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BUSINESS POLL INDICATES DOUBTS ON SINGLE MARKET, EMU

A recent poll of European business leaders found that a majority (51%) believe EC customs and border controls will not disappear by the single market's January 1, 1993 deadline. Further, 65% of the executives polled in the transport and distribution industries maintain that these barriers will remain after the deadline, perhaps because they are closest to the problems. The UK (72%) and Italy (70%) are the most skeptical about the disappearance of border controls while Spain (62%), the Netherlands (57%) and Germany (56%) are the most optimistic.

According to the survey, however, the chief barriers to free trade in the EC are more attitudinal (i.e. nationalism, consumer preference and protectionism) than practical (i.e. language, customs and border controls and technical standards).

These are just some of the results of a recent survey on the EC found in the **Europe Business Monitor,** published by US-based United Parcel Service in conjunction with Harris Research Centre in London. Harris conducted 1,483 interviews with European executives in seven EC countries representing companies with average annual sales of $1.05 billion.

Regarding the Maastricht Treaty on European Union, half of those surveyed believe the treaty would be positive or very positive for their country, but there are some serious doubts about several EC member states' ability to qualify for a single currency by the end of the decade.

Across Europe, Italy is regarded as having the worst prospects for the single currency, as 46% think it will fail to meet the "convergence criteria" for joining. (Even more telling, 77% of Italian executives believe Italy will fall short). A majority of Belgian executives also think Belgium will flunk the single currency test, while, on the other hand, only 2% of French executives believe France will fail. Quite surprisingly, 92% of British business leaders think the UK will join a currency union in 1999 or later, compared with 86% across Europe who believe Britain will eventually sign up. Most companies (two-thirds) are receptive to a Central European Bank and central monetary control, although only 35% of the German sample agrees, suggesting nervousness about relinquishing the Deutsche Mark.

The survey also reveals widely differing views among countries over the main aims of the EC, although free trade between member states ranked first overall (40%) and in all the countries polled (with varying degrees of enthusiasm) except France. The UK (59%), the Netherlands (48%) and Germany (44%) rate as the leading "free traders", while 36% of the French respondents regard the formation of a trading bloc to compete with the US and Japan as the EC's most important purpose. A large majority (73%) back free competition, even for exposed industries such as aerospace, automobiles and electronics.

In external trade, a slight majority think the EC will take action to limit Japanese exports to Europe over the next five years, while 39%, anticipating EC action to force open Japanese markets, believe exporting to Japan will become easier. By contrast, only 19% expect the EC to limit imports from the US. A quarter of the companies think exporting to the US will become more difficult compared with 27% that expect it will be easier.

MINIMUM EC BANK DEPOSIT GUARANTEE PROPOSED

To provide a higher level of supervisory standards and consumer protection in the EC's single banking market in 1993, the Commission has proposed that all EC depositors should have a minimum 15,000 ecu (1ecu=$1.26) of their deposits insured. In addition, the directive would set a three-month time limit within which depositors should receive their reimbursement in case of bankruptcy.

According to the Commission, the 15,000 ecu floor was chosen because the small investor would be effectively covered. It was also stressed, however, that deposit guarantee cover should not be excessive: removing all risk could undermine the stability of the banking system.

If adopted by the Council, the directive will force several member states either to introduce a deposit insurance system or to raise their current deposit guarantee levels. At present, Portugal and Greece do not have such systems, while Belgium, Ireland, Luxembourg and Spain have guarantee levels below the proposed 15,000 ecu floor. Under the legislation, no existing guarantee provisions could be reduced, but the member states would be free to increase their deposit cover.

Responsibility for the minimum EC-wide guarantee would rest with the bank's home country, providing an extra incentive for national supervisory authorities to ensure that banks they are supervising with branches elsewhere in the EC remain fully solvent.

REPORT ON EC CAR PRICE DIFFERENTIALS

Following the release of a Commission study on car pricing in the EC, which found price differentials of up to 40% on some models within the Community, EC Competition Commissioner Sir Leon Brittan urged car manufacturers not to abuse their selective dealership system and to make it compatible with the single market.

The report cited the current dealership system as one of the culprits behind the high price differentials between the member states, but it was unable to prove that it was the chief cause among other factors such as different tax rates, transport costs and member states' traditions in discounting. Hence, the EC's block exemption for the car manufacturers' dealerships will remain intact at least until its scheduled expiration in 1995.

