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ONE HUNDREDTH CONGRESS

SECOND SESION

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EUROPE 1992

FRIDAY, NOVEMBER 18, 1988

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10:27 a.m., in room SD–628, Dirksen Senate Office Building, Hon. Paul S. Sarbanes (chairman of the committee) presiding.

Present: Senator Sarbanes.

Also present: Judith Davison, executive director; and Lee Price and John Starrels, professional staff members.

OPENING STATEMENT OF SENATOR SARBANES, CHAIRMAN

Senator SARBANES. The committee will come to order. One of the responsibilities of the Joint Economic Committee is to try to look ahead, beyond the immediate context, to anticipate economic issues on the horizon or perhaps even beyond the horizon.

Today the committee holds a hearing on the plan of the 12-member nations of the European Community to achieve a unified single market in 1992.

The plan is sweeping and complex. One former Assistant Secretary of State for Economic and Business Affairs has observed, "Not since Napoleon's quest to unite Europe has anything so ambitious been attempted."

Our hearing on Europe 1992, as the plan is known, can only be described as a preliminary inquiry. Our intention is to begin to define the many issues at stake and to examine their economic implications for the United States, and indeed more broadly.

It is fair to assume that over the next several years, from a variety of different perspectives, Europe 1992 will come under scrutiny in the Congress—in this committee and in other committees.

In the international economic environment in which we now live, with the competitive challenges we now face, the prospect of European economic unification is formidable indeed. The 12 nations of the European Community today have a population of 320 million and a gross national product of some $4.6 trillion, and account for roughly 39 percent of world trade including, within that figure, trade within the European Community itself.

By way of contrast, the United States has a population of 244 million, a gross national product of $4.8 trillion, and accounts for 13.7 percent of world trade, while Japan has a population of 122 million, a GNP of $2.6 trillion, and accounts for 7.8 percent of world trade.

In every respect, the economic unification of the European Community will substantially alter the equation of United States-European Community economic relations. The question is whether it will mean expanded opportunities for the United States or a Fortress Europe.

The EC commission president was recently quoted as saying, "We are not building a single market in order to turn it over to hungry foreigners." That is not reassuring.

Despite the magnitude of the proposed changes, which are barely 4 years away, they have commanded relatively little attention in the public at large. Last summer a public opinion survey concluded that only 22 percent of U.S. opinion leaders were aware of the plans for Europe 1992. More recently, Newsweek magazine reported on a Commerce Department survey which stated, "Fewer than one in five senior American executives knows about Europe's plans to integrate its markets."

In this respect, the report in the July 6 Journal of Commerce is especially significant. According to the report, "Japanese industrialists, manufacturers, and government officials are demonstrating considerably more foresight than others in planning for the European Community's single market."

Many critical details of the plans for 1992 remain ill defined. The EC's administrative structure is in transition, and there continue to be substantial disagreements among EC members. How these details are finally resolved, however, will depend to a significant degree on the promptness, vigor, and determination of the new administration in addressing the challenge.

It is disquieting to hear from a former U.S. Government official, quoted in the New York Times 2 weeks ago today, that "this government still does not have a strategy for enhancing U.S. interests." And it appears that little attention has been given to the potentially serious conflicts between the GATT talks, to which the administration is actively committed, and the Europe 1992 negotiations.

It is obvious that the health of our American economy can no longer be separated from our ability to compete in open markets around the world. U.S. manufacturers, agricultural producers, providers of financial services and telecommunications and many others must of necessity be concerned with the future shape of Europe.

So, too, must American workers. There are wide disparities among EC members with respect to such basic questions as wages, working conditions, health and social security protections. Movement toward the lowest common denominator—in effect, toward what The Economist has called "a businessmen's community but not a citizens' one"—would have grave implications for working men and women in this country.

As we begin the process of sorting out and analyzing the issues raised by Europe 1992, we are very pleased to have with us three distinguished witnesses.

Michael Calingaert is a career foreign service officer and a visiting senior fellow at the National Planning Association. His new book entitled "The 1992 Challenge From Europe: Development of the European Community's Internal Market," was published earlier this week.

Charles Goldman is vice president and associate general counsel of ITT Corp. and active on the task forces created on this issue by the National Association of Manufacturers and the Business Roundtable.

Steve Beckman is an international economist with the United Auto Workers, who has closely followed this issue from the perspective of labor and social concerns.

Gentlemen, we are very pleased to have you with us this morning. I think we will begin with Michael Calingaert and then move across the panel. We will hear all of your testimony first before putting any questions to you.

Mr. Calingaert, if you would go ahead and begin, we would be glad to hear from you.

STATEMENT OF MICHAEL CALINGAERT, VISITING SENIOR FELLOW, NATIONAL PLANNING ASSOCIATION

Mr. CALINGAERT. Thank you, Mr. Chairman. First, I would just note that I am here in a private capacity and not representing the U.S. Government or the Department of State.

What I would like to do is very briefly——

Senator SARBANES. That may enable you to speak in a more forthright fashion.

Mr. CALINGAERT. Although, after 30 years it is sometimes difficult. [Laughter.]

What I would like to do is to give an outline of what the Europe 1992 program is, how the Community got there, and where it seems to be going.

In a formal sense, the program is contained in a white paper entitled "Completing the Internal Market." What is new about this program in the white paper is several things:

One is that it is a comprehensive package. Many of the issues have been on the table in various forms for a long time. This is the first time that they were put together as a result of a conscious effort to try to see exactly what was needed to be done in order to form a single market.

It is also a complete package. It has been quite clear, at least from the organizers of the program, that it was not something from which countries could select but that the whole package should be adopted.

Second, there is a timetable attached to it—in terms of when the proposals should be made, when they should be adopted by the EC Council, and ultimately implemented.

The ending date for all of the proposals is the end of 1992, hence of course the slogan "Europe 1992."

Third, unlike previous occasions, there is a form of political commitment to attempt to complete this program contained in a formal treaty, which was signed, of course, by all of the 12-member countries in 1985.

In looking at this, one has to go back to the Treaty of Rome of 1957, which formed the European Community. That treaty clearly envisages a common market, hence the name, and the removal of all of the internal barriers to trade as well as those to free movement of goods, services, and capital.

What the Community is trying to do is complete its homework, as someone has put it, to carry out what was envisaged in 1957. A first stage in that process was the removal of customs tariffs among the member countries. And that process took a bit over 10 years, and although many within the Community were fearful of the effects of that, it turned out to be both relatively painless and quite a boon to the economy.

Once that was done by the late 1960's, however, progress really slowed down in the Community. Some of the general framework agreements on forming an internal market were made, but particularly as Europe moved into the 1970's many economic problems were faced, certainly in terms of low levels of growth, high inflation, high unemployment, and a great deal of structural rigidity in the economy as a whole.

Added to that was some burden placed by further enlargements of the membership of the Community.

Under those circumstances, then, what took place was a political impasse, partly because of the virtual necessity for any decisions on the internal market to be taken on the basis of unanimity, either formally or informally, and it meant that any one member country for whatever reasons could block adoption of measures.

At the same time, in view of the economic circumstances, the two oil shocks, recession and so on, member countries were more and more inclined to take measures at their borders to try to protect national interests rather than promoting Europeanwide interests and European integration.

So, what you had at the end of that period really was more and more concern within the Community, in part on a political basis and more so economically. Politically there were more and more forces within the Community concerned about the seeming inability of the Community to function, to take decisions, to move forward on many of the outstanding issues. Certainly it included the overarching budget issue, but many others as well.

And then more specifically, on the economic side, the performance of countries in the European Community, certainly relative to those in other parts of the world, was poor. There was concern that the Community was not able to cope with those, and there was, very importantly, growing concern about competition coming from the outside, both the United States and very much Japan and Asian countries. Much of that was concentrated in the high-tech area, and general feeling was that Europe was less and less able to keep up with other competitors in the world, particularly as the world was moving more and more to a global economy and it was in the interest of European firms to participate globally.

The pressures, then, which came both from within political circles and economic—and economic meaning the private sector, the business community—ultimately resulted in the white paper being issued in 1985.

It is important to note that the business community was very strong in promoting that. There were great concerns about what were referred to as the cost of non-Europe—that is, not having a real European Community economy, a single market.

And two important factors, I think, are very relevant. One is the decisionmaking process was changed. The members of the Community decided in 1985 in remarkably short order to produce an amendment to the Treaty of Rome, called the Single European Act. Among other things, what that did was provide for a large number of the decisions affecting the internal market to be taken on the basis of a weighted majority rather than unanimity, which obviously will make it far easier for decisions to be reached in the Community.

Second, this all took place in the context of deregulation, a recognition in the Community that it was very difficult, if not impossible, to arrive at unanimous regulation throughout the economy but rather that the role of government should be diminished, that greater scope should be given for each member government to adopt different measures which would be recognized throughout the Community.

Just to take one quick example, in standards, rather than trying to get 12 countries around a table deciding on 150 pages of specific standards on a product, the new idea was to get agreement on general parameters and then as long as those were followed, let each individual country set its standard but let those goods circulate within the Community.

There are eight areas covered by the white paper, that is the program, as they call it, to complete the internal market—meaning to remove the barriers to the movement of goods, services, people, and capital. I will run through quickly what those are and what is underway in the Community.

Of course, the most symbolic evidence of fragmentation of the market is controls at the border. These are in place very largely because of the differences in legal, fiscal, and other regimes in the individual countries. Since there are different levels of internal taxation, since some countries have their own import regulations, and plant, animal, and health requirements are different, those are basically regulated at the borders within the Community.

The goal, of course, is to eliminate borders through various means, and that implies finding Communitywide solutions in those various areas. Perhaps not surprisingly, that is proving to be quite difficult.

In addition, borders are used for controlling illegal immigration, which is becoming increasingly a problem within the Community, as well as for controlling drug trafficking and terrorism. And many of the governments within the Community feel that those are very important functions which border patrols have to carry out.

So, the prospects for eliminating borders by 1992 are very slight at this point. But certainly some progress will be made.

The second area has to do with movement of persons. The major issue has been recognition of professional qualifications and academic degrees among the member countries. It is a very sensitive issue in some places. The Community earlier this year took a basic decision to phase out over time the restrictions so that, with some exceptions, the qualifications and degrees earned in any one country will have to be recognized in the other.

Indirect taxation is an enormous problem. The value-added tax system is used by all countries, but the coverage is different and the rates are quite different. In the case of excise taxes, the rates have even larger variations.

The proposal in the Community is to harmonize those, not necessarily make them exactly the same, but bring them within similar ranges so that they will not cause competitive distortions.

These are very difficult issues for many governments. Not only does it impinge on national sovereignty—the ability of national legislatures and governments to decide on those issues—but also it creates in many cases difficulties for taxation systems to try to make those kinds of adjustments.

The fourth category is the legal framework: company law, property issues. Again, company law is to a large extent a national prerogative; there are different regimes, which make business operations across borders more difficult. Efforts have been made to establish Communitywide patents and trademarks. Both of those issues are stymied at the moment, although the prospect is that by 1992 they will resolve those. And some beginnings, but only beginnings, have been made in the area of taxation of companies.

