



Regional disparities within the 12-nation Community

NOT AS SHARP AND MORE 'BEARABLE' THAN THEY WOULD SEEM

When Spain and Portugal joined the European Community in 1986, some maintained that a 12-nation Community 'wouldn't work; the gulf between its richest and poorest members was too great'. Today, when half the measures needed to complete the single market have already been agreed on, some continue to maintain 'it won't work'. There are those who claim only the wealthy regions will benefit from '1992'; and those who believe that in the single market the pressure of competition from the poorer regions will drive down wages and the level of social protection in the Community's more advanced regions.

But just what are these regional disparities? In the United States, a federation established over 200 years ago, the per capita gross domestic product (GDP) of the most prosperous region, the West Coast, is 1.44 times higher than of the poorest, the south-east. If you look at roughly equivalent regions of the Community, you will find that the north-east (Germany + Denmark) is 1.85 times more prosperous than the Iberian Peninsula. This is not so bad for a Community whose economic integration, begun less than 40 years ago, is still incomplete. Moreover, the per capita GDP of Canada's richest province is more than twice that of the poorest. And what is more, the gap between the Swiss cantons is just as big.

The European Commission President, Jacques Delors,* pointed to these various regional disparities to explain why those to be found in the 12-nation Community, although large, were bearable and did not prevent Europeans from pushing ahead on the road to union.

For Mr Delors* the Community's regional disparities remained bearable because they were unlikely to provoke large-scale population movements within the EC after the disappearance of its internal frontiers under the 1992 programme. In the United States a worker who lost his job on the east coast moved at once to Texas or California, if that was where his next job was. A European worker, faced with a similar situation, was very unlikely to pack up and leave. He was far more likely to be held back by attachment to his place of origin and because of differences in language, culture and climate. These conclusions have been corroborated in fact by a recent study of the International Labour Office, a specialized UN agency, on the subject of '1992 and population movements'.

It must not be forgotten that disparities can be reduced. Some 50 years ago the per capita GDP of the poorest region of the United States, the south-east, was no more than 53% of the national average. It is 86% today. Within the Community the relatively less prosperous countries, such as Italy, Spain, Portugal and the UK, have recorded, during the 1980s, annual economic growth rates which, on average, were 0.55% higher than those recorded by five of the richest countries — Germany, France, Belgium, Luxembourg and the Netherlands.

This has been the case also as regards private investments. The European Commission expects them to grow by 23% in Ireland and by 19% in Spain and Portugal, as compared to a Community average of 10%. The European Community, it should be pointed out, has sought to reduce the gaps in development between its various regions (see p. 2). Its contribution should amount to 15 to 20% of total investments in the poorer Member States in 1992.

Regional disparities are just one of the difficulties, and not a major obstacle, to the successful completion and operation of the single market.

* 'Regional implications of economic and monetary integration.' Included in the complete version of the *Report on economic and monetary union in the European Community*. EC Publications Office.

Decisions

■ Help for the poorer regions

Between now and the end of 1993, the least prosperous regions of the 12-nation European Community will receive a total of ECU 38 300 million in aid from the Community itself (1 ECU = UK£ 0.68 or IR£ 0.78). The European Commission decided on 20 September just how ECU 36 300 million of this aid should be shared out among the seven countries concerned. Spain will receive ECU 9 780 million for its southern and western regions; Italy ECU 7 440 million for the Mezzogiorno; Portugal ECU 6 960 million; Greece ECU 6 670 million, Ireland 3 670 million, France ECU 888 million for Corsica and its overseas departments and, finally, the UK ECU 793 million for Northern Ireland. This aid is intended to help these regions prepare for the single market; it will complement the financial support provided by the national and regional authorities. The remaining ECU 2 100 million will be devoted to the Community's own initiatives, to be proposed by the Commission at the end of this year.

■ European labels for washing powders

The European Commission has invited manufacturers of washing powders, detergents and other cleaning agents to identify on the packaging the presence of a series of toxic substances, whenever the level of concentration exceeds 0.2%. The invitation is contained in a recommendation which was adopted on 13 September and came into force at once. Manufacturers must also indicate the level of concentration of these substances, as well as the presence of enzymes and preservatives, and provide consumers detailed instructions for use, clearly printed on the packaging. This recommendation, which was finalized with the help of manufacturers, is not mandatory. However, if the European Commission notes that manufacturers are not playing the game, it would propose binding Community legislation to the Twelve.

