-border membership in pension funds, a controversial topic within the Community, was left out of the directive in order to pass the current provisions with all possible speed. EC Financial Services Commissioner Sir Leon promised, however, that he would propose separate directives on EC-wide voluntary company and personal pension plans to prevent pension-related difficulties from deterring transnational firms and labor mobility within the single market.

## COMMISSION SEEKS SHIFT IN FREIGHT TRANSPORT

Responding to growing environmental concerns about the burgeoning traffic congestion on EC roads, the Commission will soon publish a white paper on transportation that will call for a major shift from trucks to railways in freight transport.

Because "road transport is too cheap" (i.e. levies on truckers in most member states do not reflect the true costs of maintaining infrastructure and combatting environmental degradation), EC Transport Commissioner Karel Van Miert recently announced at a pan-European transport conference in Prague that he would like to see higher fuel and vehicle taxes in the EC. In the short term, upward harmonization to the EC's highest truck and fuel tax rates (e.g. the UK's), combined with incentives for combined (intermodal) transport, would serve as a "market solution" to the congestion problem, providing both a carrot and a stick for switching goods from trucks to trains.

At the same conference, transport ministers from Central and Eastern Europe echoed the need to invest in rail networks and to levy higher charges on truckers to pay for the increased use of their (in many cases) crumbling infrastructure.

Over the last several years, EC railways have lost ground to trucks. For example, in 1984, trucks moved 69.1% of EC goods compared with 18.4% by rail; by 1989, truckers had raised their share to 76.5% while rail freight had dropped to 14.4%. Further, the number of trucks on EC roads increased from 7.3 million to 9 million during the same five-year period, and a 40% increase in EC road traffic by the year 2000 is forecast.

Despite this trend, some recent developments augur well for a freight train renaissance. First, the recently signed EC-EFTA agreement could serve as a catalyst to expand intermodal services in Europe. As part of the agreement, the two Alpine EFTA countries, Austria and Switzerland, agreed to invest heavily in "piggy back" train services in return for maintaining their tough limits on night-time road haulage and allowable truck sizes for their roads.

Second, the EC member states agreed over the summer to open up competition on public railway networks by January 1, 1993 (see EURECOM, July/August, 1991), which should lead to more cost-effective freight service.

## QUOTES

*"We want an agreement, but not at any price. In some areas we will have to say 'no' if an idea is wrong for Britain or for the Community as a whole. But if this is necessary it will not be through any lack of determination on our part to work for the closer union between states to which we are committed under the Single European Act and in which we believe." British Foreign Minister* ***Douglas Hurd****, commenting on the upcoming Maastricht Summit where agreements on political and economic and monetary union are slated for signature.*

*"If, my [European] friends, your ultimate aim is to provide independently for your own defense, the time to tell us is today... America wants to be part of European defense, and is certainly willing, but not if we are not wanted." US President* ***George Bush****, at the NATO summit in Rome.*

*"Europe must have a continental common market, a common market of 40 countries...I am in favor of immediate multilateral negotiations."* ***Jacques Attali****, Head of the European Bank for Reconstruction and Development.*

*"Europe is changing rapidly. The old Europe, devastated and impoverished by wars, has never in its history been more determined to seize the new opportunities to bring about a brighter future for its peoples based on peace, democracy and prosperity. Europe is being reborn and remains of vital importance to all freedom-loving Americans and Canadians. Our great continents have a common destiny: there is little future for either without the other." The late publisher* ***Robert Maxwell*** *at the recent launch of a North American edition of The European.*

## COMMISSION REVEALS GAS, ELECTRICITY DEREGULATION PLANS

Taking a low-key approach in a sensitive area, EC Energy Commissioner Antonio Cardoso e Cunha recently presented the EC's Energy Council with an outline for creating a single market for electricity and gas by 1996.

According to Cardoso e Cunha, the Commission has abandoned (for the time being) its threat to break up national gas and electricity monopolies unilaterally through Article 90 of the EC Treaty, which gives the Commission the right to dismantle state monopolies without member state approval if such monopolies are not justified on genuine public service grounds. Instead, the Commission has chosen a less confrontational, three-pronged approach, whereby the member states would retain most of their regulatory powers over the sector.

The first phase calls for the full application of two agreed directives which will allow electricity and gas distributors to negotiate transit rights with neighboring networks. During this step, the Commission will publish prices charged to industrial consumers in the EC in order to give them greater choice.

In the second stage, exclusive rights for electricity production and the construction of high pressure transmission lines and gas pipelines would end January 1, 1993. Still, member states could refuse new line construction if available capacity is under-utilized. Large, energy-intensive industrial consumers, i.e. companies in the fertilizer, chemical, aluminum, steel and glass industries, would be able to buy gas and electricity from their producer of choice from anywhere in the EC and take delivery over existing national grids during this step.

In the yet-to-be-defined third phase, Cardoso e Cunha foresees a relaxation of the criteria determining which companies can access the "open" energy market.

## EC DEALING IN ON GAMBLING?

What are the odds on "1992-style" action in the Community's 46 billion ecu gambling industry? Considerably shorter since the Commission recently announced public hearings around year's end with representatives from the sector, governments and the betting public to discuss the widely differing national and regional gambling regulations.

A wide mix of public and private entities operates legally in the different member states where varying conditions exist and where there is little sanctioned competition across national or regional boundaries. For example, in the UK, big lotteries and the sale of foreign lottery tickets (i.e. from the national and regional lotteries in Germany, France and Spain) are prohibited, but UK bookmakers are allowed to take horse racing bets from other member states, even from those which ban such wagers.

According to the Commission, advertising and promotion of gambling activities are gaining wider circulation and increasingly spill across frontiers, confusing the consumer.

Based on the hearings' results, the Commission will decide whether and how to integrate the gambling sector into the single market framework.

## ...IN BRIEF

...EC inflation was down in September as prices rose by only 0.4%, bringing year-on-year inflation in the Community down to 4.9% compared with 6.1% in the previous period. Year-on-year inflation fell in all of the member states except in Germany, Ireland and the Netherlands. The UK, which recently celebrated the anniversary of the pound's entry into the exchange rate mechanism of the European Monetary System, experienced the most dramatic reversal, falling from 10.9% to 4.1%. Although inflation in Greece has slowed, it still tops the Twelve at 17.9%. Year-on-year rates for the US and Japan in September were 3.4% and 2.4%, respectively.

...Not to be outdone in the run-up to the single market, Ireland recently announced further relaxation of exchange controls, effective January 1. According to Irish Finance Minister Albert Reynolds, restrictions on foreign investors holding bank accounts in Ireland and on Irish residents holding foreign property and securities and foreign currency accounts in Ireland will be scrapped. Like Spain, Greece and Portugal, Ireland has until the end of 1992 to eliminate all controls on capital movements. The other eight member states accomplished this in July 1990.

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