



COMMISSION  
DES COMMUNAUTÉS  
EUROPÉENNES

CABINET DU COMMISSAIRE A. MATUTES

443.014

441.7(10)B

Speech file

THE EUROPEAN COMMUNITY'S 1992 PROGRAM

- A global view in the EC/US context -

Address by EC Commissioner Abel Matutes

Miami, 30 May 1989

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Ladies and Gentlemen.

### Introduction

I am delighted to be here with you tonight to discuss The European Challenge of 1992, an issue which you will tackle in more details tomorrow.

Let me first of all thank the Greater Miami Chamber of Commerce, the Consulates of Germany, Spain, France and the United Kingdom, the Danish Trade Commission and the European Chambers of Commerce, as well as the firms of Baker and McKenzie and Coopers and Lybrand for having organized this event.

You are already familiar with this huge enterprise that we in the European Community, have launched and which we call the Single European Market, to be achieved by the end of 1992. For the sake of clarity, I will use the short title of "EC 92".

Tonight, I would like to present a global view of the European Community's "1992 Program" and I would like to present it to you from four different angles:

- 1 - what does "EC 92" mean in political terms?
- 2 - what is the global impact of "EC 92" on economic growth and on trade flows?
- 3 - what is the content of the "EC 92" Program and its impact on business?
- 4 - what is the effect of "EC 92" on EC-US relations?

But before I begin, let me set the stage in a very few words: "EC 92" means opportunity, not calamity". Let's see why.

#### 1. The EC's 1992 Program: the political dimension

As you all know, when the European Community was created in 1957 by the signing of the Rome Treaty, the agreed objective was the creation of a unified market between the six original Member States, through the removal of tariffs and other barriers to the movement of goods, services, people and capital.

So much was our objective related to the freedom of trade between our Members, that the whole enterprise has been known for years as "the European Common Market" rather than its official denomination in those years: the "European Economic Community".

Naturally, since we were then starting from six different sets of national regulations and tariffs, we provided for a transitional period. Soon, the EC was to be enlarged in 1972 and then in 1981 and 1985 to another six Member States. This process in turn needed other adaptation provisions and transitional periods.

At the same time, the working of the European Community became increasingly hampered by difficulties linked to its agricultural policy and to budgetary considerations. These difficulties delayed progress towards a unified market.

During a special meeting of our Heads of State and Government, held in Brussels in February 1988, we were able to reach a consensus on these policies, therefore removing the roadblocks which prevented progress towards the Single European Market, a concept presented by the EC Commission in 1985 but then still in its infancy.

The Single European Market program and the agreed deadline by which it should be completed - 31st December 1992, hence the short title "EC 92" - has since constituted the main priority of the European Community and will continue to be so until it is actually achieved.

The "EC 92" Program is, from the political angle, not a new objective. It is, more fundamentally, the expression of a strong political consensus on the technical means to achieve, at long last, what we have initially been created for 37 years ago: one Single European Market.

Therefore, the agreement which we have reached on "EC 92" should be perceived neither as a surprise event nor as a threat to anybody, but as a source of relief and opportunity. At long last, Europeans have put an end to their internal quarrels, they have gotten out of their lethargy, and they are on the move again towards a brighter economic future.

Believe me, seen from the EC Commission, this is certainly the impression that has been created if I judge by the dramatic surge in the interest the European Community has been given over the last year by politicians, businessmen and the general public, both within and outside its borders.

As the EC Commissioner for North-South Relations, I can assure you we do not lack questions about "EC 92" from countries like Argentina, Israel, Morocco or Singapore.

As far as the US is concerned, I note with great interest a recent statement from the US Trade Representative Carla Hills (quote): "EC 92 has and will continue to occupy a central place in this administration's international economic policy making" (unquote). I also note that the Administration's interagency task force on "EC 92" involves 20 federal agencies and has 11 working groups relying on 150 people.

## 2. The global impact of "EC 92"

I would like to turn now to the global impact of the Single European Market program on economic growth and on trade flows.

Last year, we commissioned a comprehensive study which showed that the macroeconomic impact of the 1992 program will be quite impressive:

- gains resulting from the removal of barriers (both on production and on trade) added to gains resulting from market integration (both from economies of scale and from intensified competition) will represent between 4 and 6.5 percent of the EC Gross Domestic Product;
- as many as 2 million new jobs will be created;
- average consumer prices will be 6 percent lower after 5 years than they would have been in a fragmented market.

