

E
ADDRESS BY MR. CHRISTOPHER TUGENDHAT, VICE-PRESIDENT OF
THE COMMISSION OF THE EUROPEAN COMMUNITIES TO THE
ASSOCIAZIONE INTERNAZIONALE DI DIRITTO DELLE ASSICURAZIO-
NI (A.I.D.A.), TRIESTE, 19 OCTOBER 1984.

FINANCIAL SERVICES :
PRESENT STATE AND PROSPECTS FOR DEVELOPMENT.

I AM VERY PLEASED TO BE HERE TODAY TO ADDRESS THIS
DISTINGUISHED GATHERING ON INSURANCE LAW. TRIESTE HAS
LONG BEEN A FOCAL POINT IN EUROPEAN POLITICS AND TRADE
ACROSS FRONTIERS AND PROVIDES AN ADMIRABLE SETTING FOR ME
TO TRY AND DESCRIBE TO YOU WHERE WE STAND NOW ON FREEDOM
TO PROVIDE SERVICES, PARTICULARLY INSURANCE SERVICES, AND
SKETCH FOR YOU THE PROBABLE SHAPE OF THINGS TO COME.

IT IS NOW ALMOST A COMMONPLACE THAT THE ECONOMIES OF ALL INDUSTRIALIZED COUNTRIES ARE BECOMING INCREASINGLY DOMINATED BY SERVICE INDUSTRIES. THE SAME PHENOMENON IS INDEED TO BE OBSERVED IN MANY DEVELOPING COUNTRIES.

IN THE COMMUNITY, SERVICES HAVE SINCE 1975 EMPLOYED MORE WORKERS THAN AGRICULTURE AND MANUFACTURING COMBINED. IN 1982 THE PROPORTION WAS 56 PER CENT. FOR THE SAME YEAR THAT OF THE UNITED STATES WAS AN ASTONISHING 68 PER CENT. IN 1982 LITTLE OVER ONE THIRD OF THE COMMUNITY LABOUR FORCE WAS EMPLOYED IN THE EXTRACTIVE AND MANUFACTURING INDUSTRIES. AND IT HAD BY THEN BECOME CLEAR THAT NEW JOBS WERE BEING CREATED FASTER IN SERVICE INDUSTRIES THAN THEY WERE BEING LOST IN MANUFACTURING. OF COURSE THE DEFINITION OF SERVICES USED FOR THIS PURPOSE IS A VERY BROAD ONE COVERING EVERY ECONOMIC ACTIVITY WITH THE EXCEPTION OF THE PRODUCTION OF TANGIBLE GOODS; IN THIS CONTEXT, THE TERM "SERVICES" COVERS THE WIDEST POSSIBLE RANGE OF PROFESSIONS INCLUDING TEACHERS AS WELL AS FILMSTARS AND POWER PLANTS AS WELL AS HOSPITALS OR GROCERY SHOPS.

NOT SURPRISINGLY THESE PROFOUND CHANGES IN OUR ECONOMIES HAVE IMPORTANT REPERCUSSIONS FOR OUR INTERNATIONAL ECONOMIC RELATIONS: SERVICES TRADE COMPARED TO TRADE IN GOODS REPRESENTED 36% OF COMMUNITY GROSS DOMESTIC PRODUCT IN 1982. THAT THE FIGURE WAS NOT HIGHER IS EXPLAINED BY THE FACT THAT MANY SERVICES ARE NOT TRADEABLE BUT CONSUMED WHERE THEY ARE PRODUCED. OBVIOUS EXAMPLES ARE SHOP SALES AND DOMESTIC TRANSPORT SERVICES. THE TRADEABLE SERVICES INCLUDE, OF COURSE, BANKING AND INSURANCE. BUT THE SPECTRUM IS MUCH WIDER. EXAMPLES RANGE FROM AIRLINES TO ENGINEERING COMPANIES, FROM TRADE IN PATENTS AND LICENSES TO THE MEDIA AND FILM-MAKING, OR FROM INTERNATIONAL LAW FIRMS TO CONSTRUCTION COMPANIES. THEY INCLUDE ADVERTISING AS WELL AS COMPUTER SERVICES OR THE RUNNING OF A PIPELINE. THE RAPID DEVELOPMENT OF SUCH SERVICES AT THE INTERNATIONAL LEVEL HAS LED MANY INDUSTRIALIZED COUNTRIES, IN PARTICULAR THE US, TO SUGGEST LIBERALIZATION OF TRADE IN SERVICES AT THE INTERNATIONAL LEVEL. UNFORTUNATELY DISCUSSIONS IN THE GATT AND UNCTAD CONTEXTS APPEAR TO BE PROCEEDING VERY SLOWLY BUT IT MAY BE POSSIBLE TO MAKE BETTER PROGRESS IN THE OECD.