Initiatives

● A draft social charter

The 12 European Community Heads of State or Government will have before them a draft social charter when they meet in Strasbourg in December. This charter of fundamental social rights was adopted by the European Commission on 27 September. It is in the form of a 'solemn declaration'. It will not be mandatory if adopted by the Twelve but will demonstrate the identity of Europe in the social field, according to the Commission. The proposed charter lists a series of rights workers are to be guaranteed, even while leaving such issues as the right to strike to the judgement of the individual Member States. In addition, the Commission has undertaken to present to the EC Council of Ministers, before the end of this year, an action programme containing proposals for Community 'legislation', thus giving substance to various elements of the charter. The draft of the charter which the Commission presented in May was well received by most of the Member States. It was opposed by the British Government, which has expressed its disappointment with the revised version.

● Economic and monetary cooperation

The European Commission has proposed two measures to the Twelve, as preparation for the first stage of the economic and mone-

tary union which must begin on 1 July 1990 — at the same time as the liberalization of capital movements. The first of the two measures provides for the creation of a committee of central banks (Bank of England, etc.), entrusted with coordinating the monetary policies of the Twelve (credit, foreign exchange markets, etc.). The second measure provides for the examination by ministers of the Twelve of the economic situation of the EC as well as of each Member State, to be followed up by recommendations, if necessary. The Community's finance and economics ministers will discuss the Commission's proposals on 13 November. They declared their readiness to increase cooperation between central banks and the convergence of national economic policies when they met at Antibes on 12 September.

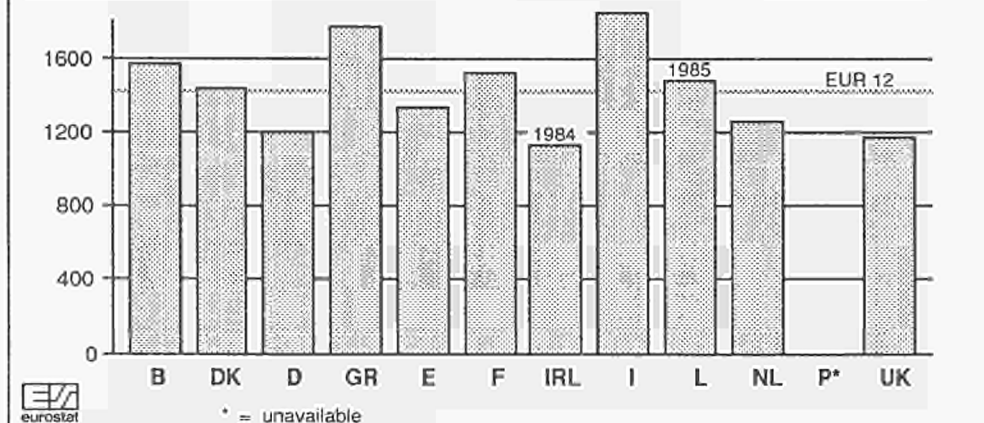
Giving substance to '1992'

Of the 68 'European laws' adopted under the 1992 programme, only seven can be implemented in all 12 European Community countries; as for the others, the 'directives' in question have not yet been incorporated by the governments of all the Member States into their national legislation. There is a recognized procedure the European Commission can follow in the case of the recalcitrant States, of course; it would end before the European Court of Justice in Luxembourg, should the States in question still refuse to meet their obligations. But a Court judgment against a Member State is not always the end of the matter. If the government fails to implement it within a certain period of time, the Commission must launch a special procedure. The fact is that 43 such procedures are currently under way! The Commission, which has pointed to these difficulties in a report published in early September (COM (89) 422 final), has put forward a number of proposals for rapidly remedying the situation: the appointment by each of the Twelve of a contact person with responsibility for monitoring application of the '1992 measures'; alerting national administrations to the European dimension and facilitating information exchanges between them. The Commission, for its part, plans to hold meetings with each of the Twelve to review progress, and to propose an exchange programme for officials from the various national administrations who are most involved in the single market. In its report the Commission has already drawn up a detailed table showing the incorporation of the 1992 measures into the national legislation of each Member State. It has also invited the Euro-MPs to meet with their colleagues in the national parliaments and alert them to these problems.