Capital movement is clearly a key factor in establishing a single market, in other words the ability to move capital anywhere without restrictions. Many of the restrictions have been removed over time. For the most part, the ones that remain relate to short-term movements and ability of individual citizens to move capital.

However, in some of the weaker currency countries, there are fairly important capital controls. Again, earlier this year, a very important decision was taken to phase out all remaining restrictions for 8 of the 12 countries by 1990, for the remaining countries either by 1992 or 1995. That action was very significant.

The area of services, on the whole, has been highly regulated by national governments, both in terms of types of operations permitted and the right of establishment in another country. Financial services is an area the Community has taken aim at, rightly believing that it is terribly important for a single market to have an efficient financial services sector. They are working first on the area of banking, where the idea is to set some essential requirements which all countries would have to abide by but with each "home" country supervising the institutions which are based there. So, a bank, for example, established in the U.K. would be subject very largely to U.K. supervision, functioning within the Community.

In transportation some beginnings are being made, regarding the removal of restrictions on road transportation, and then a tentative beginning in air transportation.

Regulations on standards is an enormously complex area. Some progress has been made over time, but not all that much, in forming Communitywide standards. The idea here, as I indicated earlier, is essentially one of mutual recognition, what they call a new approach on standards, where agreement will be reached on essential requirements.

Work will be undertaken in the European standards bodies to formulate European standards, but pending that, mutual recognition of national standards will be the key. This means that once a good conforms with the standards in one country, it will be able to move freely within the Community.

The final area is public procurement, enormously important in terms of the Community economy, accounting for maybe as much as 15 percent of the gross domestic product.

At the present time, something like 98 percent of purchases by public authorities are purchased in that country, and of course that creates enormous inefficiencies in terms of costs to the Community. And a major effort is being made to expand public procurement to a Communitywide basis.

In conclusion, I would point out that by all accounts the program is moving. The key word on everyone's lips is momentum, and I think that is the right one. It is based on a high degree of consensus, certainly strong political consensus in the Community and, as I mentioned earlier, a large degree of support from the business community.

At the same time, this does not mean that there is clear sailing, that there are no problems. And I think, indeed, that as the Community moves toward decisions in the more contentious areas, there are real problems that have to be sorted out simply because what is being undertaken is a massive change in the economic landscape in the Community, and upheaval causes problems to lots of groups there.

Thank you.

[The prepared statement of Mr. Calingaert follows:]

PREPARED STATEMENT OF MICHAEL CALINGAERT

EUROPE 1992: DEVELOPMENT OF AND PROSPECTS FOR

THE EUROPEAN COMMUNITY'S SINGLE MARKET

1. Origin of the 1992 Program

The program of the European Community (EC) to "complete the internal market" — by removing the barriers to the free movement of goods, services, people and capital among the 12 member states— is contained in a White Paper issued by the EC in 1985. The White Paper brings together for the first time a comprehensive listing of the measures deemed necessary for achieving the goal of a single integrated market and includes a timetable for action on each individual measure, with the entire process scheduled for completion by the end of 1992.

The basis for the 1992 program is the 1957 Treaty of Rome which established the EC. The treaty set as a goal the formation of a common market, which was to be achieved by removal of the tariffs and quantitative restrictions between the member states as well as measures having equivalent effect. In addition, the treaty called for the abolition of obstacles to the free movement of services, people and capital. The first step, elimination of the internal tariffs, was achieved by 1968. However, progress in other areas was limited, and during the 1970's the difficulty of removing or reducing barriers was exacerbated by the unfavorable economic situation, characterized by sluggish growth, high unemployment and inflationary pressures, in part the result of the two oil shocks.

By the early 1980's pressures were growing for the EC to attack the various problems which had left the Community in a state of "Euro-sclerosis." These pressures resulted from three interrelated concerns: the indifferent state of the EC economy and its structural rigidities; the perception that the EC was falling behind in competition from the United States and particularly Japan (especially in the high tech field); and the gridlock in decision-making on key issues.

These pressures came not only from within the EC institutions but also, and most importantly, the EC business community, which came increasingly to recognize that the fragmentation of the Community's market significantly increased costs and thus reduced their opportunities both in the EC and in what was becoming increasingly a global economy. Indeed, reference was made with growing persistence to the costs of "non-Europe."

A final contributing factor to the launch of the EC's program was the arrival at the European Commission (the EC's executive body) at the beginning of 1985 of Jacques Delors as President and Lord Cockfield as the Commissioner responsible for the internal market. Delors was determined that the Commission should undertake a major initiative to regenerate the Community, and he selected completion of the internal market as the vehicle. Cockfield, on the other hand, proved to be a dogged and effective promoter and executor of the 1992 program.

2. Institutional Framework

Any assessment of developments toward "1992" must take account of the relevant EC institutions and the changing nature of their interrelationship. Traditionally, the two main bodies have been the Council and the Commission. The Council, on which all the 12 EC member states are represented, is the supreme decision-making body, while the Commission, the EC's bureaucracy, drafts proposals for Council decision and carries out the policies established by the EC.

However, two major changes were effected by adoption of the Single European Act in 1987. First, whereas virtually all Council decisions relating to the internal had previously required unanimity -- an obvious obstacle to progress -- the Act provides for most such decisions to be taken on the basis of weighted majority voting. This change will undoubtedly enable the Council to reach decisions more easily as well as introduce a greater degree of alliance-building among the member states. Second, it increases the powers of the European Parliament, the only democratically established body of the Community. Consisting of 518 directly elected members who sit in political, not national, groups, the European Parliament had limited powers, essentially those of delaying legislation. Under the Single European Act, Parliament was given a more direct decision-making role. Its views on Commission proposals have to be taken into account in the redrafting stage, and amendments to proposed legislation passed by an absolute majority cannot be overturned by the Council except by unanimity. The dynamics of the relationship among these three institutions is bound to change as a result of Parliament's increased importance, with one institution occasionally seeking to play the two others off against each other.

The fourth institution, the European Court of Justice, is also a major factor in establishing the single market. With powers similar to those of the U.S. Supreme Court, the European Court has contributed to the process of economic integration by overturning a number of national government measures impeding the free flow of goods or services, and it will undoubtedly be called upon increasingly to ensure that member state actions conform to the Treaty of Rome and Community legislation.

3. Content of the 1992 Program

The barriers to the single market which are addressed in the White Paper can be divided into eight categories:

(1) Border controls: In view of the differences among the member states

in indirect taxation (value added and excise taxes), plant and animal health regulations and import restrictions, border controls are maintained so as to ensure that the laws and regulations of the importing country are respected and, thereby, to prevent competitive distortions. In addition, borders have become increasingly important in controlling illegal immigration and in combating terrorism and drug trafficking.

(2) Limitation on the freedom of movement of people and their right of establishment: While member state citizens are free to move from one member country to another for work, most member states have imposed restrictions on the recognition of academic degrees and professional qualifications acquired elsewhere in the Community. As a result, professional people have often encountered difficulties in exercising their profession in another member country.

(3) Different indirect taxation regimes: While the EC members have all adopted systems of value added taxation, the rates and coverage vary considerably from country to country; and the variation in the incidence of excise tax is even greater. In order to prevent competitive distortions, the EC has followed a system for internal EC trade of rebating taxation at the border and imposing the tax of the importing country.

(4) Lack of a common legal framework: To a considerable extent, the operations of enterprises are governed by national, rather than Community, regulations, thus cross-border business is more complicated and difficult than it would be in an integrated market. As regards intellectual property, there are as yet no EC-wide patents, trademarks or copyrights.

(5) Controls on movement of capital. While full freedom of capital movement has been achieved in a few member states, restrictions of varying intensity remain in most countries, particularly with regard to short-term capital movements and activities of individuals.

(6) Regulation of services: The service sector is on the whole highly regulated by national governments. This is particularly the case for financial

services; but transportation and broadcasting are also subject to considerable regulation.

(7) Divergent regulations and technical standards: For the most part, sellers in the EC market must conform with the regulations and standards applicable in the individual countries, which adds immeasurably to the cost and complexity of doing business in the EC.

(8) Public procurement policies: To an overwhelming extent contracts are awarded by public entities in the Community to firms of the country in question. In addition, energy, telecommunications, transportation and water supply are exempt from EC public procurement regulations. The net result is massive inefficiencies in a significant sector of the EC economy.

4. Progress and Prospects

At an indeterminate point early this year the EC's 1992 program took off. Whereas the mood in the Community had ranged from cautious optimism to healthy scepticism, the consensus view is now clearly that the process is under way. As one observer put it, "whereas we were pushing the ball uphill, it is now going downhill and the only question is the angle of the slope." The operative words are "momentum" and "irreversibility." Popular enthusiasm is at a high level; governments are emphasizing the importance of "Europe 1992" to their citizens; and businesses, increasingly convinced that "1992" will happen, are acting on their convictions and thereby helping to make it happen. A remarkable degree of political consensus has been achieved, such that it is rare for a mainstream European politician to be anything other than totally supportive of the effort.

Progress toward completion of the internal market can be measured quantitatively by totalling the number of proposals submitted by the Commission to the Council and the number of measures adopted by the Council. While the White Paper calls for the Commission to have submitted all of its proposals by the end of 1988, the Commission will probably be around the 90% mark. Action by the Council has been completed on about one-third of the proposals. These represent a reasonably good record, although for the most part action has been completed on the less controversial measures.

A qualitative assessment is more difficult to make, particularly since the Commission has consciously refused to set priorities among the measures requiring action. However, the key areas would appear to be the elimination of border controls, the opening up of the public procurement market, the harmonization of regulations and technical standards and the liberalization of capital movements and financial services. In addressing these issues, the Commission has wisely eschewed attempts, which characterized the past (largely unsuccessful) efforts, to legislate Community-wide provisions; rather it has emphasized deregulation and the mutual recognition of member states' laws and regulations.

Looking at the categories of barriers, the situation and prospects are as follows:

1) Border controls: Despite the symbolic and tangible costs of maintaining these controls, little progress has been made toward their removal, and prospects for such action by 1992 are slight. Efforts to approximate indirect tax regimes have met with strong resistance from many member states; the Commission has fallen behind schedule in presenting proposals for the harmonization of plant and animal health regulations, in addition to which member states have not pressed vigorously for resolution of the outstanding issues; no steps have been taken to eliminate national import restrictions or to extend them to an EC-wide basis; and many states have been reluctant to consider alternatives to border protection in the areas of immigration, drugs and terrorism.

(2) Professional qualifications: Despite the extreme sensitivity on this issue, particularly in the more developed member states, the foot-dragging that had characterized deliberations on harmonization of qualifications in specific sectors, and the requirement for a unanimous decision, the Council adopted a measure in June 1988 providing for the phasing out of restrictions by 1990.

With some exceptions, member states will be obligated to accept academic degrees and professional qualifications acquired in other member states, a significant psychological step forward even if the rights conferred will be used only to a limited extent. Two areas remaining for action, however, are restrictions on the right of citizens to live in other member states for purposes other than work and mutual recognition (or other provisions) for the "vocational professions."