WHEN WE SPEAK OF SERVICES INSIDE THE EUROPEAN COMMUNITIES WE MUST BE MUCH MORE PRECISE. BY FREEDOM TO PROVIDE SERVICES WE MEAN FREEDOM TO PROVIDE A SERVICE IN ANOTHER MEMBER STATE WITHOUT THE NEED FOR AN ESTABLISHED OPERATION THERE. THE RIGHTS AND OBLIGATIONS ATTACHING TO ESTABLISHED OPERATIONS ARE THE SUBJECT OF A SEPARATE FREEDOM, CALLED, INEVITABLY, RIGHT OF ESTABLISHMENT. THESE FREEDOMS ARE FUNDAMENTAL RIGHTS CONFERRED ON COMMUNITY NATIONALS (INCLUDING UNDERTAKINGS INCORPORATED IN A MEMBER STATE OF THE COMMUNITY) BY THE TREATY AND GUARANTEED BY THE JURISPRUDENCE OF THE EUROPEAN COURT.

RESTRICTIONS ON THE FREEDOM TO PROVIDE SERVICES BETWEEN MEMBER STATES ARE UNLAWFUL AS A GENERAL RULE, EVEN IN THE ABSENCE OF SPECIFIC DIRECTIVES. IN ORDER TO MAKE THIS PRINCIPLE A REALITY, HOWEVER, IT HAS PROVED NECESSARY TO DEFINE THE BORDERLINE BETWEEN UNLAWFUL RESTRICTIONS AND PERMISSIBLE REGULATORY REQUIREMENTS AND, ABOVE ALL, BETWEEN WHICH TRANSACTIONS CAN BENEFIT FROM THIS FREEDOM AND WHICH CANNOT. THE TREATY OF ROME DOES NOT ITSELF PROVIDE CLEAR ANSWERS TO THESE QUESTIONS, BUT IT ENABLES TWO GENERAL OBSERVATIONS TO BE MADE.

IN THE FIRST PLACE, THE COMMUNITY DEFINITION OF SERVICES DOES NOT DISTINGUISH BETWEEN SECTORS SUCH AS AGRICULTURE OR MANUFACTURING INDUSTRY AS OPPOSED TO SERVICE INDUSTRIES BUT LOOKS AT THE WAYS IN WHICH PRODUCTS OR FACTORS OF PRODUCTION CROSS BORDERS. EVEN MANUFACTURING ACTIVITIES MAY CONSTITUTE "SERVICES" UNDER THE TREATY OF ROME CONCEPT. EXAMPLES ARE PROCESSING ON COMMISSION AND CONTRACT WORK.

SECONDLY, "SERVICES" ARE DEFINED NEGATIVELY. IF AN INTERNATIONAL TRANSACTION DOES NOT QUALIFY TO BE CONSIDERED AS AN EXPORT OR IMPORT OF GOODS OR CAPITAL AND DOES NOT INVOLVE AN ESTABLISHMENT, IT MUST BE A SERVICE. YOU WILL AGREE THAT THIS DOES NOT LOOK A VERY FIRM AND CLEAR CONCEPT ON WHICH TO BUILD ONE OF THE ESSENTIAL FREEDOMS OF OUR COMMUNITY.

BUT YOU WILL FIND THAT THE LITERATURE OF INTERNATIONAL ECONOMIES USES A SIMILAR NEGATIVE DEFINITION, FOR INSTANCE, CALLING SERVICES "PRODUCTS WHICH CANNOT BE STOCKPILED". SERVICES ARE OFTEN CALLED "INVISIBLE TRANSACTIONS". THEY ARE ELUSIVE BY NATURE.

THE DIFFICULTY WITH THESE NEGATIVE AND ESSENTIALLY RESIDUAL FORMS OF DEFINITION IN THE FINANCIAL SECTOR IS THAT THE KEY SERVICES ELEMENT TENDS TO BE UNDERVALUED. THUS IN THE BANKING SECTOR THE COMPARATIVELY TANGIBLE ELEMENT IS THE MOVEMENT OF CAPITAL: THE ASSOCIATED BANKING SERVICES WHICH MAKE THE TRANSACTIONS POSSIBLE ARE GENERALLY REGARDED AS BEING SUBSUMED OR AT BEST PURELY ANCILLARY.