● A firearms card and register

In a proposal to the Twelve on 20 September, the European Commission has called for the creation of a 'European firearms card' identifying both the arm and its legal owner. The card would make it possible to eliminate border controls, as it would allow hunters and sportsmen to take their firearms with them to another Community country, but would not endanger safety. The proposal would also require all arms dealers throughout the 12-nation Community to keep a detailed record of all transactions involving firearms whose purchase was subject to restrictions or formalities. The Commission has divided firearms into four categories: military weapons, defensive weapons, hunting guns and 'other arms' — the only type that could be sold freely. The Commission's proposal is inspired by an agreement between the five countries of the 'Schengen group' — France, Germany and the three Benelux countries — who are trying to anticipate the 1992 deadline. The proposal does not affect the laws on the carrying of weapons.

Final consumption of households Food, in PPS/inhabitant, 1986



Final consumption of households – Food, in PPS/inhabitant, 1986

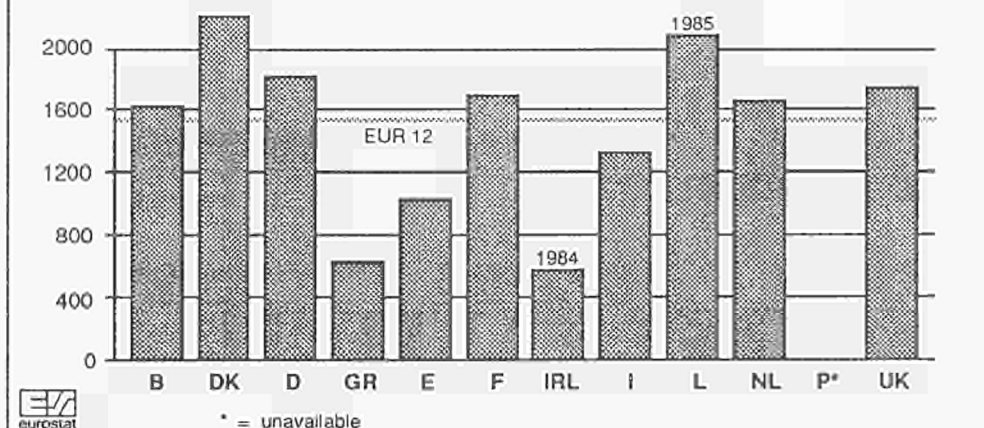
EUR 12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
1 421	1 563	1 438	1 204	1 770	1 324	1 517	1 128	1 844	1 472	1 253		1 173

Food

In 1986 expenditure by households on food (excluding drinks and tobacco) was highest in Italy and Greece.

In Ireland and the United Kingdom expenditure was the lowest of all the EC countries.

Final consumption of households Rent, fuel and power, in PPS/inhabitant, 1986



Final consumption of households – Rent, fuel and power, in PPS/inhabitant, 1986

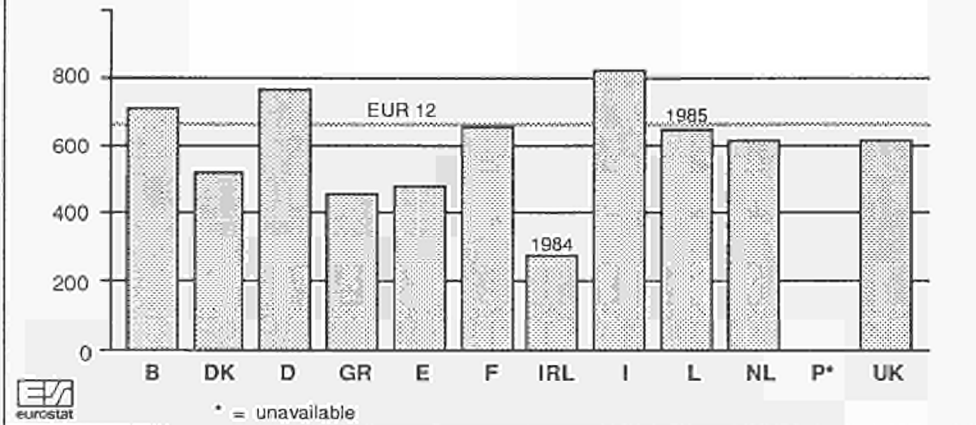
EUR 12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
1 535	1 623	2 199	1 811	622	1 025	1 694	571	1 331	2 079	1 650		1 747

Rent, fuel and power

In 1986 expenditure per inhabitant on rent, fuel and power varied sharply among the EC countries.