The completion of a Single European Market of 320 million consumers will indeed give a major boost to the EC economy and will have favourable repercussions outside the European Community as well.

The European Community is, as you know, the world's biggest trading partner. It accounts for 20 percent of world trade, compared with 15 percent for the US and 9 percent for Japan.

Economic growth in the European Community is also more dependent on international trade than in other countries: exports represent 16 percent of its GNP compared with 5 percent for the US.

With the completion of the Single European Market, the EC will come out reinforced as the Number One trading partner in the world, and therefore with a stronger than ever interest in maintaining and developing a multilateral open trading system.

Let me say here squarely: the "EC 92" program does not affect in any way the EC commitment to open trade. It actually reinforces it.

Not only the European Community will in any event respect its international commitments, but it is worth adding that the "EC 92" program does not include any provision running against its international commitments in the trade field.

To the contrary, the European Community will work towards the reinforcement of the multilateral system, in particular through the Uruguay Round, in accordance with the concepts of a balance of mutual benefits and reciprocity. These are two internationally accepted principles of trade policy both in GATT and in the OECD.

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In global terms, a stronger European Community will emerge by 1992 because of a healthier economy, a freer trade, a smoother movement of people and capital and a more cohesive legislative and executive process.

For the United States, "EC 92" means a stronger ally in this vital part of the world, an ally more able to assume its role in the defense and promotion of our common values.

And, as President Bush said at Boston University on May 21st (I quote) "We believe a strong, united Europe means a strong America" (end of quote).

### 3. The content of the Single European Market Program and its impact on business

The Single European Market program, "EC 92", entails the drafting and the adoption by all 12 Member States of the EC of a vast legislative package comprised of 279 pieces of legislation, of which 132 have already been enacted and another 100 have already been drafted.

In the process, we are aiming at removing all remaining trade and administrative barriers between our 12 countries, at harmonising technical regulations, fiscal systems and banking legislations, at making the business environment more competitive. Ultimately, goods, services, people and capital will circulate freely between our 12 countries just as they do here between the 50 States of the Union.

Before looking at the impact of the "EC 92" program on business and on economic growth, let me describe briefly the main features of the legislative package:

- the removal of physical frontiers: the establishment of the Single European Market will necessitate the removal of the remaining disparities in import and export arrangements; Unified procedures will apply, remaining quantitative restrictions will disappear, therefore easing up trade between the 12 countries and simplifying trade with third countries;

- standards: mutual recognition of technical regulations, standards, tests and certificates will be the rule. Only where necessary will product essential requirements be harmonized;

- public procurement in a given country will be opened to firms established in all 12. European subsidiaries of foreign firms will have the same access as European companies;

- movement of capital will be liberalized in a non-discriminatory fashion;

- financial services will be liberalized: when the proposed Second Banking Directive is adopted, the EC's banking market will be more unified than either the US or Japanese markets. Banks from third countries providing EC banks with national treatment and effective market access will be able to enjoy the same treatment as EC banks;

- competition policy: "EC 92" will be accompanied by a strengthening of the EC competition (or antitrust) policy, in particular a tighter control of national "state aids" to businesses;

- transport, telecommunication and information services will also be subject of liberalization measures.

Indeed, this is a very complex process, and one which is not achieved. I do not intend tonight to enter into a detailed explanation of the exact content of the "EC 92" program nor to give a full assessment of its impact on business since this is the purpose of the conference which you are attending all-day tomorrow.

I would rather take a single, practical example in the manufacturing sector: electric shavers.

Consider this: if you are a manufacturer of electric shavers in the Netherlands or in Florida and you want to sell on all 12 countries of the EC, you have to design, certify, manufacture, stock, ship and provide spares for may be 6 or 7 different versions of each model. After the total completion of the Single European Market, you will be down to one version, notwithstanding consumer preferences.

Indeed, you are going to have to adjust to the new situation and streamline your production lines. But think of the benefits at all the various stages of the process, of the economies of scale, the simplification in billing procedures and stock management.

Moreover, whatever adjustment the US manufacturer will have to perform to meet the new rules, his EC competitor will have to do just the same. The process is essentially an equitable one.