I WOULD LIKE TO PROPOSE A DIFFERENT APPROACH TO THE PROBLEM. I BELIEVE WE SHOULD DEVELOP A POSITIVE CONCEPT OF SERVICES IN ORDER TO EXPLOIT WHAT PROMISES TO BECOME ONE OF THE MAIN CURRENTS FOR GROWTH AND INTEGRATION IN OUR ECONOMIES.

THE VITAL ELEMENT IN ALL SERVICES IS CLEARLY "KNOW HOW": EXPERIENCE, TECHNIQUES, SKILLS AND ORGANIZATION. IN YOUR SECTOR THIS IS OBVIOUS; AN INSURANCE CONTRACT IS NOT JUST A FINANCIAL ARRANGEMENT STIPULATING THAT PREMIUMS MUST BE PAID AND THAT IN CERTAIN CIRCUMSTANCES CLAIMS MAY ARISE AGAINST THE INSURER; THE PRODUCT WHICH YOU OFFER IS INSURANCE COVER BASED ON THE CONSTITUTION OF A CAREFULLY BALANCED PORTFOLIO OF RISKS, BUILT UP ACCORDING TO THE RULES OF THE ART AND CERTAIN LEGAL GUIDELINES; THESE RULES AND GUIDELINES EMBODY EXPERIENCE GATHERED OVER DECADES, IF NOT CENTURIES, AND CAN TELL YOU IN A RELIABLE WAY WHAT IS SAFE AND WHAT IS NOT; AND THIS SAFETY IS REALLY THE PRODUCT WHICH YOU ARE SELLING. THE SAME CONSIDERATIONS CAN APPLY TO A STOCKBROKER, A BANKER OR AN INVESTMENT FUND MANAGER. THESE PEOPLE ARE NOT JUST SHUFFLING MONEY AROUND; WHAT THEY REALLY OFFER THEIR CLIENTS IS EXPERIENCE IN CERTAIN MARKETS, CONTACTS WITH OTHER MARKET PARTICIPANTS WHICH THEY HAVE ACQUIRED, PAYMENT INSTRUMENTS, ELECTRONIC DEVICES, TECHNIQUES OF RISK SPREADING, THE SKILLS OF TEAMS OF SPECIALISTS, AND NOT LEAST; REPUTATION. IN OTHER WORDS; THERE ARE CAPITAL MOVEMENTS AND THERE IS THE ART OF ORGANIZING THESE MOVEMENTS; WHENEVER THIS ART IS PERFORMED IN THE INTEREST OF A CLIENT WE CAN SPEAK OF A "FINANCIAL SERVICE".

I THINK MY ANALYSIS IS BORNE OUT BY THE FACT THAT THE COMMONEST OBSTACLES WHICH HAMPER THE FREE EXCHANGE OF FINANCIAL SERVICES STEM FROM LEGISLATION REGULATING THE FINANCIAL PROFESSIONS. OF COURSE IN SOME MEMBER STATES EXCHANGE RESTRICTIONS ALSO STAND IN THE WAY OF FINANCIAL TRANSACTIONS AND A COMMON MARKET FOR INSURANCE, BANKING AND TRADE IN SECURITIES ABSOLUTELY REQUIRES A GREATER FREEDOM FOR CAPITAL MOVEMENTS, AN ASPECT TO WHICH I WILL RETURN IN A MOMENT. BUT WHAT TYPICALLY INHIBITS FINANCIAL SERVICES BEING OFFERED AND RECEIVED FREELY ACROSS OUR INTRA-COMMUNITY FRONTIERS ARE REQUIREMENTS CONCERNING EXPERIENCE, STRUCTURE, STABILITY AND FINANCIAL SOUNDNESS, AND THE REPUTATION OF THOSE WHO WANT TO RENDER THESE SERVICES. IN OTHER WORDS: THE AUTHORITIES WANT TO SATISFY THEMSELVES IN THE CONSUMERS' INTEREST WHETHER EFFECTIVE KNOW-HOW AND SOUND FINANCING TECHNIQUES DO IN FACT STAND BEHIND OFFERS MADE IN THE MARKET PLACE.

