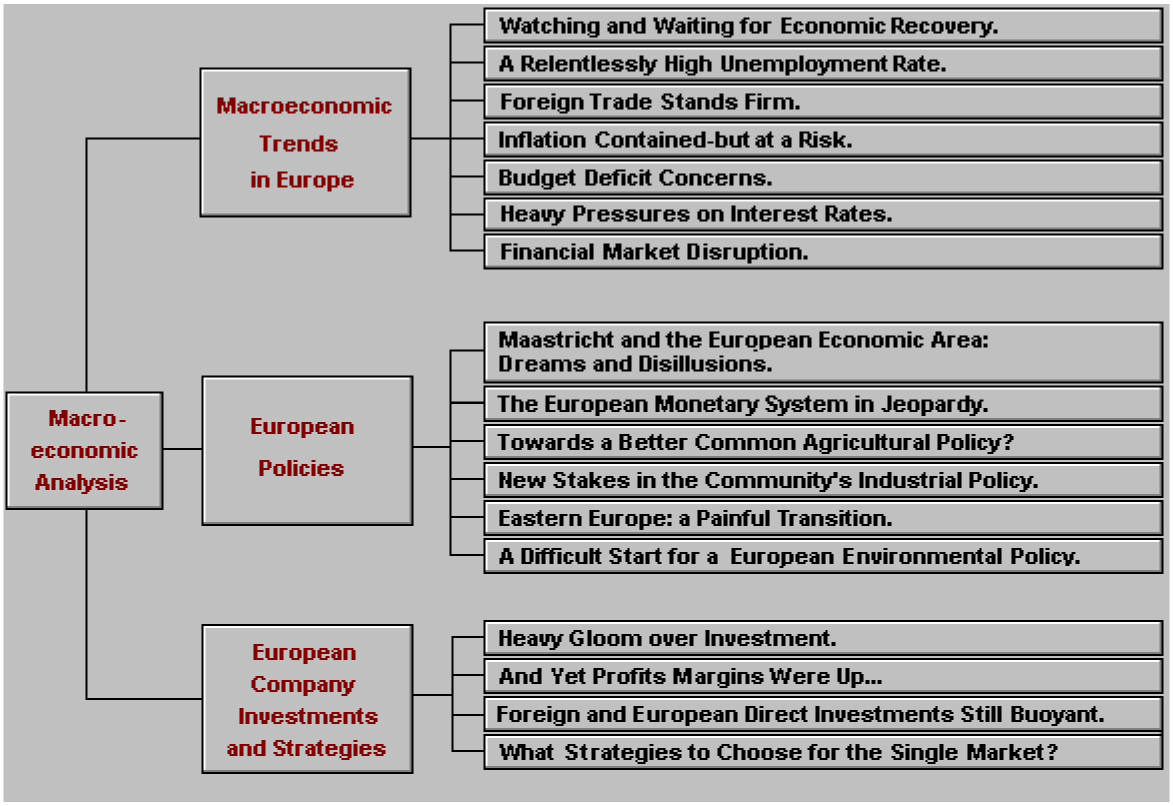
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Macroeconomic Analysis

The year 1992 saw weak economic activity in Europe. Economic growth edged up a mere 1.1% while company investments and consumer purchasing both dwindled. Unemployment continued its ascent to over 10% of the working population. The ebbing of Germany as the driving force behind economic growth intensified the economic slowdown. 1993 will still feel the brunt of this recession and some European countries such as Germany and France are going to have to face negative growth rates for the year. The only sign that would seem to point to an economic upturn in 1994 in Europe is the slow recovery in the United States through 1993 and, to a lesser extent, the improving situation in the United Kingdom.

In the 1992-1993 European context, the economic situation in Germany exerted an overriding influence on the activities of the other European countries. The economic boom born of the 1990-91 reunification gave way to an accelerated decline. Two years of unification have brought wage adjustments, low work productivity and a one-to-one parity with the East German mark, which in turn have given rise to an upsurge in unemployment coupled with a risk of runaway inflation. The tight economic policies implemented to limit this risk have had European-wide repercussions.

