# TRADING BLOCS AND THE CONSUMER INTEREST PROSPECTS FOR THE EC IN 1992

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The purpose of this paper was to examine the implications of the Single Market in 1992 for consumers. The benefits from market integration are discussed first followed by a discussion of various factors that might reduce the potential benefits. Future developments include the deepening and widening of the European Community in response to German unification and the emergence of democracy in Eastern Europe.

## THE EUROPEAN COMMUNITY

The 1957 Treaty of Rome established the European Economic Community (EEC) and removed tarriffs and quotas between six European countries : Belgium, France, Italy, Luxembourg, Netherlands, and West Germany. In 1973 the Europe of six became the Europe of nine with the addition of Denmark, Ireland and the United Kingdom. Greece became the tenth member in 1981 while Portugal and Spain joined in 1986. In that year the twelve EEC nations adopted the Single European Act which amended the Treaty of Rome and contained the first reference to the completion of the internal market by December 31, 1992. This Act came into force in 1987 which was also the year when the EEC began to be called the EC or European Community (KPMG 1989).

The creation of a single EC home market has several components which are often called the four freedoms. They are given below.

1. Free movement of goods.
2. Free movement of services.
3. Free movement of capital.
4. Free movement of people.

The first and second freedoms mean that companies will be able to provide goods and services throughout the community due to the removal of administrative and technical barriers. The third freedom provides freedom of choice in banking, investment, and insurance and removes controls on capital movements. The final freedom ranges from the removal of frontier checks on individuals to freedom of choice for students and workers to seek educational and job opportunities throughout the community.

The EC has proposed 279 measures to remove barriers to the achievement of a single internal market. These measures fall into the following three categories.

1. Physical barriers. These include frontier checks on people and goods.
2. Technical barriers. These include divergent product standards, divergent technical regulations, divergent business laws, protected public procurement markets and barriers to education and jobs.
3. Tax barriers. These reflect different rates of VAT and excise taxes in the different member countries.

Tax barriers are likely to remain a problem in view of divergent social policies and the different taxing needs of EC countries. However, it is recognized that rates cannot be too divergent or there will be serious distortions in trade. The European Commisssion has proposed that member states may choose a VAT rate between 14 and 20 percent which may be too wide (KPMG 1989).

The EC has made good progress towards the the completion of its 1992 Single Market Program. One hundred and fifty-two of the original 279 measures have been adopted by the EC's Council of Ministers ("Policing Europe's Single Market" 1990).

## BENEFITS FROM THE EC INTERNAL MARKET

### The Cecchini Report

The Cecchini Report ( 1988) is the first study of the projected economic impact of the Single EC market. It identified the costs of non-Europe including goverment protectionism in procurement markets, divergences in technical regulations and standards, blocks to transborder business activity, and higher production costs in the service and manufacturing sectors. Two procedures were used to estimate the benefits from a single market. This was due to data limitations and the ensuing need to cross-check the results by using different estimating procedures.

The macro-economic procedure focused on the supply-side shock effects of market integration on main macro indicators such as gross domestic product, inflation, employment, and public budgets. The micro-economic procedure focused on the impact of removing non-tariff barriers on companies, consumers or government.

The macro-economic analysis was based on the following four events: removal of border controls, opening up procurement markets, liberalization of financial services and response of business to a more competitive environment. The two major outcomes from these developments were price

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reductions and productivity gains. The estimated medium-term gains to the EC are given below.

1. An increase of 4.5 percent in the Gross Domestic Product.
2. A 6.1 percent reduction in consumer prices.
3. Creation of 1.8 million new jobs.
4. An improvement in the Balance of Public Finances equal to 2.2 percent of the Gross Domestic Product.

Similar results were obtained for the micro-economic estimate. However, this approach also provided information about the impact of market integration on consumers and producers. There were substantial gains to consumers while the outlook for producers was more uncertain due to profit erosion for companies that had monopolies or were protected.

The estimation of the potential gains in the micro-economic analysis entailed four steps as outlined below.

1. Removal of Intra-EC barriers including customs formalities and delays.
2. Removal of barriers to production and competition. These include restrictions on manufacturing, divergent national standards and regulations, protective public procurement and restrictions on services.
3. Cost reductions from economies of scale.
4. Other efficiency gains due to competition. These include better inventory management and a reduction in monopoly profits.