I DO NOT WANT TO WAX PHILOSOPHICAL ABOUT THE QUESTION OF HOW FAR CONSUMER PROTECTION OR TO WHAT EXTENT THE OPPOSITE PRINCIPLE "CAVEAT EMPTOR" SHOULD APPLY IN THE FINANCIAL SECTOR. I WOULD JUST LIKE TO DRAW YOUR ATTENTION TO THE FACT THAT THE QUALITY OF FINANCIAL SERVICES DEPENDS UPON THE LONG-TERM REGULATION OF THE INSTITUTION OFFERING THE SERVICE. GOODS HAVE TO BE OF THE REQUIRED QUALITY WHEN THEY ARE PURCHASED AND MUST PERFORM PROPERLY OR BE ADEQUATELY REPAIRED THROUGHOUT THE PERIOD OF AMORTIZATION. BUT IN THE CASE OF AN INSURANCE CONTRACT OR A PURCHASE OF SHARES IN AN INVESTMENT FUND THE SOUNDNESS OF THE COMPANY CONCERNED IS VITAL TO THE INVESTOR OVER A VERY LONG PERIOD.

ADD TO THIS THE PUBLIC INTEREST IN THE STABILITY OF OUR CAPITAL MARKETS AND BANKING SYSTEMS AND YOU WILL AGREE THAT CONTINUOUS SUPERVISION OF FINANCIAL INSTITUTIONS IS RIGHT AND EVEN ESSENTIAL.

HOWEVER, THERE IS AN INHERENT CONFLICT BETWEEN THE TIGHTEST POSSIBLE SUPERVISION AND THE GREATEST POSSIBLE FREEDOM TO PROVIDE SERVICES. SUPERVISION IS MORE EASILY CARRIED OUT OVER INSTITUTIONS WHICH ARE PERMANENTLY PRESENT IN THE SUPERVISOR'S COUNTRY. HENCE SUPERVISORS HAVE A TENDENCY TO SEEK TO IMPOSE REQUIREMENTS WHICH FOR PRACTICAL PURPOSES MEAN THAT A PROVIDER OF SERVICES MUST BE LOCALLY ESTABLISHED OR IN OTHER WORDS NEGATING THE FREEDOM TO PROVIDE SERVICES AND ACKNOWLEDGING ONLY THE MUCH MORE BURDENSOME RIGHT OF ESTABLISHMENT. I WILL NOT DWELL ON THESE ASPECTS, AS MR. HENRIKSEN WILL BE ANALYZING THEM IN MORE DETAIL SHORTLY, ESPECIALLY IN RELATION TO THE INSURANCE SECTOR.

FOR THE MOMENT I SIMPLY WANT TO STRESS THAT IN THE FINANCIAL SECTOR WE WILL HAVE TO FOCUS ON THE PROPER DIVIDING LINE BETWEEN, ON THE ONE SIDE THE RIGHT TO FREE ACCESS TO SERVICE MARKETS IN OTHER MEMBER STATES PROVIDED THE RELEVANT FINANCIAL INSTITUTIONS ARE LICENSED AND PROPERLY SUPERVISED IN THEIR HOME COUNTRIES AND, ON THE OTHER HAND, THE IRREDUCIBLE MINIMUM OF CONTROL REQUIREMENTS IN THE HOST COUNTRY COMMENSURATE WITH THE NEED TO SAFEGUARD THE INTERESTS OF THE CONSUMER AND FAIR COMPETITION.

COORDINATION OF LEGISLATION, AS WE ALL KNOW FROM EXPERIENCE, IS A DIFFICULT AND SLOW PROCESS. BUT WE SHOULD NOT FORGET THAT SERVICES, LIKE GOODS, ARE PRODUCTS, ALBEIT INVISIBLE ONES. ARE THERE THEN ANALOGIES TO BE DRAWN WITH THE PROCESS OF LIBERALIZING TRADE IN GOODS? IN THE LANDMARK CASSIS DE DIJON DECISION, THE EUROPEAN COURT HELD THAT GOODS LAWFULLY PRODUCED AND MARKETED IN ONE MEMBER STATE IN COMPLIANCE WITH THE APPLICABLE NORMS AND STANDARDS SHOULD IN PRINCIPLE BE ADMITTED TO OTHER MEMBER STATES WITHOUT FURTHER FORMALITIES SUBJECT ONLY TO MANDATORY REQUIREMENTS WHICH ARE RECOGNIZED AS BEING NECESSARY FOR THE PROTECTION OF PUBLIC HEALTH, IN ORDER TO PREVENT UNFAIR COMPETITION OR TO PROTECT THE CONSUMER.