Expenditure was highest in Denmark and Luxembourg. In Greece and Ireland it was the lowest of all the EC countries.

Final consumption of households Clothing and footwear, in PPS/inhabitant, 1986



Final consumption of households – Clothing and footwear, in PPS/inhabitant, 1986

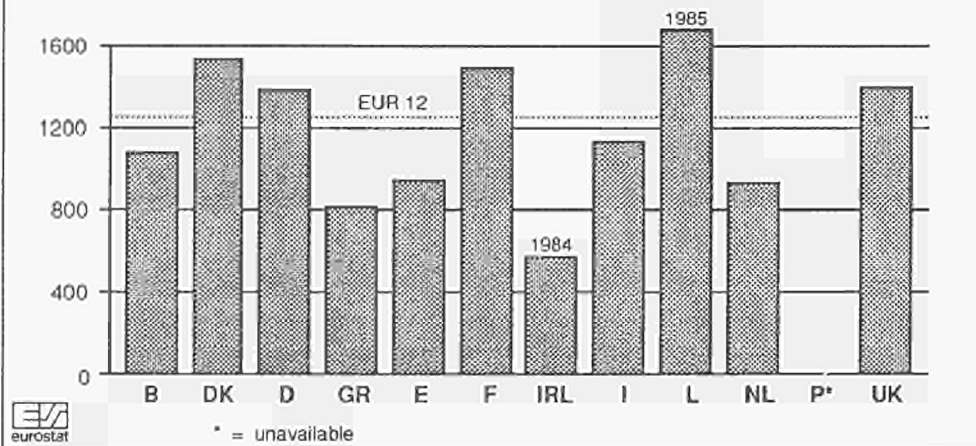
EUR 12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
668	715	522	766	461	487	654	270	822	651	621	:	621

Clothing and footwear

Among EC inhabitants the Italians spent most on clothing and footwear, followed by the Germans and the Belgians.

The Irish spent by far the least on clothing and footwear in 1986.

Final consumption of households Transport and communications, in PPS/inhabitant, 1986



Final consumption of households – Transport and communications, in PPS/inhabitant, 1986

EUR 12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
1 245	1 079	1 526	1 383	804	934	1 482	572	1 126	1 676	925	:	1 400

Transport and communications

Expenditure on transport and communications in 1986 was highest in Luxembourg and Denmark.

Expenditure per inhabitant on these types of goods and services was lowest in Ireland and Greece.

PPS (purchasing power standard): since exchange rates do not necessarily reflect the purchasing power of a currency on the national territory, Eurostat uses the PPS to eliminate general price differences among countries in order to improve the comparability of figures for the EC countries.

● Railways and the single market

Raileurop is the name of a newsletter launched this September by the Community of European railways, aimed at letting all who have a professional interest in the transport sector know just how the railways plans to meet the challenge of 1992. The Community of railways, which brings together the railways of the Twelve, together with those of Switzerland and Austria, announced at the same time that its members will use the ecu to settle accounts between themselves from next January. The Community has also devised a single commercial system for the transport of goods, the so-called 'Community of interests' which will be used for the first time in the transport of new motor cars from next January. The railways clearly want to be fully competitive with other forms of transport in the context of the single market. They have decided therefore to abandon their national fares and to share out receipts among themselves on the basis of common criteria and objectives.

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BRIEFLY

● The permanent committee of Eurocontrol, the body for the safety of air transport in Europe, decided on 28 August to set up in Brussels a **central flight management unit with the aim of relieving the pressure on the air traffic** of the 22 member countries — the 12 EC countries and the other countries of western and southern Europe. The new unit should be able to organize daily traffic as from 1991 and to reach its definitive level of activity in 1993. An encouraging sign was the publication on 6 September, by the Association of European Airlines, of its study which concluded that there is a need to set up a single system of air traffic control in Europe. Eurocontrol has also decided to use the ecu, rather than the dollar as hitherto, as a unit of account and payment.