As I said earlier, for the business community within and outside the EC, the Single European Market of 1992 means opportunity, not calamity.

#### 4. The effect of "EC 92" on EC/US relations

The Single European Market program had initially created misgivings in some quarters of the US Administration and some misunderstandings across the Atlantic.

Fortunately, these misunderstandings are now clearly behind us. Generally speaking, the EC Commission is following a policy of providing a wide-ranging information on the "EC 92" legislative package and its consequences to third countries and of listening to their views about it.

The importance of "EC 92" has now been clearly recognized by the US Administration. Pointing out that no other market (not Japan, not Canada) is as important for American exporters or investors as is the market of the EC, Assistant US Trade Representative James Murphy recently stated (quote) "the EC 92 program is in the US interest and is therefore something we should support" (unquote).

Moreover, the US Administration is now looking at the "EC 92" program in a positive way. Needless to say, the European Community welcomes the US Administration's positive view on 1992. May I quote again US Trade Representative Carla Hills speaking on May 16 before the Senate Finance Committee:

(quote): "Even though there are some very difficult issues which remain, the momentum is strong and the progress to date is impressive (...). If you have to bet whether they are going to make the 1992 deadline, bet they will." (unquote)

If you allow me to add my own advice as EC Commissioner on whether we will make the 1992 deadline: bet we will!

Indeed, in the US, as has been the case in Europe, the business community was the first one to detect the formidable opportunity which the Single European Market represents and to make a positive assessment.

Let me quote from a November 1988 survey of The Conference Board on the challenge which "EC 92" poses to US business:

- one businessman said (I quote): "This concept - "EC 92" - does not pose a threat to our activities, but it does present a challenge (...). The challenge will be to be able to take advantage of all the opportunities this will present" (unquote);

- another businessman said (I quote): "The main result of the elimination (meaning: elimination of barriers to trade), from our company's perspective, is a major reduction in the cost of doing business within the EC. Avoiding paper work, duplication of proposals, etc., should reduce our costs considerably" (unquote);

- yet another businessman (I quote): "We presently devote a great deal of time, attention, and investment resources to products that are differentiated to reflect the varied legislative, regulatory and fiscal conditions of Europe's national markets (...). By reducing diversity and complexity, (the EC proposals), they will permit us to concentrate more single-mindedly on providing products and services that meet the need of our customers" (unquote).

Having read this survey, I wondered where would I find better advocates of "EC 92" than in the US business community?

Clearly, the challenge for business, in America as well as within Europe, is to move from 12 national market bases to efficient, low-cost operators on a unified market 50 percent bigger than the United States.

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Of course, "EC 92" is no jackpot and 1993 New Year's eve will not produce miracles. A lot of hard work is still needed from European legislators, from European, US and other businessmen if they want to rise to the challenge and seize the opportunity.

Indeed, there are concerns in the US that the process might stumble on internal resistance to liberalization, or might be slower than anticipated. May I remind you that there are concerns in Europe, too, that too much liberalization too soon might submit EC business to the tide of US and Japanese giants.

So we have concerns on both sides, but, as a European banker, businessman and politician, I am totally confident that common sense will prevail and that "EC 92" will be a positive sum game.

Before concluding, let me make some remarks on "EC 92" and Florida. First of all, Florida has a big stake on the European market with its agro-industries, high-tech products and services. Florida is a prime destination for European tourists visiting the US.

As Mr Stokes, Executive Committee member of the Greater Miami Chamber of Commerce, said, Florida is "ideally located to take advantage of ('EC-92') and he added (I quote) "I think there is a tremendous opportunity for us if we just focus on it" (end of quote).

And precisely today in Brussels, Florida is focusing on it, as congressman Gibbons and a group of businessmen are visiting the EC Commission to get an update on "EC 92" and to look at its implication for Florida and the South Eastern region of the US.

More generally, Florida is the gateway for the Caribbean, Central America and South America, its airports, harbours and communication networks are first-rate. As the relationship between Europe and Latin America get stronger, in the political and economic fields, Florida stands to benefit from the increased exchange that will result.

To conclude briefly, let me get back to the basics. With "EC 92", Europe is on the way to economic integration, to more prosperity, to more political strength and to more social harmony. You will have in the 90's a new partner in economic and social prosperity and also, as President Bush said, in world leadership.

Let's not miss this opportunity.