(3) Taxation: Despite efforts by the Commission to move member states toward acceptance of ranges for two categories of value added tax and of common rates for excise tax, the opposition has been intense, and not surprisingly so. The power to levy taxes is a jealously guarded prerogative of national governments, one they will not lightly give up. But on a more immediate, practical basis, the proposed changes would significantly affect national government revenue. Even though the proposed ranges or rates are largely based on averages of member state taxes, the adjustments that would be required in many cases would drastically affect tax receipts and/or the mix between direct and indirect taxes, to say nothing of excise tax rates adopted either to promote the consumption of domestic products or to impose "sin taxes" on certain products.

(4) Legal framework: Some movement has taken place on company law issues, although the increasing attention being given (particularly within the Commission) to the "social agenda" -- covering the panoply of issues affecting worker interests, ranging from institutionalization of contacts between labor and management and safety in the workplace to worker participation on company boards and EC-wide collective bargaining -- will probably make progress more difficult. Although action is presently blocked on establishing EC-wide trademark and patent systems, it is likely that these will be achieved before 1992. Work on copyrights has begun only recently. One area of intense Commission activity is competition policy, particularly relevant in the context of sharply increased merger and acquisition activity. Agreement will probably

be reached in the near future on Commission powers to regulate cross-border EC mergers; in addition, the Commission will be active in limiting state aids by member governments and entities.

(5) Capital movement: A crucial component of a single market will be complete freedom of movement of capital. The Community took a major decision in mid-1988, when it agreed to phase out all remaining restrictions — for the eight major countries by 1990, for Spain and Ireland by 1992 and for Greece and Portugal by 1995 at the latest. In all probability, this decision will put pressure on the weaker EC currencies, for which some protection is available in the form of an EC "safety net" fund and the possibility of reinstituting controls (under restrictive conditions). In order to deal with potential problems of capital movements resulting from efforts to minimize tax burdens and/or evade taxation, the Commission is obligated to make proposals regarding the different taxation regimes on unearned income and the Council is committed to act on them by mid-1989.

(6) Regulation of services: Recognizing the importance of liberalization of the service sector, the Commission is concentrating on removing barriers to the provision of services in member states and across borders. In the financial services area, the proposed approach is one of deregulation of operations, harmonization of the essential standards for supervision, mutual recognition among member states of those standards and "home country control" (i.e. supervision of operations by the authorities in the country of establishment of the institution in question, irrespective of where the operations are carried out). The EC will probably approve a measure next year establishing an EC-wide banking regime based on this approach. Similar proposals are under consideration for insurance and the operation of stock exchanges. In transportation, although progress will be slow, a major decision liberalizing road transportation was taken in mid-1988 and a start has been made on air transportation.

(7) Regulations and standards: A "new approach" of standard-setting has

been undertaken, whereby harmonization is limited to the establishment of "essential requirements," and, pending the establishment of standards by the relevant European standards bodies, member states will recognize the standards adopted by other countries as long as they conform to these "essential requirements." While the physical volume of work involved will be considerable, the general opinion of those involved in the process is that it is working well. Nonetheless, many questions remain open such as the degree of transparency in the process, the nature of the standards which are ultimately adopoted and whether foreign testing and certification bodies will be recognized by EC authorities.

(8) Public procurement: The Commission is moving aggressively to pry open these markets, which account for as much as 15% of the EC's gross domestic product. Agreement has been reached on rules regarding supply contracts, and a companion measure on public works contracts is under discussion and will likely be approved in the reasonably near future. The Commission has also introduced a proposal to apply EC procurement rules to the four "excluded sectors." In addition, the Commission is addressing the issues of insufficient redress for aggrieved parties and insufficient enforcement powers for itself. While it is likely that important measures will have been adopted on public procurement by 1992, significant sectors of the economy will be adversely affected and thus can be expected to drag their feet and otherwise impede implementation.

5. Obstacles

While the EC's 1992 program is clearly off to an impressive start, and is accompanied by widespread support and enthusiasm, it would be erroneous to assume that the very considerable obstacles to establishment of a single EC market will magically disappear. To begin with, the differences among the cultures, languages and traditions of the member states go back many centuries, and these differences will necessarily affect attitudes and actions. While forces are at work in the direction of greater homogeneity, change will be generational and only marginally subject to government action.

Apart from these underlying differences, it must be recognized that the issues addressed in the White Paper are complex and difficult to resolve, since invariably they will be perceived by one or another group, sector or country as putting their interests at risk. In addition, in many cases, issues are linked, so that a decision on one issue will necessitate resolving another, often equally thorny, issue as well. Furthermore, the 1992 program necessarily involves a continued transfer of authority from the national governments to EC institutions in Brussels. Although national sovereignty is not a major issue, it remains close to the surface.

6. Conclusions

The question is not whether the Community will move toward a single market but rather how far and how quickly. Euro-phoria masks a number of doubts and fears, as well as difficulties in achieving the 1992 goal. Nonetheless, the EC of 1992 will be considerably different from that of 1985 or even that of 1988, and it behooves the United States to pay close attention to these developments, as well as to seek to influence them in directions that will promote U.S. interests.

Senator SARBANES. Thank you very much.
Mr. Goldman, please proceed.

STATEMENT OF CHARLES N. GOLDMAN, VICE PRESIDENT AND ASSOCIATE GENERAL COUNSEL, ITT CORP.

Mr. GOLDMAN. It is a pleasure to be here. I bear the hallmark of a Europe watcher. I am 100 percent jet lagged this morning. But it is all for a good cause.

I do believe that the growth of the single market is a most important event in European history in the latter part of the 20th century, and I am delighted to have an opportunity to discuss it. Certainly from an industrial point of view the map of Europe is being redrawn. This has been a very dramatic week, with a bid by GEC and Siemens to take over Plessey of the U.K., justified in terms of the single market.

Let me make a couple of preliminary points before I get into some of the issues.

There seems to be a fixation on this side of the Atlantic about 1992, and I think it leads people to draw some erroneous conclusions. As Mike Calingaert said, the program is effective as each directive is implemented. So, it is a continuous process. I don't think the adoption of the entire program is going to occur until the mid-1990's, perhaps the late 1990's, and some of it is probably never going to happen. But the momentum is irresistible.

Europe is a very exciting place to be these days, and this from a continent where all we heard 3 or 4 years ago was pessimism—Euro-pessimism and Euro-sclerosis.

Second, there is nothing magic about the initial package of directives. What I like to think of in terms of the internal market, mark II, is now beginning to take shape, and that would include a common currency, a central bank, harmonized taxation systems, an expanded European monetary system that includes the United Kingdom and common trade and economic policies.

Now, if you look at the process in those terms, you are looking ahead 40 years. You are thinking in generational terms. So, viewed in those terms, 1992 is a point in a long rolling progress. But something very important is going on in Europe, something quite profound, a redistribution of sovereignty between Brussels and the member States, something Mrs. Thatcher alluded to but something which I think at this point has been going on for 30 years in small increments and is now irreversible.

From the United States point of view, this process is delicately balanced and could stall. Such a stall would not be either in the United States or the Community's interests. As you pointed out earlier, this is something that must be considered in dealing with both the Community and the Uruguay Round. In the longer term, the creation of a strong trading bloc in Europe and more competitive European industry, including American companies operating there, should be in both the United States' and the Europeans' longer term interests.

But in the shorter term this process is destabilizing, and we certainly saw evidence of that this week. Presently, European markets, viewed from the standpoint of individual countries, are more or less compartmentalized, depending on the industry. If we assume cross-border competition, European companies are asking themselves whether their industry can cope with Europewide competition and whether they as companies are organized to deal with it and, if they are organized, how other governments will react when some of their companies are threatened.

These are all questions that are obviously relevant, given this week's developments. But they highlight another point. Again, viewed from this side of the Atlantic, we tend to think of the Community in terms of an invasion of outsiders. If you talk to European businessmen, they are concerned equally as much about intra-European competition, something which in many cases they have really not had to face.

And for us on the outside looking in, the questions are: Will the member States really permit cross-border competition if their domestic industries ask for continued protection or is the alternative a succession of transitory regimes directed from Brussels? And for America, will European subsidiaries of non-EC parent companies be given national treatment? I will come back to that in a moment. It is of importance to us.

It is worth observing that American companies without a base in the Community are clearly the most exposed. Unfortunately, how troublesome these issues become depends on externals. We need a healthy macroeconomic climate. We also need progress in the Uruguay Round. And I agree with you that this subject has not been sufficiently looked at. Some of the subjects being dealt with in Geneva will also be dealt with in Brussels, largely in the services area.

In Geneva there is an attempt to include services for the first time in the GATT, the multilateral trading system. Europeans are interested in deregulating their service industries. The United States, of course, is profoundly interested in both efforts. They are linked.

If the Uruguay Round is successful in concluding a services code, the Europeans' efforts to deregulate their own service industries will proceed much more rapidly and with much more confidence.

The benefits for business of serving a market of this size are obvious. They begin with the consolidation of manufacturing and the simplification of distribution, but they affect basically every aspect of operations.

There is a perceived advantage in size. The restructuring and reorganization of European industry is already underway, and I must say it has been odd to give this statement today, with a new battle royal beginning to rage in various parts of the Community.

Usually I talk about a steady stream of mergers and consolidations and cooperation agreements, but hostile takeovers are now beginning to appear in Europe. And that is most unusual.

Another development is that industrial groups outside the Community based in Finland, Sweden, and Switzerland have been among the most aggressive acquirers of companies based within the Community.

There are protective moves, but they are an indication of just how seriously those companies take the single market. This increased cross-border investment is good in the long term, but it is still another source of shorter term instability because as companies are reorganized and restructured, there will be a potential unemployment increase and pressure to restrain the incursions of non-EC firms.

There is another aspect that I find personally interesting and one on which I have done some work with the Commission. That is the real possibility that the Community may develop some American problems and attributes. As its economy becomes integrated, it will look a little bit like us.

There is serious thought being given in Europe to the possibility that a sun belt may be created. Why not? France is bidding to become the R&D center for Europe. They have created a large high-tech park on the Riviera. This would have been impossible earlier because every company had to have an R&D facility in each country in which it was active. But with a single market, that will not be necessary.

There is also a possibility that investment may move to less regulated and lower-labor-cost countries. There are many examples of this, including Spanish investment in Portugal and Volkswagen's move in Spain. This is leading to concern in the northern countries and trade unions. And a new buzzword has been created, "social dumping," which is the move of jobs from north to south, something that we are very familiar with here.

To counteract this, the Community has launched an enormous structural adjustment program, the equivalent of about $10 billion a year to be spent for each of the next 5 years. Whether this will work or not remains to be seen.

A brief word about the transatlantic hiccup that takes place in January. We will have a new administration here, and the executive branch of the Community, the European Commission, will have the terms of its commissioners expire. Some commissioners will stay, most will not. Lord Cockfield, the engine of the single market program, will not be coming back, but the president of the Commission, Jacques Delors, will be. The challenge for the Community will be to keep the momentum going.

One other matter deserves comment, and that is enlargement. The Community is going to get bigger. Many members of the European Free Trade Association, which is free-trade zone—Austria, Switzerland, three Nordic countries, and Iceland—know they are not part of the decisionmaking process, although they have agreements with the Community. And they are increasingly uncomfortable about their status. Austria will apply next year for membership, and Norway soon thereafter.

We are told that no one will be admitted until 1992, but thereafter there will be additional strains as the Community enlarges yet again.