● **The European Community banking federation** has drawn up a list, made public on 17 August, of the non-EC countries that impose restrictions on European banks, to which their own banks are not subject. The list contains 26 names. They include the United States, Japan, Norway, Sweden, Canada, Australia and a number of Asian and Latin American countries. The list is part of the preparations by European banks for the GATT Uruguay Round negotiations on the liberalization of trade in services. The '1992' banking legislation, which awaits formal adoption by the EC Council of Ministers, contains a procedure under which access to the single market can be restricted in the case of banks from countries which discriminate against the Community's credit institutions. In principle, the European market will be open to all foreign banks established in a Member State: some 530 of them already have a branch in the Community.

● **The postal administrations will not remain outside the single market.** Meeting in Antibes on 12 September the ministers of the 12 EC countries responsible for their national PTTs, envisaged Community legislation that would open up certain services to competition, even while reserving others, including the mail, to the national administrations. The European Commission will present a Green Paper next year on this subject; it will be prepared with the help of a group of senior PTT officials, set up by the Twelve at Antibes.

● **The European Commission** is concerned to prevent an increase in the risk of accidents and pollution levels as a result of the free movement of waste. It therefore proposed to the Twelve on 13 September legislation under which priority would be given to eliminating waste as close to the site of 'production' as possible. Only waste that can be recycled could be transported, under conditions of strict and effective control.

● **The European petroleum industry association** was born on 14 September. It brings together 31 oil companies, which together account for virtually the entire activity of the industry in the EC. The new association will defend the interests of its members, as regards proposals for regulating fiscal matters and the standards envisaged for '1992'.

● **Students of all Community countries** who have qualified for university, will be entitled to enrol in German institutions of higher education on the same terms as nationals, provided the German Parliament votes into law draft legislation adopted by the government on 14 September.

● **The French Government** decided on 6 September to reduce the maximum VAT rate from 28 to 25%, thus bringing rates more into line with those applied in most other Community countries. The new rate applies to cars since 8 September and to photographic and hi-fi equipment, jewellery, watches, perfumes and other 'luxury products' since 15 September.

● During November, shops, hotels and other businesses in the **city of Luxembourg** will display their **prices** in Luxembourg francs . . . and in **ecu**. Shoppers will be able to pay in ecu, with their Eurocheques, travellers cheques or credit cards. An initiative of the Eurocitoyen Association, its aim is to promote European monetary unity.

● The French budget minister, Michel Charasse, decided on 30 August to **generalize the use of the quicker procedure for customs clearance**, which was launched on an experimental basis in the spring of 1988. Under this procedure an exporter can clear his goods without waiting for the border formalities to be completed.

● **The Frankfurt municipality** has set up a working group, 'European Central Bank', aimed at promoting the city as the headquarters of such an institution, should it see the light of day. The group, which includes representatives of the stock exchange and local chamber of commerce, the regional government of Hesse and various banking and industrial groups, thus anticipates any decision that the Twelve might take.

Seen from abroad

► A 'reassured' United States?

'I leave this meeting in a very positive frame of mind, quite hopeful for the future . . . I am basically an optimist about what will result from the single European market', the US Trade Representative, Ambassador Carla Hills, declared at the end of her meeting in mid-September with several members of the European Commission in Brussels. A few days earlier Mrs Hills had expressed fears that the '1992 European legislation' would force American firms to invest in Europe, in order to get around trade obstacles. However, the Deputy Secretary of the Treasury, David Mulford, stated in Washington on 28 September that the United States feared to see the Europe of 1992 turn itself into a 'fortress' as regards foreign goods and services.

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BRIEFLY

► **In Israel**, the Association of industrialists and Histadrut, the national group of trade unions, are concerned over the effects of '1992' on the country's economy. Each of the two organizations published a report this summer, which came to much the same conclusions: the single market is likely to strengthen competition from European companies and increase further the imbalance in EC-Israel trade, to the detriment of the latter.