Sir Leon warned, however, that "the jury is still out" on the current system, noting that the variances found in the report exceed the regulation's 12%-18% divergence provision. Unless the exclusive system demonstrates "unequivocally that it is in the interest of all of Europe's citizens", it will not be renewed. He called on manufacturers to make it clear to their dealers that they may sell to customers and counterparts in other member states. Further, the Commission will launch legal proceedings against dealers, manufacturers or national governments that obstruct parallel car imports.

GERMAN LABOR COSTS HIGHEST IN EC AND WORLD

In 1991, for the third year in a row, Germany's manufacturing labor costs (excluding those of the former German Democratic Republic) were the highest in the world, totaling $24.39 per hour. This was one of the findings of the German Economic Institute's (Institut der deutschen Wirtschaft) annual survey of labor costs in 20 industrialized countries. Given the recent German public sector strikes over pay and the relatively high wage settlement, Germany's dubious distinction as the highest-cost country appears secure.

Of the highest-cost "top ten", all of the countries were European: six were EC member states (Germany, Italy, the Netherlands, Belgium, Denmark and Luxembourg) and the other four were EFTA members Switzerland, Norway, Sweden and Austria. However, EC countries also occupied the last five spots in the survey, illustrating the wage cost diversity within the EC. EC member state Portugal was the least expensive surveyed country with an average hourly manufacturing wage of $4.75.

The study separates the average hourly manufacturing wage in each country into two components: direct wages and non-wage costs (e.g. medical insurance, social security and paid leave). It provides an important but incomplete measure of international competitiveness, omitting some important factors such as purchasing power parity, productivity and a country's infrastructure, material and energy costs, product quality and service and real interest rates. To assess a country's competitiveness accurately, labor costs must be analyzed along with these factors.

Sporting the longest legally-mandated vacation time and the shortest average work week in the world, Germany topped the 1991 list for the highest average hourly non-wage costs at $11.30 per hour. Switzerland, the second most expensive surveyed country ($23.39 per hour), had the highest direct hourly wage at $15.51, followed closely by Norway ($15.30) and Denmark ($15.18). Italy, the only country where non-wage costs exceeded direct wages ($9.99 compared with $9.52), edged out the Netherlands and Belgium as the second most costly EC country.

Denmark had the lowest non-wage costs per hour as a percentage of total wages, followed closely by Japan. For economic reasons, the Danish government significantly reduced employer contributions several years ago. This pressure to reduce employer contributions for competitiveness and/or employment reasons is also present in other countries, notably in Italy and Austria. As in the past, the US, Canada and the UK remain low non-wage cost countries.

As recently as 1985, the US had the highest labor costs in the world, but a steady decline in the dollar's value since, coupled with modest wage growth (3.2% in 1991) and the current recession, has placed the US, at least for now, among the lower-cost industrialized countries at $15.40 per hour. A weaker yen in 1991 kept Japan outside the "top ten" for the second year in a row; still, it remains a relatively high-cost country with average manufacturing costs at $17.85 per hour.

COMPETITION RULE EXEMPTION NO SMALL BEER

Under newly issued Commission guidelines, small breweries in the EC can receive an exemption from EC competition rules which restrict exclusive retail arrangements between local brewers and inns, restaurants and hotels. The Commission's clarification aims to cut red tape and to provide legal security for small breweries, keeping the local suds flowing.

Exclusive beer supply contracts will be considered "of minor importance" in competition terms and exempt from the EC Treaty Article 85(1) ban on restrictive business agreements as long as the brewery produces no more than 200,000 hectoliters (4.4 million gallons) of beer per year; the brewery's share of the national retail market is not more than 1%; and the supply contract is limited to 15 years for beer alone or 7 1/2 years if it includes other drinks. Brewers producing more beer than allowed under the guidelines might also be exempt as long as the conditions of the block exemption are met.

Although the new guidelines apply mainly to Germany because of its 1,200 breweries, many of which operate on a purely local basis, the UK, France, the Netherlands and Luxembourg also have traditions of brewers having exclusive ties through ownership of the inns which sell their beer.