A very brief word about social policy, which I think will be a major issue beginning next year. Labor's concern is intensifying as restructuring and industrial reorganization gains momentum.

Business is going Europewide, and labor wants to also. The concrete evidence of this is labor's stress on worker participation; that is, the participation of labor in corporate decisionmaking. A standoff has developed, and the entire effort to harmonize corporate law is stalled as a result.

This is not a situation which can continue. This issue will not go away, and it is an issue that American business feels very strongly about.

A brief comment about the "Fortress Europe" problem—where trade meets the internal market. There is no present intent to erect increased external barriers, although there are recent Community statements that have made me somewhat less sure about that statement. Cross investment and a high volume of European Community-United States trade may blunt it. European fears of being overrun parallel American fears of being excluded, and there is an echo in the United States with our concerns about Japanese investment.

The issue centers around reciprocity and national treatment, with the Europeans saying, "We will give you the benefits of our directives only to the extent that we get similar treatment in your country." This is a subjective judgment, and it is a bilateral judgment.

We would prefer to be treated like the Europeans treat themselves. In other words, when we set up a French company, we want it to be French. We will take that warts and all and work with it. This is an open issue and working it out is not going to be simple. Again, working it out would be assisted if the Uruguay Round in fact ended by 1990 and ended successfully.

Now, in all of this there is a major opportunity for American business which it has not had before, an opportunity to work with the Commission in developing these directives.

The American Government role is unusually limited in this process, partially because of the volume of the directives and their technical content. The U.S. Government role will be largely confined to that of an enunciator of general principles: espousing national treatment, arguing against reciprocity, and in addition it will act ad hoc on specific problems.

In the meantime, the Commission is receptive to business. It has limited staff and these directives are highly technical. This Commission attitude is part of a larger change in European attitudes toward business.

The problem is, as you pointed out, that there is a lack of information on this side of the Atlantic, and American business is not well organized to take advantage of this opportunity. Japanese business is much better organized. Some of the sectoral trade associations are partly filling the gap. Some of them are setting up offices in Brussels.

It would be better for us if the Government recognized explicitly that a dialog between the Commission and U.S. business ought to develop and explicitly recognize at least that its U.S. mission in Brussels play a role in facilitating that dialog.

On this side of the Atlantic there ought to be one contact point in the executive branch where we can get information about the Community and one point for resolving problems.

There is some movement in this area. I understand a paper has been prepared on the external aspects of the single market which has not yet been publicly circulated but which we are told should be available within the next week or so. We will be anxious to see that for further clarification on U.S. Government policy.

It is axiomatic that the U.S. Government should support the single market, and we are certainly in agreement with that proposition. Democratic government is a requirement for European Community membership. And from the standpoint of U.S. foreign policy, certainly that says it all.

Thank you.

[The prepared statement of Mr. Goldman follows:]

PREPARED STATEMENT OF CHARLES N. GOLDMAN

Mr. Chairman and members of the Committee. It is both a pleasure and a privilege to be here this morning to discuss what is clearly a seminal event in late 20th century European history. My name is Charles N. Goldman and I am Vice President and Associate General Counsel of ITT Corporation.

Major changes are sweeping the European Community. Europe has now confronted a basic truth: its continued ability to remain a major force in both world trade and high technology is doubtful. As a result an effort is now underway to create an integrated market which will be the world's largest trading bloc. It is in a sense ironic that under external pressure Jean Monnet's original dream of European unity is being revived.

The desired result -- a stronger more competitive Europe -- is consonant with the longest of long-term goals of U.S. foreign policy. As the world becomes less bipolar, developments in Europe merit increased attention. And an outward-looking, market-oriented and above all democratic European Community will be a positive force. Nevertheless the United States will have to remain alert to insure that its interests are not prejudiced as the single market takes shape.

I would like to make two preliminary points:

- There is nothing magic about the 1992 date. The internal market program becomes effective as each directive is implemented and indeed the entire program may not be adopted until the mid or late 1990s. Some of it, as originally envisaged, may never happen but the momentum is irresistible and the popular psychology very positive.

- There is nothing magic about the initial package of directives. A longer term European agenda would include a central bank, a common currency, a harmonized system of both direct and indirect taxation and more important, coordinated macro-economic policies. The accomplishment of this agenda must be viewed in generational terms -- over a sweep of at least 40 years.

1992 is therefore a way station but that should not obscure the fact that something very profound is going on in Europe -- nothing less than the redistribution of sovereignty between Brussels and the member states. This very complex process is proceeding in very small increments and support for it is far from unanimous. What is occurring in Europe now is similar to developments in the United States in the late 18th century when the Federalist papers were being written, but in Europe it is occurring without the benefit of a common language or a common currency.

In the longer term a trading bloc of 320 million people will be created which will be the equal, in theory, of either the U.S. or Japan. European industry -- including American companies operating there -- should become more efficient and more competitive and the Community should become more attractive to investors, both internal and external.

But in the shorter term this process will be destabilizing, as are all periods of great change.

At the present time, in many instances, individual countries often represent compartmentalized markets. But let us assume that the basic objective of the single market program has been achieved and that free cross border competition exists in reality. Companies are now asking themselves whether their industry can cope with Europe-wide competition and whether they as individual companies are organized to deal with it. And if individual companies are so organized, their concern focuses on the reaction of other governments when some of their companies are threatened.

Two issues stand out:

Will member states really permit cross border competition if their domestic industry asks for continued protection not only from external competitors but also from those listed within the EC?

Will European subsidiaries of non-EEC parent companies be given national treatment?

Unfortunately how troublesome these issues become depends partly on externals, including a healthy macroeconomic climate. Also important is continued progress in the Uruguay round of multilateral trade negotiations and the avoidance by both the United States and the Community of the possible spill over of problems in those talks which may interfere with the Community's progress in developing the European single market. To further complicate the issue, this is a two way problem and it is equally clear that the Community's problems in proceeding with the internal market could also complicate negotiations in Geneva. Managing the situation will require both flexibility and sensitivity on both sides of the Atlantic.

The single market will permit business to realize the efficiencies of Europe-wide operations. Every aspect of operations will be affected with the most obvious being the ability to consolidate manufacturing and simplify distribution.

There is a perceived advantage in size and the restructuring of European industry is already well underway with a steady stream of mergers, consolidations and cooperation agreements. Increased inward and cross border investment is good in the long term but it is yet another source of instability in the shorter term. As industry reorganizes, unemployment may increase and with it pressure to restrain the incursions of non-EC companies.

Another related aspect has a particular interest for the United States. As the European Community evolves into one integrated market it may develop some American problems and attributes. Europeans are now beginning to think seriously about possible shifts in investment flows and the creation, for example, of a sun belt. Concern is being voiced about the possible channeling of investment into countries which have a lesser degree of regulation as well as countries with lower labor costs. Spanish investment is flowing into Portugal and not only are the Japanese investing in the UK but Volkswagen is moving into Spain. These investments now provide a base for access to all of the European Community and through associated agreements to the European Free Trade Association (EFTA).

These phenomena are in turn leading to concern in northern European countries and their trade unions and a new buzz word has been created: social dumping. This refers to the movement of jobs from the north to the south and the potential erosion of the north's industrial base, a phenomenon with which the United States is certainly familiar.

At the same time there is increased European concern about disparities in regional development -- largely centering around north-south disparities -- which are felt to be inappropriate in a unified Europe. Massive structural adjustment programs were funded earlier this year which will result in the expenditure in southern countries by the European Community of approximately $10 billion a year for each of the next five years. The purpose of these programs is to cushion the shock of cross border competition but American and European experience with such structural adjustment programs is mixed at best. In addition, the northern countries are concerned about the diversion of their resources to prop up the south.

1989 will present some unusual difficulties as this process continues. There will be a new administration in the United States and on January 1, 1989 a new European Commission -- the executive branch of the European Community -- will be installed for a four year term. Under the leadership of its President Jacques Delors of France and Lord Cockfield of the UK, progress toward a single market has been more rapid than almost anyone expected when this Commission took office in 1985. Lord Cockfield, who has spearheaded this effort, will not be returning to Brussels although President Delors will. The job of the Commission will be to maintain its momentum while seeing at least half of the Commissioners change amid a general reshuffling of portfolios.

There have been several anxious spectators carefully observing the Community's progress -- they are the members of the European Free Trade Association which unlike the Community is limited to a free trade zone. EFTA's remaining members -- Switzerland, Austria, Finland, Sweden, Norway and Iceland -- are now pondering EFTA's future. It seems reasonably clear that several of them will ultimately join the Community. Austria will probably apply next year and Norway, following the results of a referendum, soon thereafter. It is understood that no members will be admitted until after 1992 so that the Community can devote its entire efforts to advancing the single market program. But it is also clear that Austria and Norway will be admitted soon thereafter. There is a considerable debate in Sweden and Switzerland as to future courses of action and in this connection it is interesting to note that the Community already has a neutral as a member. The example of Ireland might serve as a model for countries like Switzerland and Sweden as they contemplate the possibility of membership. In any event, however, there will be further strains within the Community as its shape changes.

Major policy questions are still undecided as the single market develops and one of the largest unresolved issues deals with social policy. Labor's concern is intensifying as restructuring and industrial reorganization in the Community gathers momentum. Social issues were deliberately deemphasized in earlier phases of the program since it was felt that momentum would be lost if these inevitably thorny issues were dealt with at early stages. But labor now feels that it must strengthen its position as business organizes on a Europe wide basis. The major issue will be worker participation: labor participation in corporate decision making. Failure to agree on an approach to this issue has completely stalled the harmonization of corporate law and it is unlikely that this issue can be left unresolved much longer. This is the area which first brought consciousness of the Community to American executive suites in the early 1980's and it is likely to return as a major preoccupation next year.

I would like to add a brief word about the current preoccupation with fortress Europe. This is where trade and investment meet the internal market and while it can be said that there is no present EC intent to increase external barriers, recent Community statements have not been totally reassuring. Sharply increased cross investment and the high volume of Community/U.S. trade may reduce tensions somewhat but the situation is truly fragile. European fears of being overrun parallel American fears of exclusion. European concerns find an echo in the United States with our reaction to Japanese inward investment.

There is no question that we must continue to press for national treatment for American companies operating in Europe and for continued access to the EC for those companies who choose to export to the EC. Reciprocity, whatever it may mean, is an inappropriate yardstick.

Reciprocity can be paraphrased as: "we'll treat you like you treat us." This assessment inevitably involves subjective judgements and could lead to a degree of bilateralism incompatible with a truly multilateral trading system. National treatment is preferable because it boils down to being treated "as you treat yourselves". In other words, a subsidiary of an American company, organized under the laws of, say, France, would be treated as a French company without regard to the nationality of its shareholders. Competition could then take place on equal terms.

Another problem area involves trade in automobiles and national quantitative restrictions which will become unenforceable in an integrated market. Stringent -- and different -- import restrictions are presently in effect in several EC member states. Presumably, Brussels would develop an

EC-wide quota system to replace present national measures. But many difficult questions will require resolution such as the overall quota level and the criteria for permitted imports. The most difficult of these questions involves the status of cars manufactured in third countries -- the Japanese auto manufactured in and shipped from Ohio to the EC.