The major macroeconomic trends will first be analysed and set in the context of the changing monetary and budgetary policies of European countries. Then the 1992 policies of the European Community will be examined and tied in with the situation in the EFTA countries and Eastern Europe. Macroeconomic trends and national policies will throw light on the behaviours and strategies of European firms as they struggle against weak economic activity and a troubled Europe.

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1. Macroeconomic Trends in Europe.

2. European Policies.

3. European Company Investments and Strategies.

1. Watching and Waiting for Economic Recovery.

In the wake of virtual stagnation in 1991, the developed countries were expecting an economic recovery in 1992. This recovery did not become a reality.In 1992 developed countries only managed a 1.8% economic growth, with 1% for Western Europe. This meagre growth as compared, for example, with the 4.4% level enjoyed in 1988 did not enable any macroeconomic disequilibria to be reduced, particularly as regards unemployment. Between 1993 and 1994, the slow rallying of the American economy should perhaps qualify it to act as a locomotive on the international scene. In 1993 the anticipated pace of growth in production should only reach 1% in the developed countries and -0.3% in Western Europe. An economic recovery is hoped for in Europe in 1994.

Consumers are reducing their consumption and building up their savings in order to pay off the heavy debts they contracted during the eighties, as well as to contend with large-scale unemployment and high interest rates. Businesses are likewise having to curb their investments. Growth rates for investments are consequently negative, around an aggregate -2% throughout Europe in 1992. Not until 1994 will there be any hope of seeing Europe return to growth rates in excess of 2% for private consumption and 3% for investments.

GDP and GDP per inhabitant in Western Europe 1992.

Growth of the GDP in Western Europe 1991-1994.

2. A Relentlessly High Unemployment Rate.

Due to the sluggish state of economic activity, no solution has been found to the continual rise in unemployment. In 1993 over 20 million people were out of work in Western Europe, accounting for over 10% of the economically-active population. Some European countries, such as Denmark, Italy and the United Kingdom, are likely to cross the bar of 11% before the expected improvement in the economy in 1994 can bring with it any hint of a lessening in unemployment. There will still be major disparities between the unemployment levels in the European countries in 1993/94: Spain may well exceed a level of 20% in 1993 whereas in Norway, Sweden, and the Netherlands, less than 7% of the total work force will be jobless. Germany, which has so far been relatively immune, is likely to see its unemployment rate rise from 5% in 1990 to over 8% in 1994 as it is hit by the economic slowdown and the effects of reunification.

The lack of any abatement in aggregate short-term unemployment will cause an increase in long-term unemployment (12 months or more) which already accounted for half the total number of jobless back in the early nineties. Long-term unemployment is likely to pose major problems in Nordic countries such as Finland, Sweden and Norway, which have so far side-stepped the problem. There is also a change in the types of jobs now being shed compared to previous business cycles. The cuts affect a greater number of segments and have even made inroads into the once resistant service sector. Whats more, the restructuring made necessary by the advent of the single market in 1993 prefigures further job cutbacks.

In the countries of the European Community, growth in employment, which had remained at a virtual standstill in 1991, was negative in 1992 for the first time since the early eighties. The labour market slump is worsening and there will be a 0.5% yearly average decline in the employment rate until 1994. After having affected 9.5% of the working population, unemployment is liable to rise to around 11% in 1994, when the expected recovery in Europe should just manage to prevent any further redundancies without enabling the job situation to pick up to any degree.

Unemployment Rates in Western Europe 1992-1994.

3. Foreign Trade Stands Firm.

In this gloomy context, international trade held up well and even grew by over 4.5% in 1992. A growth rate of around 6% is expected for 1993-94. Western Europes exports rose in value terms at the same rate as world exports (+5.5% in 1992) whereas its growth of imports was far less than import growth on a global level. Germany in particular scaled down its increase in imports from 13% in 1991 to 2% in 1992 which, together with the curbs on imports in Sweden, Switzerland and Finland, helped to put a strong brake on imports into Western Europe.