► **The 66 African, Caribbean and Pacific countries (ACP)** with whom the Community has concluded a trade and cooperation convention, asked the EC on 29 August to adapt its development aid in order to maintain the trade preferences they enjoy under the Convention. During a symposium on the theme 'The Europe of 1992 and its implications for Africa', held in Accra (Ghana), the ACP Secretary-General, Edwin Carrington, declared that the single market represents 'a deliberate effort to bury the EC-ACP agreements'.

**Subcontracting:
a strategy for the 1992 enterprise**

Companies confronted with the need to improve their competitiveness are turning increasingly to subcontracting as a winning strategy. This development fits in well with the policy of 'externalization' followed by companies which now buy-in a growing proportion of what they once produced in-house. Estimated at 40% only a few years ago, the percentage of outside procurement (purchases or subcontracting) by the major groups is now put at around 60%. In Japan it is as much as 80%.

The European Commission, in a communication which it adopted this August and sent to the Twelve, takes the view that the competitiveness of EC enterprises, in such key sectors as aircraft, motor cars, electronics, transport equipment and energy production, will be partly determined by the technological capacity and competitiveness of their European subcontractors, most of which are small and medium-sized enterprises (SMEs).

The European Commission is proposing, in coordination with national or regional initiatives, to foster the development of subcontracting in the Community along three main lines: the development of an environment favourable to subcontracting; the improvement of information and communication between principals and subcontractors, the promotion of subcontracting and of relations based on partnership.

A European information centre for subcontracting

The completion of the single market in 1992, as well as the demands now being made of subcontractors as regards technological adaptation and the diversification of their outlets, together with the growing complexity of legal and technical standards, mean that enterprises need more information than ever before. All interested parties are being consulted in order to set up a European information centre for subcontracting in 1990, if need be. The Centre would not be an emanation of the Commission, but an independent body representing, at the level of the Community, the relay and interface of local, regional or national bodies for representation, help and advice on subcontracting. The set-up would be relatively small and would quickly become self-financing. Among other things the European Centre could provide regular and early information on the possibilities for subcontracting in the areas of public procurement and major European contracts. It could also promote, for example, the setting up of consortia, European economic interest groups and other forms of cooperation, so as to be able to reply jointly to market opportunities or to work together commercially and administratively in looking for new markets, especially export markets.

Multilingual sectoral lexicons

Subcontractors seldom make standard products, covered by a traditional nomenclature. One of the European Commission's first tasks therefore has been to prepare multilingual sectoral lexicons or terminologies, thus making contact easier between principals and subcontractors in different countries. These lexicons also serve as a basis for the organization of databanks and subcontracting marts, which can be linked up electronically across national frontiers, by means of compatible telecommunications systems. The European Commission will publish at the end of this year terminologies covering the following sectors: electronics, electrical engineering, textiles, wood, industrial services, ceramics, general company services. Metals, plastics and rubber are already covered.

... and a practical guide

With an eye to the completion of the single market and the growing transborder relations, the European Commission has embarked on the preparation of a practical guide to the legal aspects of contracts for industrial subcontracting. A first volume, covering the subcontracting contract, has already been published. It underlines the need to draw up a written contract and describes the various clauses which it should contain.

A second volume, regarding the legal position of subcontracting in the 12 Member States, is under preparation. It will serve as a vade-mecum for subcontractors wishing to establish transborder relationships.

As regards the search for partners, it is worth remembering that the so-called Marriage Bureau offers two methods: the first is the traditional method of offers of business opportunities, the second a computerized Business Cooperation Network, BC-Net. They are useful tools, both for improving communication between principals and subcontractors and facilitating the search for partners in other Community countries.

These activities are in addition to other initiatives which are planned. They include a study on the cost of the multiplicity of certification procedures for small and medium-sized subcontractors, an examination of the consequences of the diversity of national laws and practices as regards terms of payment for subcontractors in the Community and the organization of activities to promote European subcontractors that are SMEs. In this connection, the European Commission will organize, in the spring of 1990, a conference on the response of European subcontractors to Japanese investments in Europe.

The European Community's industry ministers, at their meeting of 26 September 1989, adopted a resolution inviting the Commission to continue, in concert with the Member States, its general role of stimulant, initiator and coordinator in the field of subcontracting.

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Commission of the European Communities

Directorate-General Information, Communication and Culture, and Directorate-General XXIII

Rue de la Loi 200 — B-1049 Brussels