OBVIOUSLY THE CONSUMER INTEREST IS VERY IMPORTANT IN REGARD TO PERSONAL INSURANCE AND PRIVATE CLIENT DEPOSITS AND INVESTMENT. BUT THERE IS NO REASON WHY, FOR INSTANCE, THE INSURANCE OF LARGER INDUSTRIAL RISKS, THE PURCHASE OF CERTIFICATES FROM UNDERTAKINGS FOR COLLECTIVE INVESTMENT, THE USE OF GUARANTEES GIVEN BY LICENSED BANKS OR MORTGAGE FINANCE GRANTED BY SPECIALIZED INSTITUTIONS CANNOT BE IMPORTED INTO ALL THE OTHER MEMBER STATES WITHOUT THE NECESSITY FOR A PRIOR ESTABLISHMENT IN THE HOST COUNTRY OR WITHOUT COMPLICATED LICENSING OR CONTROL PROCEDURES. THE MORE SO IF THE BASIC RULES GOVERNING THE SUPERVISION OF BANKS, INSURANCE COMPANIES AND COLLECTIVE INVESTMENT UNDERTAKINGS ARE HARMONIZED TO A CONSIDERABLE EXTENT. THIS IS ALREADY THE CASE IN BANKING AND INSURANCE AND WILL BE THE CASE IN THE NEAR FUTURE FOR COLLECTIVE INVESTMENT UNDERTAKINGS.

WHAT I HAVE BEEN SAYING IMPLIES A CHALLENGE FOR THE COMMISSION AND FOR THE OTHER COMMUNITY INSTITUTIONS. WE MUST CAREFULLY REVIEW THE NATIONAL SUPERVISORY REGULATIONS AND SEE WHAT RESTRICTIVE EFFECTS THEY HAVE ON THE FREE EXCHANGE OF SERVICES. WE SHOULD IDENTIFY THOSE MEASURES WHICH MUST CONTINUE TO APPLY, EVEN TO SERVICES BUSINESS, IN ORDER TO ENSURE THE STABILITY OF OUR FINANCIAL SYSTEMS AND THE PROTECTION OF INVESTORS, DEPOSITORS AND INSURED PERSONS. WHERE THE ESSENTIAL CONTROL REQUIREMENTS NEVERTHELESS IMPEDE SERVICES BUSINESS, WE MUST WORK OUT COORDINATED INSTRUMENTS TAILORED TO THE PRINCIPLE OF "HOME COUNTRY CONTROL" TO WHICH I SHALL RETURN IN A MOMENT. IN ALL OTHER CASES, WHERE A PUBLIC INTEREST IN RESTRICTIVE CONTROLS CANNOT BE MADE OUT, WE MUST INSIST ON THE PRINCIPLE THAT THE FREEDOM TO PROVIDE SERVICES OVERRIDES NATIONAL CONTROL REQUIREMENTS. AS I HAVE INDICATED ALREADY, THIS PRINCIPLE FLOWS DIRECTLY FROM THE TREATY AND HAS A DIRECT AND BINDING IMPACT ON ALL NATIONAL REGULATORY ARRANGEMENTS.

BUT NOW I MUST TURN TO WHAT MIGHT APPEAR TO BE THE REVERSE SIDE OF THE COIN: TO EXCHANGE RESTRICTIONS AND TO REGULATION OF CAPITAL MOVEMENTS.

HERE THE ATTITUDE OF THE EUROPEAN COURT HAS PROVED RATHER MORE RESTRICTIVE THAN IN RELATION TO SERVICES. IN ITS 1981 JUDGMENT IN THE CASATI CASE THE COURT HELD THAT THE DECISION WHETHER OR NOT CAPITAL MOVEMENTS ARE FREE TO CROSS THE BORDERS BETWEEN THE EC COUNTRIES REMAINS LARGELY IN THE HANDS OF OUR MEMBER STATES. IN THE ABSENCE OF DIRECTIVES LIBERATING CAPITAL MOVEMENTS FREEDOM IN THIS AREA IS NOT AUTOMATIC.

THIS IS A FUNDAMENTAL DIFFERENCE AND INDEED ONE OF THE REASONS WHY I HAVE INSISTED SO MUCH THIS MORNING ON QUESTIONS OF CONCEPTS AND DEFINITIONS. TWO DIRECTIVES, DATING FROM 1960 AND 1962 EFFECT SOME LIBERALIZATION OF CAPITAL MOVEMENTS. THE ECONOMIC REALITIES OF THE PAST TWENTY YEARS HAVE NOT PERMITTED ALL MEMBER STATES TO LIVE UP TO THE RELATIVELY DEMANDING STANDARDS OF LIBERALIZATION SET BY THESE DIRECTIVES. BUILT-IN SAFEGUARD CLAUSES AND UNEVEN LEVELS OF COMMITMENT AT WHICH THE VARIOUS MEMBER STATES ENTERED THIS PROCESS HAMPERED FROM THE START THE ATTAINMENT OF THE OBJECTIVES WHICH SEEMED WITHIN GRASP IN THE EARLY 1960s. BUT THE APPROACH ADOPTED IN THESE DIRECTIVES, LIBERALIZATION BY REFERENCE TO A LIST OF ALL POSSIBLE CAPITAL MOVEMENTS, REMAINS A SOUND BASIS FOR PROGRESS AND SHOULD SPARE US THE GROUND WORK ON DEFINITIONS AND PROCEDURES.