The decline in European demand should continue to slow down imports. European exports, however, should benefit slightly from the upturn on a few foreign markets, notably the American market. Unfortunately, only a meagre 7% of American imports come from Europe, and Japan is sure to benefit more significantly from any upturn. Throughout the European Community, the foreign balance will remain relatively static throughout 1993/94. The deterioration in Germanys trade balance should ease but its adverse exchange of services is liable to pull down the current balance of payments to a negative level for the third year running, with a deficit of around 20.4 billion ECU. In Greece, Portugal and the United Kingdom, trade deficits should continue to worsen in 1993/94.

With the advent, on 1 January 1993, of the single market for goods and services in the European Community, the time is coming when intra-community trade will no longer be itemized in the world trade system. There will then be major changes in the way foreign trade statistics are assessed. The EC, with 20% of the worlds exports, will become the leading exporter and importer of goods, ahead of the United States and Japan. Likewise, if one considers the three countries of Chinese origin - Hong-Kong, the Peoples Republic of China, and Taiwan ROC - as a single block, then this group would rank fourth for global exports and third for imports, with growth rates surpassing twice those of Western countries. This zone, like the whole of South East Asia, represents both a challenge and an opportunity for European countries foreign trade. A challenge, because imports from Asia will keep on increasing during 1993-94. An opportunity, because this is the only area in the world to attain healthy economic growth rates (+6% in 1992), which means that it can sustain a strong increase in imports (+8% in 1992) and exports (+7% in 1992). The challenge has already arrived but many opportunities are still waiting to be seized.

Balance of Trade of Western European Countries 1991-1994.

Western Europe's Leading Exporters and Importers 1992 :

Exports.

Country's share of total exports (%).

Imports.

Country's share of total imports (%).

4. Inflation Contained - but at a Risk.

Inflation continued to decelerate over the 1991-1993 period, reaching the lowest overall levels recorded since the early sixties. In 1992, the average inflation rate throughout the European Community was 4.4% compared with 7.7% during the eighties and over 10% during the seventies. This disinflation has its roots in the recent weak economic activity which has brought on wage moderations and dwindling margins for manufacturers and traders. The low prices of imported raw materials, including oil, have also helped to bring down inflation rates. International competition, particularly from Eastern Europe and Asia, has exerted heavy pressures on sales prices in many European sectors. Producer prices in the manufacturing industries are consequently surprisingly low. Their growth rates, which were 2.2% and 1.4% in 1991 and 1992, respectively, are far lower than the already modest growth rates recorded for consumer prices.

In 1992 however, Germany came up against mounting inflationary pressures and registered 4.5% inflation whereas in the eighties its inflation rate, traditionally low, had been less than 3%. Wage increases in Eastern Germany brought about a surge in consumer demand without any corresponding increase in the offer of goods. Prices were thus subjected to upward pressures which the German economic authorities tried to control through 1991 and 1992 by means of tight economic policies. For 1993, taking into account the impact of the January increase in VAT, inflation should attain 4.4% in reunified Germany.

The anticipated inflation rates for 1993 and 1994 are still lower than the 1991-1992 levels. This disinflation stems from the economic situations effects on employment and from the persistent slackness in demand. The end of 1994 should see an inflation rate of 3.6% in Western Europe, the lowest level since 1960. There is still, however, a risk that prices will become overheated should any governmental pump-priming measures be taken too soon or should any social pressures due to worstening unemployment arise. And although inflation is on a downward trend in the European Community, major price rises may occur on imports due to the depreciation of certain European currencies and the recovery of the dollar. Throughout the European Community, import prices of goods and services will rise from -0.4% in 1992 to close on 5% in 1993. This rise is particularly marked in those European countries whose currencies depreciated in 1992, such as the United Kingdom, Italy and Spain.

Evolution of Inflation Rates in Western Europe 1991-1994.