Dealing with these problems will require understanding on all sides as well as careful management of the Uruguay round. The MTN is slated to end by 1990 in part so that the Europeans will be able to plan the single market within a more established multilateral framework. This is an important goal since achieving it would limit the possibility that the same issues -- largely dealing with services -- will be discussed at the same time in Geneva and Brussels. Life however is not orderly and if the Uruguay round does not end in 1990 we will be confronted with a difficult situation where the attempt to include services in a multilateral framework in Geneva will proceed at the same time as the Europeans attempt to deregulate their service industries. We have already been put on notice by the Community that it would be premature to admit third country nationals such as non-EC banks to the benefits of the single market in the absence of a multilateral framework on services. The issue has been drawn and it will have to be dealt with.

I would like to close with a brief word about the roles of business and government in this process. American business has a unique opportunity to work with the European Commission in the articulation of the directives which will form the basis of the single market. On the other hand, the U.S. government role will I believe remain that of an enunciator of general principles (supporting national treatment, condemning reciprocity) and as an ad hoc intervenor on specific problems.

At the same time the Commission has become much more receptive to business in general and American business in particular. This is part of a larger change in European attitudes towards business but it also derives from very practical considerations. The Commission staff is extremely limited and many directives require detailed sectoral expertise for their analysis. Both individual companies and sectoral trade associations have found themselves welcome at the Commission when they are willing to share their expertise with the often harried Commission staff attempting to prepare a response to a specific industrial problem such as, for example, standards for pressure vessels.

American business is not well organized to play this role and in a perfect world our government would explicitly facilitate a constructive and fruitful dialogue between the Commission and American business. The positive benefits that would flow from such a dialogue are as obvious as is the need for a facilitative mechanism. In such a perfect world, there would also be one point of contact in the executive branch in Washington where business could go for information on the Community and for help in resolving its problems and there would be a clear focal point for the formulation of U.S. policy toward the EC. And, as a result, consultation between American business and our government would be both continuing and routine. These matters require urgent consideration and resolution.

The United States has supported the European Community since its inception and there is no reason to believe that this support will diminish in the years to come. To become a member of the European Community, a country must have a democratic government and for the long-term aims of American foreign policy that really says it all.

Thank you. I appreciate the opportunity to make this statement and I will be happy to respond to questions.

Senator SARBANES. Thank you, Mr. Goldman. We appreciate the fact that you are here despite some difficult travel plans.

Mr. Beckman, please proceed.

STATEMENT OF STEVE BECKMAN, INTERNATIONAL ECONOMIST, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. BECKMAN. Thank you, Mr. Chairman.

I am going to focus my remarks on the social dimension of the 1992 exercise. Mr. Goldman has referred to the way in which the visibility of this issue has been raised in the last few months and the importance it has for workers in Europe and for workers in the United States.

The basic issue from the perspective of European labor is how they can continue progress toward higher labor standards and broader rights for workers in making the decision that affect their working lives as part of the market unification.

The two pieces of this project to be addressed initially are maintaining the higher standards won in the most developed EC countries and setting schedules for raising the standards in countries that lag behind in worker protections. With the creation of a single market, the national legislation and collective bargaining agreements that have insulated workers in one country from standards and practices in another will be diminished in significance.

To prevent European firms from shifting investment and employment to low-wage, low-standard countries, the ETUC has proposed that the EC adopt a variety of directives that set Communitywide standards for the "social dimension."

Among the areas covered would be: information, consultation, and negotiation with workers over company conduct.

Participation for workers already in the decisionmaking of companies operating under a to-be-adopted Communitywide company law—as opposed to national laws governing company behavior.

Protection of all rights for workers already acquired through laws or bargaining even if a company changes its legal form.

Respect for basic trade union rights—union representation, recognition of European delegations, et cetera—this would be to protect workers in particular countries if a company should adopt a Europeanwide company registration rather than remaining with its individual country registration, as is currently the practice.

Also covered would be standards for environmental and consumer protection and workplace safety and health.

Maximum weekly and annual worktime and standards for other work practices—overtime, shiftwork, and rest periods.

Rights to parental, training, and educational leaves.

Standards for social legislation and insurance programs, access to health services.

Equal opportunities for men and women; minimum rights to subsistence income, especially retirement income.

These are all areas of both labor and social policy which in some countries are covered by legislation and in other countries are primarily governed by collective bargaining.

In order to make sure the companies cannot take advantage of the market to move to locations where they would be under the least constraint by both of those institutions, by legislation and by collective bargaining, it is necessary to adopt Europeanwide standards, much as was discussed earlier, with particular product standards or industrial standards, so that everyone will have a minimum level that they have to meet in social policy, and the individual country legislation and practices would prevail, but with this minimum standard.

Only by adopting EC "directives" can workers be assured that companies will not use the increased freedom of operation permitted by the elimination of trade barriers between countries to push labor costs, social costs, and labor standards to the "least common denominator." If this were allowed to occur, workers would reap no benefits from the increased efficiency that is the point of the single market effort.

Thus far, European labor movements have been generally supportive of the integration of the European market. Some observers have assumed from this support that there is no need to agree to union proposals to include a "social dimension" in the 1992 exercise.

In my view, this would be a serious error. Many national union federations, especially the West German Trade Union Federation—the DGB—and its large affiliate, I.G. Metall, highly value the institutions for economic democracy they have won and will strongly oppose the 1992 program if these institutions or the other rights of workers and conditions of work they have achieved through decades of struggle are compromised.

Opposition from union federations in other countries with high standards of worker protection could also be expected. There certainly is a distinction between those countries where protections are currently high and have been improved over a long period of time, and those relatively new members of the EC where protections are considerably lower and certainly wage rates and other conditions of work are not up to the standards in the more developed countries.

The economic democracy issue has come up in EC discussions of developing a European company statute. Under such a statute, European companies making mergers across national boundaries would be able to meet company standards set by the EC rather than the registration requirements of an individual country. In return for making mergers possible, and for the tax advantages that would go with them, the EC would require companies to agree to one of a number of worker participation models.

Those currently under consideration are:

The West German codetermination system, in which workers elect members of the company's supervisory board;

The Belgian, French, and Italian system of independent internal employee councils; and

Scandinavian-style collective bargaining in which the form of worker representation is negotiated.

In summary, the integration of the 12 EC country markets, presented as a way to promote competition, increase efficiency, and stimulate growth, has a social dimension that has been given little attention thus far.

The creation of increased economic competition and the scaling down of impediments to moving production and employment from country to country that national governments have imposed on companies in which unions have succeeded in winning relatively high wages, safe workplaces, generous social programs—unemployment compensation, training, pensions, et cetera—and an extensive role for workers in corporate decisionmaking and concerned that employers will shift their jobs to countries that have made considerably less progress toward these goals.

Such a shift could drive down labor standards and protections where they have been raised and prevent improvements where standards are low. The European Trade Union Council has called on the EC to adopt directives that protect the high national standards that have been achieved and set minimum standards for other countries over time.

Structural adjustment funds beyond those now authorized should be made available to assist in this process. For now, the results of negotiations on the European company statute and the corresponding requirement of adopting a worker participation plan should offer the best indicator of how seriously the union concerns will be taken and how broad the social dimension of the 1992 program may be.

It is worth considering the relevance of the European discussion of social policy for the U.S. economy and American workers. In the first place, the European debate resembles U.S. discussions of deregulation and defederalization in the early 1980's.

The path taken by the United States has led to declining living standards for millions of workers, their families, and communities, increased competition between States for new investment—giving State revenue to companies through tax holidays, training subsidies, site purchase and preparation, et cetera—and the growth of low-paid jobs and the disappearance of well-paid jobs, a massive budget deficit and a dangerous trade deficit.

European companies would like to make the 1992 market integration into a repeat of the probusiness bonanza the United States has experienced; European unions are looking for an alternative path of economic development based on high wages, workplace protections, and respect for the rights of workers.

The UAW and other American unionists strongly endorse the proposals of the ETUC. Reducing the living standards of European workers would add to the already intense pressure employers thrive on to drive down workplace, environmental, and social standards. The UAW has supported the improvement of the conditions of work throughout the world in our 50-year history. Most recently, we have focused on government repression of worker rights in newly industrialized countries. We have no less concern for European workers. They should be winning further gains in employment conditions and industrial democracy.

If the ETUC social program for 1992 is not adopted, we can expect more intense pressure from employers on U.S. labor standards. The competitiveness challenge on the basis of labor costs will be broadened to include the EC and the competition based on ingenuity and product quality, which require a well-trained, well-paid work force, will be set back.

We must forcefully reject visions of a world economy in which absolute cost is the primary criterion in determining the location of production. With the sophistication in technology available and the ease of introducing it anywhere in the world, companies have become extremely adept at pitting potential investment sites and their work forces against each other in order to reduce their own costs.

Workers never win in this competition, nor, in the longer run, do the companies.

The impoverishment of workers results in fewer customers and declining sales, not lower cost and increased sales. We sincerely hope this is a lesson that can be learned, in Europe and here at home, before it is too late.

My comments for the workers in the 1992 exercise—and there are two other points I would like to make—one of which is related to auto trade, in which the UAW obviously has a stake and interest, and the discussions thus far in Europe give us cause for concern.

The European companies—of course in this case the European companies include Ford and General Motors, which many people consider to be American companies—they have pushed for continuation of existing restrictions on Japanese imports into Europe. At the same time, they have proposed strengthening the requirements for qualification as a European product. Changing the rule of origin specifically in the auto industry requires that vehicles must have a minimum of 80 percent European content in order to qualify as European made.

As you are probably aware, in the United States we have vehicles that are assembled by non-North American companies, Japanese companies in the United States. They produce value in the United States considerably less than the 80 percent standard that the Europeans are discussing and considerably less than the 60 percent standard that Europe currently imposes. The American Government for customs purposes considers these to be American-made vehicles.

The Europeans are clearly trying to squeeze as much investment in the parts industries as they can out of the foreign investors in Europe. And it is not a particularly new strategy, but it is one that the United States has not adopted. And I think the American auto workers and the American industry suffers as a result.

If the restrictions on Japanese imports are extended beyond 1992, which is the goal of the European industry, it is reasonable to wonder what is in fact going to happen to production and sales around the world of Japanese vehicles if the U.S. market is as open as it already is.

And if the restrictions that are currently in place are eliminated and the U.S. Government considers those that are in place to be entirely voluntary on the part of the Japanese Government, then there will certainly be an impetus to shift Japanese exports from Europe to the United States. And the restriction level currently in place in Europe is less than 10 percent of the market.

The share of Japanese imports in the United States is already close to 20 percent and has been been over 20 percent in previous years. It is sizable, and this should be taken into consideration in discussions with the trade bill in the United States and discussions of the integration of the European market and whether Europe is coming forth as Europe.

There are charges made that the United States is the source of protectionist pressures in the world. It is just an absolutely false charge, and it is a disingenuous one because Europe is quite capable of protecting itself and has been for a long time, and continues to restrict trade much more severely than the United States does.

So, we have considerable concerns in auto trade.

The other point that I would like to make is that the focus of U.S. business interests in the 1992 exercise has been on how to make sure you can get into the European market and be treated as a European company in order to gain access to that market, the expanded, more efficient market that is being developed. The focus is almost exclusively on investment as a means of getting into the European market.