WHAT WE NEED TO DO, THOUGH, IS TO ESTABLISH A CLEAR RELATIONSHIP BETWEEN THE CONCEPT OF SERVICES AND THE PROCESS OF LIBERALIZATION OF CAPITAL MOVEMENTS. IT WILL BE NECESSARY TO DO THIS FOR EACH FINANCIAL OPERATION IN TURN, FOR INSURANCE CONTRACTS AS WELL AS FOR SECURITY TRANSACTIONS, FOR THE DEPOSIT BUSINESS OF BANKS AS WELL AS FOR MORE SPECIALIZED ARRANGEMENTS LIKE A CREDIT CARD BUSINESS OR FACTORING CONTRACTS. ALL THESE OPERATIONS IMPLY, OR MAY BE LINKED MORE OR LESS DIRECTLY TO CAPITAL TRANSACTIONS.

WHERE OBSTACLES ARE SAID TO BE JUSTIFIED BY FEARS THAT EXCESSIVE CAPITAL OUTFLOWS MIGHT DRAIN A COUNTRY'S CAPITAL MARKETS, BY CONSIDERATIONS CONCERNING THE INTEREST RATE LEVELS OR EXCHANGE RATES, BY THE ARGUMENT THAT AN OPEN FRONTIER FOR A CERTAIN KIND OF TRANSACTION WOULD CREATE BALANCE OF PAYMENTS DIFFICULTIES, WE WOULD KNOW THAT WE ARE FACING A MONETARY PROBLEM. BUT I WOULD SUGGEST THAT THIS IS LESS OFTEN THE CASE THAN ONE MIGHT THINK.

ARGUMENTS CONCERNING THE PROTECTION OF SAVINGS, OBSTACLES STEMMING FROM PROFESSIONAL REGULATIONS, CONSIDERATIONS RELATING TO THE SUPERVISION OF INSURANCE COMPANIES OR INVESTMENT UNDERTAKINGS, SAFETY STANDARDS, RULES DEALING WITH OVERTRADING OR INSIDER TRADING ALL PLACE RESTRICTIONS ON SERVICES BUSINESS AND SHOULD ALL BE TACKLED BY TAKING AS A STARTING POINT THE PRINCIPLE THAT RESTRICTIONS OF THE FREEDOM OF SERVICES ARE COMPATIBLE WITH COMMUNITY LAW ONLY IF THE PUBLIC INTEREST IS AT STAKE IN CONFORMITY WITH THE PRINCIPLES LAID DOWN IN CASSIS DE DIJON.

THE COMMISSION HAS OF COURSE BEEN WORKING ON THESE ISSUES FOR SEVERAL YEARS ALREADY, BUT IT IS NOW WITH FINANCIAL MARKETS IN THE MIDST OF SWEEPING CHANGES THAT OUR EFFORTS MUST BE INTENSIFIED. THE EUROPEAN MONETARY SYSTEM, NOW IN ITS SIXTH YEAR OF SUCCESSFUL OPERATION, CREATES A CLIMATE WHICH FAVOURS FINANCIAL INTEGRATION. THE MONETARY POLICIES AND ESPECIALLY THE ANTI-INFLATION STRATEGIES OF ALL MEMBER STATES' AUTHORITIES ARE CONVERGING. IN A MAJOR MEMORANDUM ON "FINANCIAL INTEGRATION" ISSUED LAST YEAR THE COMMISSION OUTLINED PLANS FOR ELIMINATING MANY OF THE REMAINING OBSTACLES TO CAPITAL MOVEMENTS AND IS PRESSING THE MEMBER STATES TO PROCEED TO A HIGHER DEGREE OF LIBERALIZATION. IT WOULD BE MOST REGRETTABLE IF THESE EFFORTS WERE FRUSTRATED BY A LACK OF PROGRESS ON MATTERS CONCERNING PROFESSIONAL REGULATIONS.