Inflation Rates in Western Europe 1991-1994.

5. Budget Deficit Concerns.

The period from 1990 to 1993 in the Western countries was characterised by large, ever-increasing budget deficits. The downswing in economic activity in 1991 caused a deterioration in budget balances. In Germany, federal expenditure had to be considerably increased to meet the costs of unification. This caused a deterioration in the budget deficit in excess of 3.2% of the GDP in 1991 and 1992. In the United Kingdom, the recession caused a steep increase in the 1991 and 1992 deficits and despite hopes of an upturn in 1993, the deficit is likely to get worse over the same period. In Italy the deficit, which was to have been limited to 8.4% in 1992, topped 11% of the GDP. The situation was no better in the Scandinavian countries. Finland, Norway and Sweden all have trouble-ridden national finances and their national deficits deepened severely in 1991 and 1992. In addition, public sector debt also shot up. In the developed countries, it rose from an average 22% of the GDP in 1979 to 43.6% in 1992. It was particularly heavy in certain European countries such as Belgium, Italy, Greece, and Ireland. Budget deficits gave rise to serious public debt problems and increased interest payments. The public sectors debt burden in the developed countries rose from an average 23% of the GDP in 1979 to 43.5% in 1992. Between 1989 and 1992, budget balances throughout Western Europe suffered badly.

The capacity or borrowing requirement of the public services is a good indicator of a countrys financial situation. In Europe, the net borrowing requirement increased by about 3 points of the GDP from 1989 to 1992. This increase was partly due to the slowdown in the economic situation which not only brought about a decline in fiscal revenue but also a structural shift of the deficit - for example, the dramatic rise in transfer payments (health, retirement, unemployment) - notably in Germany, the United Kingdom and the Scandinavian countries.

Owing to these bad deficits, budget restriction programmes are going to be adopted in many European countries. Thus at the end of 1992, in spite of sluggish economic activity, Belgium, the Netherlands, Italy and Spain prepared budget consolidation packages for implementation right at the beginning of 1993 and extending as far as 1996. The planned austerity measures represent 6% of the GDP for Italy, 2% for Belgium and 0.7% for the Netherlands. If the situation does not improve in 1993, such measures may prove difficult to put into practice. National governments are trying to reduce public spending by first rebalancing the social welfare accounts (health, retirement, unemployment) by adopting structural measures. For example, the Italian government wants to freeze pensions for 19 months, after which they will be indexed only to the inflation rate without any other increases. It is also raising the retirement age by another five years. Sickness benefits will be reduced in all these countries. Defence budgets, housing and transport subsidies will also be cut. Lastly, the progression in operating expenditures will be limited by freezing wages (Italy) or by putting a cap on the number of jobs in the public sector (Spain).

Any hopes of increases in income are thwarted by already high levels of compulsory contributions so that no more than a few small rises in direct and indirect taxes can be envisaged. However, most Western European countries are adopting medium-term privatisation plans. In 1993, Italy will be selling off part of its public sector for a value of 16 billion ECU. Belgium is adopting a four-year privatisation plan amounting to 1.2 billion ECU; and Spain and France are planning to raise over one billion and 5.8 billion ECU, respectively, from privatisations.

Budget Deficits in Western European Countries 1991-1994.

Net Debt Load of Western European Governments 1989-1994.

6. Heavy Pressures on Interest Rates.

The high level of interest rates in Europe was primarily due to the quantitative changes in Germanys budgetary and monetary policies called for in the wake of unification in 1990. Budgetary expansion began by contributing towards growth in Germany and throughout Europe. But the level of Germanys current balance of payments deteriorated by an amount corresponding to 6% of the GDP in 1990 and 1991, thereby bringing on an increase in imports from the European Community. As there was growing concern over inflationary pressures in Germany, the Bundesbank tightened its monetary policy thus causing a rise in interest rates both in Germany and in other European countries just at a time when the stimulating effect on domestic demand exerted by exports to Germany was beginning to wear off. The high interest rate levels then began to weigh increasingly heavily on activity throughout Europe.