American companies certainly are getting the message that if you really want to play in Europe, you are going to have to invest in Europe, you are going to have to produce in Europe, and producing in Europe means producing just about all of the parts of what you make as well as assembling the finished product.

The United States will have to increase its exports if it is going to achieve a semblance of balance. We have to increase our exports to Europe. If to become a player in Europe American companies are going to be increasing their investment in production in Europe, that is going to undermine U.S. exports and clearly it sends a signal to American companies that their exports from the United States are not welcome in Europe, only their production is.

That causes us great concern because the investment that is going to be made is likely to come at the expense of U.S. production, less U.S. production in these high-value-added, high-technology industries which are going to be shifted to Europe means that there will be less production here, less employment, less good-paid jobs, fewer good-paid jobs in this country. And also, there is the potential for exporting what is produced in Europe back to the U.S. market to replace what the companies have previously been producing here.

That is very disconcerting for American workers, and we certainly believe that the U.S. Government ought to be making representations in the discussion ongoing that American companies ought to be making representations for openness to U.S. exports to products made in this market. The Fortress Europe charges or the fears must be dispelled if the United States is to have a fair chance at participating in the European market as European companies participate here.

Thank you for this time this morning, and I look forward to the discussion that will follow.

[The prepared statement of Mr. Beckman follows:]

PREPARED STATEMENT OF STEVE BECKMAN

Mr. Chairman, my name is Steve Beckman and I am an international economist for the UAW. As you know, the UAW has a strong interest in changes taking place in the world economy and their impact on American workers and their living standards. We have followed the progress of the European Community's plans to create an integrated market for its member nations.

The impact of market integration on European workers did not surface as a public issue until this past summer. The President of the European Commission, Jacques Delors, took the initiative in raising the visibility of the "social dimension" of the 1992 project. The labor movements of the individual EC member states and the European Trade Union Confederation (ETUC), however, have already devoted considerable attention to the effect on European workers of the creation of a single market.

The basic issue from the perspective of European labor is how to make continued progress toward higher labor standards and broader rights for workers in making the decisions that affect their working lives a part of the market unification. The two pieces of this project to be addressed initially are maintaining the high standards won in the most developed EC countries and setting schedules for raising the standards in countries that lag behind in worker protections. With the creation of a single market, the national legislation and collective bargaining agreements that have insulated workers in one country from standards and practices in another will be diminished in significance.

To prevent European firms from shifting investment and employment to low wage, low standard countries, the ETUC has proposed that the EC adopt a variety of directives that set coummunity-wide standards for the "social dimension". Among the areas covered would be: information, consultation and negotiation with workers over company conduct; participation for workers already in the decision-making of companies operating under a to-be-adopted community-wide company law (as opposed to national laws governing company behavior); protection of all rights for workers already acquired through laws or bargaining even if a company changes its legal form; respect for basic trade union rights (union representation, recognition of European delegations, etc.); standards for environmental and consumer protection and workplace safety and health; maximum weekly and annual working time and standards for other work practices (overtime, shiftwork, rest periods); rights to parental, training and educational leaves; standards for social legislation and insurance programs, access to health services; equal opportunities for men and women; minimum rights to subsistence income, especially retirement income.

In each of the EC countries, these social issues are covered by a different combination of legislation, collective bargaining agreements and accepted social practice. Only by adopting EC "directives" can workers be assured that companies will not use the increased freedom of operation permitted by the elimination of trade barriers between countries to push labor costs, social costs and labor standards to the "least common denominator". If this were allowed to occur, workers would reap no benefits from the increased efficiency that is the point of the single market effort.

Thus far, European labor movements have been generally supportive of the integration of the European market. Some observers have assumed from this support that there is no need to agree to union proposals to include a "social dimension" in the 1992 exercise. In my view, this would be a serious error. Many national union federations, especially the West German Trade Union Federation (DGB) and its large affiliate I.G. Metall, highly value the institutions for economic democracy they have won and will strongly oppose the 1992 program if these institutions or the other rights of workers and conditions of work they have achieved through decades of struggle are compromised. Opposition from union federations in other countries with high standards of worker protections could also be expected.

The economic democracy issue has come up in EC discussions of developing a European company statute. Under such a statute, European companies making mergers across national boundaries would be able to meet company standards set by the EC rather than the registration requirements of an individual country. In return for making mergers possible and for the tax advantages that would go with them, the EC would require companies to agree to one of a number of worker participation models. Those currently under consideration are: the West German co-determination system in which workers elect members of the company's supervisory board; the Belgian, French and Italian system of independent internal employee councils, and; Scandinavian-style collective bargaining in which the form of worker representation is negotiated.

In summary, the integration of the twelve EC country markets, presented as a way to promote competition, increase efficiency and stimulate growth, has a "social dimension" that has been given little attention thus far. The creation of increased economic competition and the scaling down of impediments to moving production and employment from country to country that national governments have imposed on companies puts workers in previously distinct labor markets into competition as well. Workers in countries in which unions have succeeded in winning relatively high wages, safe workplaces, generous social programs (unemployment compensation, training, pensions, etc.) and an extensive role for workers in corporate decision-making are concerned that employers will shift their jobs to countries that have made considerably less progress toward these goals. Such a shift could drive down labor standards and protections where they have been raised and prevent improvements where standards are low. The European Trade Union Council has called on the EC to adopt directives that protect the high national standards that have been achieved and set minimum standards for other countries to meet over time. Structural adjustment funds beyond those now authorized should be made available to assist in this process. For now, the results of negotiations on the European company statute and the corresponding requirement of adopting a worker participation plan should offer the best indicator of how seriously the union concerns will be taken and how broad the "social dimension" of the 1992 program may be.

It is worth considering the relevance of the European discussion of social policy for the U.S. economy and American workers. In the first place, the European debate resembles U.S. discussions of deregulation and de-federalization in the early 1980's. The path taken by the U.S. has led to declining living standards for millions of workers, their families and communities, increased competition between states for new investment (giving state revenue to companies through tax holidays, training subsidies, site purchase and preparation, etc.), the growth of low-paid jobs and the disappearance of well-paid jobs, a massive budget deficit and a dangerous trade deficit. European companies would like to make the 1992 market integration into a repeat of the pro-business bonanza the U.S. has experienced; European unions are looking for an alternative path of economic development based on high wages, workplace protections and respect for the rights of workers.

The UAW and other American unionists strongly endorse the proposals of the ETUC. Reducing the living standards of European workers would add to the already intense pressure employers thrive on to drive down workplace, environmental and social standards. The UAW has supported the improvement of the conditions of work throughout the world in our 50 year history. Most recently, we have focused on government repression of worker rights in newly industrialized countries. We have no less concern for European workers; they should be winning further gains in employment conditions and industrial democracy.

If the ETUC social program for 1992 is not adopted, we can expect more intense pressure from employers on U.S. labor standards. The "competitiveness" challenge on the basis of labor costs will be broadened to include the EC and the competition based on ingenuity and product quality, which require a well-trained, well-paid workforce, will be set back. We must forcefully reject visions of a world economy in which absolute cost is the primary criterion in determining the location of production. With the sophistication in technology available and the ease of introducing it anywhere in the world, companies have become extremely adept at pitting potential investment sites and their workforces against each other in order to reduce their own costs. Workers never win in this competition, nor, in the longer run, do the companies. The impoverishment of workers results in fewer customers and declining sales, not lower cost and increased sales. We sincerely hope this is a lesson that can be learned, in Europe and here at home, before it is too late.

Mr. Chairman, since you have given me this opportunity to comment on Europe 1992, I would like to discuss one other area of great interest to the UAW — auto trade. The integration of the EC auto market calls into question a number of existing arrangements. First, there are five EC countries that restrain imports of vehicles from Japan (France, Italy, Great Britain, Spain and Portugal); an overall EC restraint is also in effect, protecting those countries that have no agreement with Japan. It is likely that the EC will maintain its restraint of imports from Japan at about 10 percent of the market (while the share of Japanese imports in the U.S. market is about double that) until 1992. The restraint would then continue as the individual country restrictions are gradually eliminated. I point this out only to show that the EC imposes far more restrictive access to its market on imports of vehicles from Japan than the U.S. This should be recalled when attacks on the "protectionist" U.S. are heard in Europe. The EC auto producers are pushing to keep some restrictions in place until European exports to Japan reach five percent of Japan's auto market (that would be 2.5 times the current two percent share).

There is a very intense debate within the EC over the treatment of vehicles produced in Europe by Japanese companies. The European auto producers are pressing to consider all such vehicles imports from Japan unless their content is 80 percent European. The "transplants" assembled in the U.S. by Japanese companies are treated as U.S.-made despite their 50-60 percent U.S. share of total value. It is even presumed that U.S.-assembled transplants shipped to Europe would be considered Japanese in origin. Again, we do not believe the European firms are pursuing the wrong policy; they should just remember their own position when discussing "protectionism" in the world and show more understanding of the appropriate responses proposed to the sizable U.S. trade problem by American unions.

The position of the EC on auto trade makes it imperative for the U.S. government to adopt a realistic, rather than an ideological, policy to defend the interests of U.S. producers and workers. The other major auto-consuming countries of the world would not stand for the import-penetration level that has become standard in the U.S. With no market-opening in Europe in sight, further pressure by Japan to expand exports to the U.S. is likely. The lifting of the voluntary restraint agreement (VRA) monitored by Japan's MITI now in effect would be a serious error.

Mr. Chairman, thank you for providing this opportunity to discuss the social issues related to Europe 1992. I would be pleased to answer any questions you or members of the committee may have.

Senator SARBANES. Thank you.

All of the testimony has been very helpful. It leads me to conclude that this hearing should have been held much sooner, at least for purposes of getting this process started.

I am going to ask some questions, and on most of them I would like to hear from all of the panelists. If you could each keep your response relatively brief, I think we can move along fairly quickly.

First of all, as I understand it, the current Commission has drafted literally hundreds of directives as part of the plan. A number of these have been adopted, and others are in the process of being adopted.

This really goes back, Mr. Goldman, to a point that I think you were making. In a sense, the 1992 date is misleading in some respects because some of this is taking place right now. Changes are occurring today, or will occur tomorrow or next month. Other things will follow along.

What exactly is the significance of the 1992 date as we look at this process? Implementation is taking place now. I think the Community was wise in setting a deadline and setting a target, but as Mr. Goldman said, it is going to be a longer term process than that, and indeed I think it is better to look at 1992 as a process rather than an event, as something that will be going on well into the 1990's.

I am more concerned not by the fact that some of it may happen after 1992 but by the fact that some of it is happening right now, and that will lead into my next set of questions.

But first, let me hear from the other two panelists.

Mr. GOLDMAN. No one knows quite who picked the date, but each Commission, each European Commission—that is, the executive branch of the Community—serves for 4 years. They felt that if they gave only one Commission the mandate the time available would be too short, so they allowed for two Commissions—1985 plus eight is 1993, and that's how it happened.

Now, someone said if you picked such a date in Washington, the press would be all over you saying that you were falling behind.

But the feeling in Europe is that this date is set and the Commission feels that also, and business is now using that and local politicians are using it. They are caught up in this process too. It is now politically advantageous to support 1992, and the date is now embedded in the public consciousness to an extent no one expected when this started. So, this thing has a life of its own.