WHAT I HAVE BEEN SAYING IS ENOUGH TO SHOW THAT EARLY PROGRESS IN THE SERVICES FIELD IS ESSENTIAL. BUT I THINK I SHOULD MENTION TWO MORE FACTORS WHICH ADD TO THE URGENCY OF THIS MATTER.

A FIRST ELEMENT WHICH ONE CAN HARDLY NEGLECT IN THIS CONTEXT IS THE SPECTACULAR DEVELOPMENT OF THE USE OF THE ECU IN PRIVATE TRANSACTIONS. THE MARKET VALUE OF OUTSTANDING ECU PAPER IS NOW ABOUT 15 BILLION; THE ECU IS OFFICIALLY QUOTED ON THE ROME, MILAN, PARIS, COPENHAGEN AND, SINCE LAST MONTH, BRUSSELS, STOCK EXCHANGES. UNFORTUNATELY, GERMANY CONTINUES TO RESIST ALLOWING GENERALIZED USE OF THE ECU BY RESIDENTS, WHILE EVEN JAPAN AND CANADA GIVE THE ECU AN OFFICIAL FOREIGN CURRENCY STATUS; MORE AND MORE COMPANIES DO INVOICING OF IMPORTS AND EXPORTS IN ECU. FIAT IS A MAJOR EXAMPLE. THE ECU HAS EVEN BEEN USED IN COMMERCIAL CONTRACTS BETWEEN THE USSR AND CERTAIN MEMBER STATES. ECU TRAVELLERS CHEQUES ARE PLANNED BY A FRENCH GROUP AND ALSO BY MIDLAND/THOMAS COOK & SONS FOR EARLY 1985. AN ECU-CLEARING SYSTEM SHOULD BE OPERATIONAL AT AROUND THE TURN OF THE YEAR. IN THE INSURANCE SECTOR, YOU WILL KNOW BETTER THAN I THAT ITALIAN LIFE OFFICES NOW COMMONLY OFFER POLICIES DENOMINATED IN ECU. OUR HOSTS, ASSICURAZIONI GENERALI, ARE INDEED A CASE IN POINT.

A NEW CHANNEL FOR CROSS-BORDER FINANCIAL TRANSACTIONS IS OPENING UP HERE AND THE SERVICE ELEMENT IS DIRECTLY LINKED WITH THIS DEVELOPMENT. TAKE, FOR INSTANCE, THE CASE OF ECU DENOMINATED TRAVELLERS CHEQUES OR OF TRANSPORT INSURANCE CONTRACTS ARRANGED IN ECU AND YOU CAN SEE THE ECU BECOMING A NEW VEHICLE FOR A GROWING VOLUME OF SERVICES.

THE OTHER KEY FACTOR IS THE DEVELOPMENT OF NEW TECHNOLOGIES USED IN ALL FINANCIAL SECTORS IN THE INDUSTRIALIZED COUNTRIES. TRANSACTIONS IN SECURITIES, A BANK CREDIT LINE OR INSURANCE COVERAGE CAN ALL NOW BE ARRANGED BY ELECTRONIC MEANS. IF, THEREFORE, FINANCIAL PRODUCTS ARE INCREASINGLY THE PRODUCTS OF DATA PROCESSING BY COMPUTERS, OBVIOUSLY THEY ARE BECOMING MORE MOBILE, TRANSFERABLE AND EXCHANGEABLE ALL THE TIME. GEOGRAPHIC SEPARATION TENDS TO LOSE ITS SIGNIFICANCE. THE INTEGRATION OF FINANCIAL SERVICE INDUSTRIES IS THEREFORE BECOMING TECHNICALLY MUCH EASIER. A FUTURE IN WHICH INSURANCE COMPANIES, BANKS OR STOCK BROKERS CAN REACH THEIR CUSTOMERS VIA SATELLITES, CABLES AND THE TELEVISION SCREEN (TO NAME JUST ONE GROUP OF TECHNOLOGIES) IS ALREADY AT HAND. YOU WILL AGREE THAT THIS UNDERLINES THE IMPORTANCE OF DEVELOPMENT OF THE COMMON MARKET IN THIS SECTOR. IT SEEMS OBVIOUS TO ME, FOR INSTANCE, THAT PROVISION OF SERVICES ACROSS NATIONAL BORDERS WILL BECOME FAR MORE IMPORTANT IN RELATIVE TERMS THAN INTEGRATION OF EUROPEAN MARKETS BY EXERCISE OF THE RIGHT OF ESTABLISHMENT.