The gains from the first step were small relative to the gains from the other three steps. Total gains for the seven states in 1985 prices ranged from 127 to 187 ECUs (European Currency units) or from 4.3 to 6.4 percent of the Gross Domestic Product. Total gains increased when the analysis was extended to twelve states and 1988 prices. The mid-point estimate for 1988 was 216 billion ECUs or 263 billion dollars.

### Consumer Policy Issues

The Cecchini Report (1988) indicated that European consumers would have more access to a wider range of products and services as well as lower priced proucts and services. In addition, the opening up of public procurement markets in major sectors such as telecommunications, energy, water, and transport would reduce prices in these sectors and hence benefit consumers as taxpayers. However, Lawlor (1988) points out the need for continued input and representation by consumers if they were to achieve the full benefits from a single market. Major issues include : health and safety, economic safety, consumer information and consumer representation.

In the case of consumer product safety different EC countries have different safety standards which could be obstacles to trade. Thus, there is a need for safety legislation at the Community level so that products could be sold throughout the Community. Lawlor's concerns are not too dissimilar to those voiced by BUEC (1985) several years earlier in which it was pointed out that health and safety arguments had been misused to protect national producers from price competition. BUEC also argued that the EEC should have a product safety policy and that such a policy was an essential component of trade liberalization.

Economic safety issues are misleading advertizing, protection of consumers from defective product losses, the availability of "fair" contracts for consumers, and consumer access to all products and services produced and distributed in the EC. Again, such isssues must be recognized and appropriate policies developed if consumers are to achieve the maximum gains from market integration and trade liberalization.

Lawlor also emphasized the importance of consumer representation. He stated that the consumer movement had developed unevenly in the Community and that consumer representation was needed to make markets more responsive to consumer requirements. Consumer associations could play a major role in this respect and in monitoring policies which might affect consumers.

## FACTORS WHICH MAY REDUCE POTENTIAL BENEFITS

These factors include the following.

1. Delays in implementing EC directives. 2. Access to EC markets by non-EC firms. 3. The exclusion of certain markets from the liberalization process.

Each of these factors is discussed in the following sections.

### Delays in Implementing EC Directives

According to an article in the Economist ("Policing Europe's Single Market" 1990) there are real problems in the implementation of the directives from the EC commission. Member states are normally allowed 18 months to implement these directives and should by now have implemented 88 of the 152 measures that were adopted by the Council of Ministers. However, only 14 measures have been implemented in all member states and only 55 measures in eight states ("Policing Europe's Single Market" 1990).

### Access to EC Markets by Non-EC Firms

The major trading concerns of non-European companies are that 1992 could result in "Fortress Europe" (Lamoriello 1989, Farren 1990). The major areas are protectionist product standards, discriminatory goverment procurement regulations, rules of origin and local content, and reciprocity. The EC is attempting to harmonize its product standards so that one standard may be used in place of the different standards which exist in each state. While there will be great benefits from this change foreign companies are concerned that they may lack representation in the standards, testing and certification procedures. In the case of public procurement, current EC regulations require European goverments to consider bids from other EC member states. However, there is more uncertainty about the treatment of bids from Non-European companies in major sectors such as telecommunications, transport, water and energy (Lamoriello 1990).

The use of rules of origin and local content could oblige foreign companies to establish manufacturing plants in the EC if they are to receive the full benefits from 1992 (Wallace 1990). This "forced investment" would be difficult for small and medium sized companies and lead to a reduction of competition in the EC market. The final issue of reciprocity is based on the premise that EC companies in foreign countries should be treated in the same manner as foreign companies in the EC. It has become important in areas of banking and financial services which are not covered under GATT's international trading rules.

Frans Andriessen, the EC Commission Vice President for External Relations and Trade Policy, responded to many of these concerns at a recent conference in Washington D.C. (Andriessen 1990). He stated that the purpose of the 1992 program was to open and liberalize the markets in the EC and that the EC had a long-standing policy of open international trade and trade liberalization.