Mr. BECKMAN. The number of directives that have been already approved or in the process of being approved, leads you to wonder which ones will end up being the ones that—be passed or will be passed in determining the structure of the future directives.

Certainly, the fact that the company law directive is being held up by the worker participation dispute or discussion is an indication that the unions in Europe have decided to draw the line, and since the company law is important and will be held out until some resolution of the dimensions of the social results of the 1992 exercise are clear, it indicates that there won't be a continuing succession of directives passed which will at some point cumulate to a set of policies that cannot be reversed and therefore the others would follow.

I think the social dimension has to be addressed relatively soon in order to continue the support of workers in Europe for the ongoing.

Senator SARBANES. What is your view of the preparation taking place in this country for Europe 1992, first on the part of the Government and second on the part of the private sector?

Mr. GOLDMAN. I think some of us in the private sector have been working on this for some time. Certainly major American corporations, particularly those with significant European operations, have been following this process in detail. Some, as I said, some of the sectorally oriented trade associations, such as the Pharmaceutical Manufacturers Association is establishing a Brussels office.

Senator SARBANES. If I could interject and go to Mr. Beckman's point about the focus on getting into the European market by making the necessary commitments to investment and production in Europe; is part of the American business community focusing on the matter?

Mr. GOLDMAN. To an extent. But there is no disposition on the part of the Community to keep out American exports, and I don't think this is a zero-sum game. In other words, there is an implicit assumption that if people invest in Europe, that somehow investment elsewhere will decrease, and jobs will increase in Europe.

I am not an economist, but I would like to believe that if economies flourish and grow and if investment proceeds, both parties can benefit. You see a tremendous flow of European investment into the States, and I hope that will continue. But, of course, it is the U.S. Government's job to be focused now on the Uruguay Round, but focused also on continuing discussions with the Community, to keep the Community open.

Senator SARBANES. Let me pick up on that. I want to keep developing these points. Let's accept the assertion that there is no intent on the part of the Community to keep out U.S. exports. Would you make the comparable statement with respect to non-U.S. exports from elsewhere in the world to the Community?

Mr. GOLDMAN. Non-U.S. exports elsewhere in the world. Well, there is a great deal of fear in Europe, of course, about Japan.

There is also another point that has to be made here. Mr. Beckman raised some profound issues about restructuring and the movement of firms from one country to another to take advantage of lower standards and lower costs. I think you have to look at this problem in a broader dimension. When you look at it in a broader dimension, if you crack down too hard, companies are going to move right out of the Community. They'd move to the Pacific Rim countries or anywhere else where it is advantageous to relocate production.

Senator SARBANES. Suppose Europe is not a Fortress Europe vis-a-vis American exports to Europe but becomes a Fortress Europe with respect to the rest of the world. That, in turn, is bound to put the U.S. economy under additional pressures, since those countries will then seek to export to the United States.

So it seems to me that we have an interest not only in what the European attitude is going to be toward American exports but what the European attitude generally is going to be as Europe moves toward an integrated, unified market with respect to exports worldwide.

Mr. GOLDMAN. Those are the issues that are being discussed in Geneva in the services talks, in the safeguards talks. The effort in Geneva will be to maintain an open, multilateral system.

I could not agree with you more.

Senator SARBANES. What I am really trying to determine is whether you discern amongst the Europeans an inclination to accommodate the issue of U.S. exports but not accommodate the broader issue of worldwide exports. This suggests somehow that "Well, the United States is less of a concern." If that is the path upon which they are moving, it will put an additional pressure on the American economy. If these other countries are unable to export into Europe, they will seek to export instead to the United States.

Mr. GOLDMAN. It is not possible for the Europeans to make that kind of discrimination either within the GATT framework or within the Community framework.

Mr. CALINGAERT. I would like to make a couple of comments on the export side.

First, the vision of Fortress Europe, of course, implies barriers at the external borders. I think that is less likely to happen. Certainly I don't know of anybody who is talking seriously, for example, about raising the common external tariff in the Community. Thus, the conditions as goods cross the border for the most part I don't think will change. What is much more important is what happens inside the Community and how will that affect exports.

The issue of how the United States is treated vis-a-vis others I think is a valid question to raise. I think clearly there is greater concern in the Community about the relationship with Japan and Asian countries not dissimilar from some of the concerns in this country.

And there is a question as to whether the Community could distinguish and, if so, how among the outside countries it deals with. And certainly there are those within the Community who say the United States has less to worry about because we have a different sort of relationship.

I don't think it is possible to go the next step and say how distinctions might be made, and I would certainly have real questions as to the extent to which that would be possible.

Mr. BECKMAN. Let me mention a couple of things.

One is that the issue is not really so much tariffs at the border or the general treatment of imports by the Europeans. Most of the important decisions are made at the industrial level, and so you have steel and coal agreements within Europe, you have European auto restrictions. That is where the important decisions are going to be made: on that industrial basis.

And the question is whether those industries are going to become more open to imports and really opening up the European market or whether they are going to take the opportunity of eliminating barriers between countries within Europe to impose more strict discipline on imports from outside of the area.

Certainly within the auto industry, that seems to be the goal of the companies in Europe.

Just one anecdote about this. The vehicles made in the United States by Japanese companies which don't have 80 percent U.S. value are likely to be considered Japanese when exported to Europe. And that is something that certainly is a concern of Japanese companies locating in the United States partly to get around restrictions in Europe.

And what position will the American Government take? Certainly, for purposes of U.S. law and practice, these are American-made goods. When they are shipped to Europe, they are not American-made goods? It is not clear how the United States would react if Europe did restrict access on those vehicles.

So, I think it is less clear that in fact the market is going to be open any more to imports than it is. I think the level of restriction is considerably higher than most people think it is.

Senator SARBANES. Let me return to the question I asked originally. If I want to go to a personnel office in the executive branch of our government that is closely monitoring developments in Europe, has been in constant touch with the private sector, is really on top of this issue, is coordinating executive branch responses and making sure that our interests are being put forth as vigorously and as effectively as possible, where would I go?

Mr. GOLDMAN. At this point I think you would have to go to the U.S. Trade Representative's office, which is coordinating the U.S. Government responses, with the exception of the financial services area where the Treasury Department is active. But Commerce is also playing a role in this process, and so is State, which is the point I tried to make earlier, which is that this puts business in a somewhat difficult spot. It is hard to know where to go. To some extent, you have to be able to characterize your own problem: Is it a financial problem, is it a commercial problem? And then you have to figure out where you're going to go. Things could be better organized.

Mr. CALINGAERT. The issue of coordinating and the role of the Government agency is not a new one. I think Charlie Goldman mentioned the four main players involved. The Department of Commerce, I think, is as well informed as anyone in terms of specific information of what is going on. As for the agencies, there has been a task force chaired by U.S.T.R. in coordinating policy. And from my perception, the agencies do all talk to each other and seem to be pretty much going in the same direction.

Senator SARBANES. Who is, as the Chinese love to say, the responsible person? That is a marvelous phrase. When a group goes to China, the Chinese ask, "Well, who is the responsible person in this group?" And that is the person they sort of hold accountable.

Now, who is the responsible person in the executive branch of our government for the Europe 1992 process or development?

Mr. CALINGAERT. I am in the happy position of not speaking to the Government at this point. I think technically——

Senator SARBANES. As an observer.

Mr. CALINGAERT. Technically, if you're looking for one point, I would assume it is the U.S. Trade Representative, which is the one by nature dealing with trade problems.

Senator SARBANES. Himself?

Mr. CALINGAERT. Himself, his office.

Senator SARBANES. Now, here we have a problem. It is not a problem so much as a challenge, I guess is a better way to put it. It is a challenge of some dimension. It is happening now. It is not going to happen in 1992; some of it will happen in 1992, and some is happening now, and some will happen after 1992. It is important.

It is a matter, I would assume the panel members all agree, of some importance. And it seems to me we ought to be able to say that "James R. Jones" or somebody who is qualified, experienced, knows what he is doing, is the fellow in the executive branch who is the point person.

Now, who is that person? Is there such a person?

Mr. GOLDMAN. I am delighted to hear that question. I am considered to be very tiresome on this subject. There is an interagency working group which is chaired by a representative from U.S.T.R., and they have now begun to issue papers.

Apparently there are two papers. One is on the external implications of the single market, and one is on the single market and the Uruguay Round, which will be distributed to the public at some point for comment.

There has also been an attempt to use the ISAC machinery, the advisory committee structure, of which I am sure you are aware, that advises on multilateral trade negotiations.

I have told those government representatives that I have come in contact with that I think the ISAC structure is much too inflexible. It is simply not suited for something that moves as rapidly as the single market now appears to be moving. And their answer to me was, "Well, make a proposal." And there the matter rests.

One thing I have suggested to them is that they take steps to institute a forum or an information exchange in Washington with respect to the single market. That would be helpful.

Senator SARBANES. There is no group that involves government, business, and labor coming together in any regular organized way to look at Europe 1992, is there?

Mr. BECKMAN. I don't believe so.

Senator SARBANES. Is there a business, labor, private sector effort? Or is that separate as well?

Mr. GOLDMAN. Not that I know of.

Senator SARBANES. I take it there is a coordinated effort in the business sector. Mr. Goldman, you are essentially the point person for that.

Mr. GOLDMAN. I was for some years; that is correct.

There are four major trade associations in this country and the American Chamber in Belgium, and we have tried to maintain a liaison so that we didn't put five papers in to the Commission on every issue.

There is another point, in that as the directives move out to member States for implementation, there is a lot of action at the individual country level in Europe. An EC official pointed out to me recently that the European Community Ambassadors in Washington meet every month to compare notes and exchange information. He wanted to know whether the American Ambassadors in Europe had done the same thing or do the same thing. That is something we ought to think about too.

Senator SARBANES. That is a very reasonable question.

Is there a labor group comparable to what Mr. Goldman outlined in the business sector?

Mr. BECKMAN. There isn't anything comparable. In terms of being informed by the U.S. Government, we have a committee similar to the ISAC, the labor policy advisory committee, where matters like this are raised. I cannot recall whether in the last couple of years the 1992 issue has been on the agenda.

But through the AFL-CIO there have been contacts with the European trade union movements regarding where the 1992 exercise is going. The effort in that regard is primarily supportive for European unions incorporating into the 1992 program the social issues.

In terms of representing the views of American labor on the impact of the 1992 process on the U.S. economy and on American workers, there really has been very little dialog with the U.S. Government in that regard.

Senator SARBANES. Would any of you quarrel with the view, given the potential significance of this development for our economy and indeed for the world economy, that we are really lax, lagging behind in even setting up an appropriate structure to focus on the challenge, to try to coordinate an American response?

Mr. CALINGAERT. I think the U.S. Government has been slow in recognizing that this is a coming issue, partly because there were few specifics on the table. But I think there is clear perception now in the various departments that these are important issues and that they have to be dealt with and that as long as we have the kind of structure within the executive branch—which is presumably not going to change—they are working toward coordinating policies and activities there. So, a bit of catchup ball, but going the right direction.

Mr. GOLDMAN. As they say, the devil is in the details, and I am not sure that there ever is going to be or should be a U.S. Government position on every one of these 285 directives. Some of these, I would say the greater part of them, are narrow, technical directives.