The United States, on the other hand, brought down short-term interest rates in order to facilitate reflation of its economy by making credit cheaper. At the end of the first eight months of 1992, the disparities in short-term interest rates between each side of the Atlantic had reached historic levels. The American discount rate came down to 3% whilst the Bundesbanks discount rate rose to 8.75%. In August, the gap between the German and American three-monthly rates reached a 6.6 point high. Speculative movements on currencies were triggered off as a result of the gaps in short-term real rates (nominal rates less inflation rates) between America (negative) and Japan (close to 2%), and rates in Europe (around 4% in Germany and even higher elsewhere). During 1993, the decline of inflationary pressures in Germany coupled with prospects of restrained wage negotiations will gradually bring major cuts in interest rates throughout Europe.

Long- and Short-term Interest Rates in Western Europe 1991-1994.

7. Financial Market Disruption.

In the eighties, liberalisation and deregulation of the financial markets allowed for greater diversification of the financial services offered to households and businesses as well as increased efficiency in the financial sector. During the eighties, keener competition among financial institutions in the field of loan transactions together with sustained growth doubtless contributed to the heavy debts contracted by businesses and households. This led to a rapid rise in the price of assets (particularly property) fuelled by speculative tendencies and a massive debt and repayment burden. The increase in borrowed funds helped push up prices of movable and property assets and this build-up of assets seemed to increase the debt capacity of households and businesses, thus imprisoning the market in a speculative spiral. In the United Kingdom, for example, the household debt/GDP ratio and interest payments/disposable income ratio doubled over the 1980-90 period. Businesses also increased their debts in proportion to the GDP.

In the late eighties, shrinking corporate margins and the rise in interest rates aggravated the debt burden. When economic activity began to decline, it turned out that bullish anticipation on the prices of assets had been unrealistic. 1990-91 thus saw a slowdown in the rise of assets and real estate prices dropped, notably in the major cities of the United Kingdom, France, Scandinavia, but also in Japan and the United States. The fall in prices of assets and the financial headaches of borrowers did their share in placing the financial and banking sector in difficulty. Crumbling prices coupled with dwindling incomes made debt levels unbearable. In 1991, there was an severe curb put on consumer and capital expenditures by households and businesses in order to repay debts and build up savings. This behaviour in turn fuelled the decline in activity and contributed to the particularly sluggish situation suffered by European countries in 1992-93.

Share Price Indexes for Western European Countries 1990-1992.

1. Maastricht and the European Economic Area: Dreams and Disillusions.

1992/93 was to have been a time of new economic and political impetus for the countries of the European Community. 1 January 1993 saw the advent of the Single European Market and the European Economic Area (EEA) among EC and those EFTA countries which had signed the agreement of 11 May 1992. In February 1992, the Communitys national governments signed the Maastricht treaty which established Economic and Monetary Union. Then, in April 1993, negotiations officially began for Norway to join the EC. The aim of the twelve EC countries is to carry out these negotiations in parallel with those of the other applicant countries - Austria, Sweden and Finland - to enable them to become members early in 1995.

In spite of these favourable developments, it will not be an easy matter to achieve European integration in the coming years. Indeed, as 1993 dawned, the principle of free movement of persons was still not fully effective in the twelve EC countries. The Maastricht treaty, rejected by the Danes the first time round, then accepted on 17 May with some reservations, took some time to pass through the British Parliament and no longer has the full-hearted approval of the people of other countries. Switzerland has renounced submitting its membership application to the EEA. Finally, the outcome of the membership procedings for Austria and the Scandinavian countries is not sure to be decided in 1995. A lot of questions remain to be answered: For example, the four applicant countries - Austria, Norway, Sweden, and Finland - have highly subsidized agricultural systems, incompatible with the Common Agricultural Policy. Some countries will have to open their territorial waters to Community fishing, others will have to eliminate government subsidies, etc. To make matters worse, tensions have arisen even around pre-existing Community policies. The 1992 European Monetary System crisis, the new agricultural policy, and the thorny GATT talks between the EC and the US are just some cases of conflicts among the European partners.