Andriessen also mentioned that the Uruguay Round would play an important role in the trade liberalization process and that it was important to maintain our commitment to multilateralism in such talks. The Uruguay Round was also discussed by Ambassador Hills at the same conference and she stated that trade had outgrown the GATT and that many areas were not covered like services, investment and intellectual property. As a result "roughly one-third of world trade, over $1 trillion in goods and services, is not adequately covered by internationally agreed rules of fair play" (Hills 1990, p.43). She also noted that agriculture was a major problem and that there were considerable differences between the U.S. and the EC concerning what reforms were needed.

Exclusion of Certain Markets from the Liberalization Process

Agriculture is one of the major markets which have long been excluded from GATT's international trading rules. In addition, the EC has a common agricultural policy which it is likely to continue in spite of the Uruguay Round. This policy is expensive for European consumers and taxpayers. According to a report by the National Consumer Council (1989) the policy leads to increased prices and reduced choice for consumers, increased food and food surpluses, and a neglect of food quality and the environment. Total costs of the program were estimated at 80 billion ECUs while total benefits were only 50 billion ECUs. Thus, each 100 ECU received by the producer cost consumers and taxpayers 160 ECU. The study by the Council noted that there were more efficient and lower cost ways to achieve stable and secure food supplies.

Another major market, which has also been excluded in the past, is textiles. This reflects the Multi-Fiber Arrangement under which developed countries in the EC are able to establish quantity restrictions for textile imports from developing countries. These restrictions also entail high costs for European consumers and have been protested in the past but without avail (BEUC 1985).

## FUTURE DEVELOPMENTS

There are two main schools of thought concerning the nature of the European Community in the 1990s ("Westward Ho" 1989, "Deepeners Versus Wideners" 1989). The first school wants the present EC countries to have a tighter union while the second school wants the Community to include members from Northern and Eastern Europe. According to the report in the Economist, deepeners are strongest in the European Commission, France and Italy. They visualize the Europe of the 1990s " as a set of concentric circles with the EC at the centre, EFTA forming the next ring and East Europeans as the outer circle. EFTA countries would get access to the single market (though not the decision-making powers), the Easteners trade advantages and aid" ("Deepeners versus Wideners" 1989, p.50). In contrast, the widerners argue that the EC should provide more assistance to the ex-communist East. They also point out that it will be difficult to isolate East Germany , which is likely to be admitted as a 13th member or as part of a unified Germany. The entry of East Germany will present many problems. The first problem is the enforcement of EC rules on subsidies, product safety and the environment for East German products. The second problem is the availability of regional aid for East Germany. Other problems are the freedom of movement of many resident aliens in East Germany and the fact that East Germany has long-term contracts to buy cheap Russian oil and Czech coal ("The EC and a United Germany" 1990).

Most wideners accept that slower integration will result from widening. It will be more difficult for a Community of 16 or 24 members to agree "to end frontier controls, create an economic and monetary union or form a common defence policy" ("Deepeners Versus Widerners" 1990). However, wideners also accept that it will not be feasible for Eastern Europe to join for some time. The assimilation of EFTA is less complex since the population of their six countries ( Austria, Finland, Iceland, Norway, Sweden, Switzerland) is only about 30 million compared to 320 million in the EC. In addition, these countries are similar to the EC countries and they have a high standard of living.

The economies of Eastern Europe were discussed in a recent article in the Economist (Eastern Europe's Economies" 1990). According to Jeffrey Sachs, an economic adviser to the goverments of Poland and Yugoslavia, several steps are needed. They include market reforms in the East and financial assistance and open markets in the West. He noted that an East European common market would be a poor man's club and that it was important for Eastern Europe to become integrated with Western Eruope.

In conclusion, Europe is in the process of being re-designed due to the 1992 Single Market, German unification and the emergence of democracy in Eastern Europe. These changes are occuring very rapidly and will affect all European countries. However, there is every indication that these changes will be beneficial in the long-run due to increased economic growth and increased choice for most European consumers. The 1992 Single Market was designed to produce an European Trading Bloc which would be competitive with the trading blocs of North America and Asia. While such trading blocs will stimulate trade between countries within a bloc it is also important that trade occurs between trading blocs. The Uruguay Round, with its emphasis on multilateral as opposed to bilateral arrangements, will pay a major role in this respect.

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