IF I WERE TO DRAW SPECIFIC CONCLUSIONS FROM WHAT I HAVE SAID THIS MORNING, I WOULD NEED TO TABLE A WORK PROGRAMME FOR THE COMMISSION'S SERVICES RESPONSIBLE FOR FINANCIAL INSTITUTIONS. THIS IS, OF COURSE, NOT THE PURPOSE OF MY TALK HERE. BUT IF YOU ASKED ME TO SUMMARIZE MY MESSAGE IT IS THIS IN A NUTSHELL:

- ALL DECISION MAKERS INVOLVED WITH THE INTEGRATION OF FINANCIAL MARKETS SHOULD BE AWARE OF THE POTENTIAL FOR GROWTH REPRESENTED BY FINANCIAL SERVICES AND THE INTEGRATING FORCES IN THAT SECTOR. BUT INSTEAD OF WAITING FOR THE MONETARY AND CAPITAL MARKETS PROBLEMS TO BE RESOLVED FIRST - AND I DO NOT WISH TO UNDERSTATE THEIR IMPORTANCE BY ANY MEANS - THEY SHOULD ENSURE THAT EQUAL EMPHASIS IS PLACED ON THE SERVICES CONCEPT AND ITS ADMINISTRATIVE AND PRUDENTIAL IMPLICATIONS, SO THAT NON-TARIFF BARRIERS (OR SHOULD I SAY: NON-EXCHANGE RESTRICTIONS) IN THE FINANCIAL FIELD DO NOT CONTINUE TO BLOCK FREEDOM TO PROVIDE SERVICES ONCE THE MONETARY "CURTAIN" IS LIFTED.

THE SAME DECISION MAKERS SHOULD DEVELOP A "PRODUCT MENTALITY", I.E. PERCEIVE FINANCIAL SERVICES AS PRODUCTS WHICH MUST MEET CERTAIN SAFETY STANDARDS. WITH THIS IDEA IN MIND THEY SHOULD APPLY THE PRINCIPLES WHICH THE COMMUNITY HAS ALREADY DEVELOPED FOR "NON-TARIFF BARRIERS" AND FOR STANDARDIZATION PROBLEMS IN THE AREA OF TRADE IN GOODS. A PRODUCT WHICH IS CONSIDERED SAFE IN ONE MARKET SHOULD, IN PRINCIPLE, BE ADMITTED IN THE ENTIRE COMMUNITY. I AM NOT FORGETTING, OF COURSE, THAT STANDARDIZATION IS SIMPLER, AND HAS A MORE LIMITED IMPACT, FOR, SAY, A MOTOR CAR THAN FOR THE INSURANCE POLICY COVERING THE SAME CAR. WE CANNOT JUST EXEMPT A FINANCIAL PRODUCT FROM ALL HOST COUNTRY REQUIREMENTS AND STIPULATE THAT STANDARDIZATION BY THE COUNTRY OF ORIGIN SUFFICES. BUT THIS IS WHERE THE PRINCIPLE OF "HOME COUNTRY CONTROL" ACQUIRES NEW AND SPECIAL SIGNIFICANCE. THIS IS A GUIDING PRINCIPLE IN REGARD TO THE RIGHT OF ESTABLISHMENT: FINANCIAL UNDERTAKINGS SETTING UP BRANCHES OR OTHERWISE ESTABLISHING A PRESENCE IN OTHER MEMBER STATES SHOULD BE SUPERVISED BY THEIR HOME COUNTRY AUTHORITIES IN RESPECT OF THEIR FOREIGN ACTIVITIES AS WELL.

- THIS PRINCIPLE MUST BE EXTENDED TO SERVICES: A FINANCIAL PRODUCT WHICH IS SEEN AS FIT FOR MARKETING IN ONE COUNTRY SHOULD NOT BE PREVENTED FROM BEING OFFERED THROUGHOUT THE COMMUNITY; ONLY WHERE THE OVERRIDING PUBLIC INTEREST MAKES DIFFERING LOCAL STANDARDS INEVITABLE SHOULD HARMONIZATION BE CONTEMPLATED AT COMMUNITY LEVEL: THE COMMISSION DOES NOT WISH TO ESTABLISH ITSELF AS AN ADDITIONAL REGULATORY BODY, STILL LESS WILL IT PROPOSE HARMONIZATION FOR THE SAKE OF IT: OUR POLICY IS NEGATIVE HARMONIZATION: THAT IS TO SAY ACTION TO ELIMINATE OBSTACLES, NOT TO IMPOSE NEW STRUCTURES.