QUOTES

"The EC...is a victim of its own success. Candidates from all sides are flocking to join. Considering the Community already works poorly with 12 members, would it be manageable with 19 or 25? ***Jacques Calvet,*** *Chairman of Peugeot Citroën.*

"At each stage in the Community's expansion, faint-hearts have argued that new members would serve to kill the goose which was laying the golden egg. Each time, however, enlargement has served, if anything, to accelerate the process of European integration. Institutional problems are real, but they are secondary. Ultimately, the institutions must adapt to the needs of the Community's members. It cannot be the other way around." EC Commissioner ***Sir Leon Brittan.***

"We agreed that we will apply to the European Community together...If we join our voices, we will be heard more strongly than if we act individually." Czechoslovakian President ***Vaclav Havel,*** *commenting on cooperation between his country, Poland and Hungary to accelerate their entry into the EC.*

"It would be ironic if, having been vindicated by the crumbling of Communism, the countries of the West were to replace the common front which brought about the demise of the Soviet system with internecine squabbles that could create dangerous new fault lines between natural allies." ***Andreas van Agt,*** *EC Ambassador to the US.*

"In the Community, there is currently no room for monetary loosening; instead, we will have to work on the fiscal side and should try to strengthen our efforts to cut excessive budget deficits. Such a fiscal tightening is the necessary requirement for obtaining lower interest rates in Europe." EC Commissioner ***Henning Christophersen.***

"In a Europe whose history has been marked by fratricidal conflicts...we are now building a vast area of freedom in which the barriers that divide its citizens are being thrown asunder." Portuguese Prime Minister and current EC Council President ***Anibal Cavaco Silva,*** *at the signing of the European Economic Area accord between the EC and EFTA (European Free Trade Association) on May 2.*

"Some of our partners have been keener on making new rules than on keeping them. I am not prepared to see British business put at a disadvantage in countries that fail to meet their Community obligations." British Prime Minister and next holder of the EC Council presidency ***John Major.***

AVOIDING "THE SLIPPERY SLOPE OF EXTRATERRITORIALITY"

In a recent speech at the University of Chicago Law School, EC Competition Commissioner Sir Leon Brittan renewed his call for increased international coordination of competition regulation. By drawing on traditional GATT mechanisms, applying them to competition policy through minimum rules and enforcement standards to be respected by governments, the international trading system would be given a boost forward toward the next century.

Meanwhile, however, pressures are building up for extraterritorial application of competition laws. For example, the US has even suggested that the Sherman Act be applied to conduct overseas which affects US exports. Sir Leon regarded this "as a highly dangerous path to follow." For him, "both bilaterally and multilaterally every effort must be made to encourage the adoption and enforcement of competition laws...throughout the world. This is in every way preferable to stepping out on to the slippery slope of extraterritoriality."

In the EC, laws apply only to overseas conduct implemented in EC territory, which complies fully with the requirements of public international law and the principle of comity between nations. To go beyond that, said Sir Leon "is to assume the role of judge and jury to an altogether unacceptable extent. The risks and temptations of retribution are all too obvious...The extraterritorial option could lead to chaos and conflict, as nations begin to discern impediments to exports in each other's domestic arrangements."

...IN BRIEF

...A recently released study by the Centre for Economic Policy Research reports that the US and Japan stand to lose very little either from the single market or from the European Economic Area (EEA), which involves the EC and EFTA (European Free Trade Association) countries.

According to the study, EC member states stand to make a real income gain of 1.9% and the EFTA countries a 3.3% increase, while Japan and the US should lose only around 0.01% of real income.

The Centre's research found that streamlined border controls, harmonized product standards and an end to price discrimination between different regions of Europe would greatly benefit the EC and EFTA, with EFTA realizing the most gains through its participation in the EEA, which is basically an extension of the EC's single market to EFTA.

...US-based multinationals Pepsico and General Mills have agreed to merge their snack food operations in six EC countries, creating a new company with projected annual sales of $640 million. The joint venture, which is subject to EC Commission approval, would combine General Mills' snack food operations in Belgium, France and the Netherlands with Pepsico's snack businesses in Greece, Portugal and Spain. Soon the Cheetos' crunch could be heard Europe-wide.

...At the last (Informal) Eco/Fin Council meeting in Porto, EC Finance Ministers asked their central bank governors to study if European Monetary System (EMS) membership should be opened to non-EC currencies such as the Finnish markka and the Swedish krone. The question of non-EC links with the EMS arose when EC applicant Sweden recently asked if its krone could join the narrow 2.25% fluctuation band of the EMS exchange rate mechanism. The central bank governors' study should be ready for the next Eco/Fin meeting in June.

...In what has been described as "an extremely comprehensive and lucid" work by the London Times, UN Centre on Transnational Corporations economist Miroslav Jovanovic analyzes various forms of economic integration, using the EC in the majority of his examples, in **International Economic Integration.** Understandable to the lay person, his book updates traditional integration theories by introducing industrial policy and market imperfections into the analysis. For ordering information, please contact Ms. Karin Cholak, Routledge, Chapman and Hall, Inc., 29 W. 35th St., New York, NY 10001, (212) 244-3336.

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