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## A (West) European Economic Area

The agreement on the establishment of a European Economic Area (EEA) concluded on 22 October has brought Austria, which applied for European Community membership in July 1989 and Sweden, whose application was submitted last summer, a lot closer to their goal: the bulk of the issues that normally need settling in negotiations on accession have now already been dealt with. If all the ratification hurdles (including the plebiscite in Switzerland and the three-quarters majority required in the Norwegian Storting) are taken next year, the EEA could be achieved along with the single European market on schedule by 1 January 1993. It would stretch from the North Cape to Sicily and encompass 19 countries and some 380 million citizens that presently account for almost half of world trade and nearly a third of world gross national product.

Following customs barriers and import quotas, which – with a few minor exceptions – have been eliminated since 31 December 1983, the technical trade barriers in Western Europe are now also due for removal. The EC Commission's "new approach" to achieving this will be adopted in large part by the EFTA countries: the trading partners are committed to mutually acknowledging *different* product specifications hampering trade – and the associated testing and certification procedures – provided they meet certain minimum requirements; the detailed drafting of *uniform* standards based on minimum requirements remains the job of the European standards organizations, of which EFTA countries are a part. They are also full members of the European Organization for Testing and Certification, founded in April 1990, whose major goal is to make it easier for the trading partners to have their goods certified as complying with the norms and standards set. In view of the high level of their legislation on environment, safety and occupational safety and health, some EFTA members could, however, frequently avail themselves of the safeguarding clause also provided for in the "new approach".

Public procurement is another area in which mutual liberalization is planned, with equipment for telecommunications, supplies to utilities (water, gas, electricity) and supplies to public transport purchasers in the forefront of attention. These sectors make up the bulk of public tenders; they do not fall under the auspices of GATT and still figure as "national champion" segments within the EC and EFTA. In future, all bids with a West European value added content of at least 50% are to be treated equally; these bids *can* generally be accorded precedence over those with lower European content, but they *must* always be given preference if they are not more than 3 per cent more expensive than bids submitted by non-European competitors. Companies like ABB (ASEA, Brown-Boveri) and Ericsson from Sweden and Switzerland, leading manufacturers of telecom hardware and engineering products such as power plant equipment, could well glean substantial profits from such an arrangement.

At the same time the EFTA countries are submitting themselves to a comparatively stringent subsidy vetting, as stipulated by the EEC Treaty and increasingly practised by the

European Commission. In all, subsidies are tangibly lower in EFTA than in the EC – according to rough estimates industrial production in EFTA is subsidised on average to about 2 per cent and in the EC to 6 per cent – but in some cases sizable funding is provided. The kind of subsidy Chrysler recently received in Austria to build a car factory, for example, would presumably be very difficult to justify in the EEA.

The same could apply to some cartel agreements and merger projects, when in future the relevant EC competition regulations are also implemented more vigorously in the neighbouring states. The competition authority to be set up for EFTA will only be involved in small merger cases, where over a third of the firms' combined turnover is made in EFTA. Brussels will decide on the large mergers according to the EC Merger Control Regulation, which is in force as of 21 September 1990 and applies relatively strict criteria.

The most forceful liberalization effect of the EEA is expected in services, such as banking and insurance, where the international division of labour is still underdeveloped and needs the free movement of capital and labour to unfold its full potential. The EEA agreement will expedite the process of liberalization in both areas, even though various arrangements have been made for exceptions and transitions that will continue to inhibit the acquisition of land, property and capital as well as the freedom of establishment and freedom of movement for EC citizens in EFTA. This applies particularly to Switzerland. Sweden, on the other hand, intends to remove various restrictions on foreign investment in the industrial sector as of 1 January 1992.

Special provisions have also been made for coal and steel, in the energy sector and in fisheries, issues that along with those of the environmentally damaging Alpine transit traffic and financial compensation for the poorer EC member states had until the last minute split the negotiating partners and caused considerable delays in negotiations. Agricultural policy has been left out of the agreement. Neither side can offer the other anything worth copying here – EFTA is even more protectionist than the EC in the farming sector – so it still is up to the Uruguay Round to cut this Gordian Knot.

Altogether, the completion of the EEA will bring the EFTA countries in particular substantial benefits, the major one being an intensification of domestic competition. In addition, these countries will become more attractive for direct foreign investment while EFTA firms will be less inclined to relocate production plant to the EC. EFTA countries can also continue to conduct relations with third countries independently, where they are on the whole more liberal than the EC: they are less prone to import quotas and average customs duty on finished goods is between 2 and 3 per cent, as compared with 4 per cent in the EC.

The Community has, however, been unrelenting on the key matter of EFTA's say in EC decisions. Whoever wants to take part effectively in decision-making will have to join, which is why Switzerland announced its intention to apply for full membership immediately after completion of the EEA negotiations. Finland is expected to follow suit in the spring of 1992 and Norway will hardly be able to stand on the sidelines. Meanwhile, the CSFR, Poland and Hungary are pressing for enlarging the EC eastwards. The option of EC membership is expressly specified in the preamble to the association treaties with these countries, which were initialled on 23 November.

Did Commission President Jacques Delors have a premonition of this development when he presented his ideas for a European Economic Area to the European Parliament in January 1989? At that time, a Europe of concentric circles, made up of the EC, EFTA and Eastern Europe was a widely accepted notion – the Community of the Twelve was to press on unhindered towards economic, monetary and political union. Now, the vision of an EC with twice as many members looks like a more realistic proposition and it is not too early to start asking the question how such a conglomerate can be governed. In the long run, this problem is no less crucial than the establishment of a single European currency, presently being given such widespread coverage in the press.

*Georg Koopmann*