But there ought to be some machinery for at least identifying who is working on what, what the objectives are, so that we are certain that the directives are at least being addressed and that the positions which are being taken are at least moderately congruent.

But whether the U.S. Government should be out front taking positions on these directives is something I am not sure about.

Senator SARBANES. I agree with that. But I think there should be a conscious decision somewhere, either that we don't want to take a position on a given directive, or that there is a need to take a position but by someone other than the Government, or that the directive requires a government response. It should be all part of a conscious decisionmaking process instead of simply a matter of happenstance.

Mr. GOLDMAN. If there is a general principle involved or if there is a trade linked principle involved or a linkage with the Uruguay Round, then the Government, of necessity, has to be involved and should be involved.

Mr. BECKMAN. Let me add that I agree with your point entirely, and I think that there is a fairly simple explanation. Certainly the labor movement has been critical of the lack of attention to trade policy in the United States as trade has become a much more significant component of U.S. economic activity.

The responsibility and respect for those in positions in the trade policy area have not increased along with that change. In the last several years, when the 1992 exercise has been undertaken and speeded up, the United States has been involved in bilateral negotiations, so-called free trade agreement with Canada, major additions for the U.S.T.R. that took up a lot of effort, a lot of time consulting with the Congress.

We have had the Uruguay Round begun and discussions underway. That has taken up the bulk of the time in the U.S.T.R. and the bulk of concern they are willing to take on. Europe 1992 is a few years away. That is of less obvious concern. Otherwise, we would be hearing from everybody in the world about their problems.

I think the trade bureaucracy in the United States would generally ignore problems until they are overwhelming and cannot be avoided any longer. And that is, I think, no longer an acceptable situation for the United States and it certainly is not adequately representing the interests of workers in the trade process.

Senator SARBANES. What should be the machinery? If the new administration consulted with each of you and said, "We have seen the light on the road to Brussels, and we really want to face this challenge," what would you tell them they should do?

Mr. GOLDMAN. I would like to see one point of contact. It is not for me to tell the executive branch how to get its act together. But I would like to know, as you asked, where to go. I would like to know who takes the lead, to whom I speak. I would like to know how to participate in that process.

There is another dimension here that we ought to think about, and this is a problem on both sides of the Atlantic. It is a problem of dealing with small- and medium-sized companies. Big companies generally take care of themselves as far as information flow is concerned. As far as access to government, there is a real problem out there, I think, for smaller companies. I have spoken to some of them about getting information and how they tackle this animal. There is a similar problem in Europe. It is a problem that we both share. They are concerned about exactly the same problems on their side of the Atlantic.

But this is something that should be considered explicitly when we put our own machinery in order here. I certainly think that more coordination, a more centralized point for outsiders, is very important.

Senator SARBANES. Where is the centralized point?

Mr. CALINGAERT. In a sense, I see two things. And I know it is not the answer you are looking for. In terms of factual information about what is going on, following specifics, the Department of Commerce presumably is better placed and indeed has done a great deal in terms of the issues, at least as long as they are trade issues.

Senator SARBANES. Should there be a Deputy U.S. Trade Representative for Europe 1992 who chairs the task force and serves as the point person to whom the private sector relates?

Mr. CALINGAERT. I view the point person more as a point agency; in other words, a place where people go, and the level depending more on the nature of the issue, the importance, and so on.

In terms of a coordinating point, presumably U.S.T.R., indeed they have taken the chairmanship of this interagency task force, and I would think the level of one of the deputies of U.S.T.R. would be the place to do that.

I would also like to pick up on Charlie Goldman's point about the relationship with the business community, and I think it is terribly important to note that in many ways the business community can have better access to information. Certainly it is important to them, and to government as well, to know what the problems and concerns are.

On the business side, there are lots of groups as well. And there are ones that he has been involved in. The U.S. Chamber of Commerce has set up a task force which will be, I assume, quite representative of business views, and they should find some way either collectively or individually to consult with the U.S. Government.

Mr. BECKMAN. In the bureaucracy we currently have, U.S.T.R. does take the lead on most important trade issues, and presumably somebody at U.S.T.R., whether deputy U.S.T.R., and assistant U.S.T.R. should be responsible for the Government's efforts in this area.

And in the discussion thus far I have not heard anything, any mention, of the Labor Department representatives in the interagency task force. I frankly don't know if there is somebody from Labor regularly attending such meetings or not. I know there are people from the Labor Department who looked at the 1992 question.

The way things have worked in the past is that it becomes the responsibility of that agency representative to communicate with its constituent organizations or individuals in order to make sure that the information which is being discussed at the task force is disseminated to those with an interest in the issues.

Certainly, in this case we would expect the Labor Department representatives, when the information became available, to call a meeting of unions that have an interest in the Europe 1992 and to provide such information ahead of time so that a discussion of what appropriate recommendations we would have would be, and that that information could then be relayed back to the interagency committee.

That is the way serious trade issues are dealt with in the Government, and that should be put into effect for this issue.

Senator SARBANES. It is labor's assumption that the strength of the trade unions in the Community will be adequate to assure protection on such basic questions as wages, working conditions and health and social security protections, so that the Community agreement will not result in a significant downward pressure toward the lowest common denominator?

Mr. BECKMAN. I think that there will be some protections that are incorporated in the directives. Now, how high the standards are that are set there will depend on some serious bargaining, and there is certainly no reason to believe that for instance, the German standards are going to be incorporated in the directives.

And I presume that those countries with the best protections are going to be somewhat disappointed at the levels that are agreed upon.

But there will be some protections. There will be.

Senator SARBANES. What are the implications for workers in this country?

Mr. BECKMAN. I think, in large part, it will depend on the response of companies and the potential for Europeanwide bargaining of the responsive unions to the efforts of the companies to take advantage of the situation that presents itself.

Whether they are successful in protecting their own national standards will determine largely the effect on the United States. There are already many American companies who have increased their investment in Spain and Portugal in the lower wage, lower cost European countries in order to be positioned both to take advantage of the single European market and to export back to the United States.

That has already had an impact on American workers, and if the standards that are adopted in Europe are sufficiently low, it would add to the pressure that already exists. It would make the EC into another area of the globe where American companies can start pushing workers to take lesser protections than they would otherwise want to take, in order to obtain relatively scarce investments. There will be some of that in any case.

Senator SARBANES. Will it constitute a pressure for lowering standards in this country?

Mr. BECKMAN. Absolutely. There is very little way in which the single market exercise will enhance protections for American workers.

If there are standards set that will push up wages and conditions in Spain, Portugal, and Greece, then there could be some benefits. But the likelihood is that they would be over a long period of time and they would not be all that substantial. If that could be won, that would be beneficial for American workers. If very little is obtained in raising standards, then I think there is some potential downside risk.

Senator SARBANES. Mr. Goldman, the response of the business community to at least some of these directives, as I understand it, is now taking place on a coordinated basis; is that correct?

Mr. GOODMAN. More or less, yes.

Senator SARBANES. Is the significance or impact of those lessons weakened by the noninvolvement of our government in the process?

Mr. GOLDMAN. To this point, no, because I think there is the U.S. Mission to the European Community in Brussels through which we will coordinate, and if we see an issue, we would bring it to their attention.

But as I said, many of these directives are quite narrow and sectoral. There are overarching issues on which the Government is working. One of those involves the settling of standards which is called arcane but is the lifeblood of many companies. When the Community decentralized standard setting, it created a bit of a problem because American companies cannot be members of the new bodies that are setting the standards, and there we expect the U.S. Mission at Brussels to have a watching brief.

They are aware of the problem, the companies are in Europe following these issues, and we would attempt to enlist the Government's support.

So far, the answer to your question is there has not been a problem.

Senator SARBANES. Does anybody else have any observations?

Mr. CALINGAERT. Just one comment on the last point. The U.S. firms that have established subsidiaries in the Community can participate in the process as other European companies do. So, my understanding from the companies I have talked to is that most of those are reasonably pleased with their involvement in the process.

Mr. BECKMAN. The issue of sovereignty and influence peddling is one that comes to mind in discussing the role of the U.S. Government in the discussions. We certainly were not particularly impressed when foreign companies and foreign governments exercised considerable influence over the trade legislation that was passed this year, in the Congress last year and finally resolved this year.

I imagine there is quite a bit of sensitivity in Europe regarding the undue influence of American companies and the Government in trying to set the parameters for a distinctly European exercise.

The U.S. Government should, and American companies should, certainly present their interests in the directives that are being discussed. But it is a difficult relationship that has to be established, a sensitive one that has to be established in making our views clearly known, but not attempting to prescribe or dictate terms to sovereign governments that are trying to work out important economic issues.

On the other hand, when we make decisions here in the United States about international economic policy, about trade policy, those should be decisions made on the basis of their impact on the American economy and not the impact on foreign economies.

Senator SARBANES. Do any of you sense that since the Europeans have a clearly defined view of where they are going internally on the basis of this 1992 plan, they will effectively drive the GATT negotiations in the direction suitable to them rather than permitting the GATT negotiations to encompass them and everyone else in a broader view of how the world trade picture should be defined?

Mr. GOLDMAN. I don't think they really know where this process is going to wind up. The outlines of the single market are not at all clear. They have a lot of tough issues to deal with.

Mr. Beckman has alluded to a whole bunch of them that they have just barely come to grips with. That means it is a good time for us to be involved. It also means that the GATT negotiations can be a very positive force for Europe with respect to us and the Europeans in dealing with 1992, by moving them to a more open view of the trading system.

The GATT, in the services area, is going to anticipate the single market to some extent, and that is why I think that those negotiations are critical.

Mr. CALINGAERT. I would certainly agree with Charlie Goldman in terms of where the process is going, and there are many, many unanswered questions, some of them shorter term and some of them longer term, including ones raised by Mrs. Thatcher recently, with respect to the GATT negotiations on the services issue, and many of the issues more generally involving the internal market. On the other hand, that certainly has not been the case with agriculture.

My understanding is that the Community has made a good deal of progress recently in moving forward in the negotiations and that to a large extent their goals are similar to ours. So, I think there are grounds for a good deal of hope that the negotiating process will come out well in terms of U.S. interests.

Mr. BECKMAN. The European Community will not preclude any options on the 1992 exercise in the GATT Round. I guess I have a somewhat less optimistic view of what the Uruguay Round is likely to achieve, certainly an issue on where the Europeans have been relatively intransigent since the 1970's and the Tokyo Round. I don't see that they are going to make any concessions or agreements in the Uruguay Round that would prevent them from doing what they want in the 1992 context.

So, I would assume that in the areas where agreements are reached in the 1992 discussions, that they will be willing to make agreements in the Uruguay Round. Where agreement has not been reached, they will not make agreements in the Uruguay Round that will tie to GATT.

Mr. CALINGAERT. Perhaps the only thing that is clear about the interrelationship between 1992 and the Uruguay Round is that to the extent that the Community has to set priorities or decide on one versus the other, the 1992 exercise comes first.

Senator SARBANES. Gentlemen, you have been an extraordinarily helpful panel. I am very grateful to you for the effort that went into preparing and giving your testimony. Thank you very much.

The committee stands adjourned.

[Whereupon, at 12 noon, the committee adjourned, subject to the call of the Chair.]

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