Maastricht Treaty Convergence Criteria.

2. The European Monetary System in Jeopardy.

For the five years between 1987 and 1992, the European Monetary System (EMS) went through a phase of stable parities. But then came a severe EMS crisis in July 1992. The triggering factors included: the impact of German reunification, the obstacles standing in the way of ratification of the Maastricht treaty (including the Danish No on 2 June 1992), the inflation rate differentials coupled with productivity gaps that had widened over the five years of exchange stability and lastly, the differences between the monetary policies of Germany and the United States. The German government opted for swift, costly unification (parity of the two deutsch marks and a jump in wages in the East), which caused a major increase in both the money supply and demand. High inflationary pressures and a deteriorating budget deficit ensued, obliging the Bundesbank to apply a tight monetary policy. This policy led to high interest rates just at a time when the United States expansionary monetary policy was working towards reducing the interest rates on the other side of the Atlantic. This interest rate disparity with the United States gave rise to large movements of short-term international capital which was drawn towards investment in the German currency rather than the American dollar. In the third quarter of 1992, the dollar slipped to an all-time low of 1.39 DM which it reached on 2 September. There was a strengthening of the deutsch mark, not only against the dollar but also against the other EMS currencies and it attained its ceiling rate in relation to many European currencies.

The investments of floating capital in the German mark heightened tensions within the EMS and triggered a full-blown EMS crisis between September 1992 and January 1993. This crisis reflects a certain degree of incompatibility between the principles of floating capital, of virtually fixed exchange rates between European currencies, and of the practice of as-yet independent monetary policies which generate uneven effects in the partner countries. Financial globalisation and liberalisation happened far more quickly than the convergence processes of key factors of EC economies such as inflation, public finance, etc.

In this shaky environment, between September 1992 and January 1993 the mark rose against the European currencies (over 7% against the Community currencies composite index), which confirmed the different competitive strengths that had built up since the previous realignment in 1987. Early in 1993, this upward movement of the mark compared with the European currencies seemed to have reached a point of equilibrium, which may be a sign that it will remain steady until the end of the year and will position itself against the ECU at around 1.95.

The EMS Crisis from June 1992 to May 1993.

The Monetary Deadlines of Maastricht.

ECU Exchange Rates 1990-1992.

Convergence Indicators of the EC Countries as Set out by the Maastricht Treaty 1991-1992.

3. Towards a Better Common Agricultural Policy?

The accord of 21 May 1992, together with the decisions of the Council of Ministers of 30 June, produced a New Common Agricultural Policy. The old Common Agricultural Policy (CAP) seemed to have brought Europe into deadlock. The producer price support system was extremely expensive and created excess capacity over demand. Lastly, to offset the high prices on the European market, the EC set up at its borders a deduction and restitution system which was not only cumbersome but smacked highly of protectionism to the outside world.

The major curb on support prices is a key factor in the new system. The new CAP no longer aims to support prices at the previous high levels. It has brought them down to a far lower level corresponding to a 35% drop on cereals and a 15% drop on beef. These support price reductions should bring European prices closer to the real market levels and at the same time make European production more competitive. However, this cutback will cause a big decrease in production volumes, which is liable to reduce farmers incomes. To offset the effects of price cutbacks, the reform aims to generalise direct aid to farmers, deficiency payments, and fallow land compensation.

Quantitative and conditionality controls have been implemented so that direct aid will not again lead to overproduction. Conditionality means that producers will only be entitled to hectare-based aids if they allow some of their land to lie fallow in a proportion to be determined each year by the Community. Producers of less than 920 hundredweight of grain will be exempt.

Incentives to extensive crop-growing techniques have also been introduced. The measures in the new CAP aim to curtail intensive crop and cattle raising and encourage extensive farming with a view to levelling off overall production and controlling excessive concentration of production in privileged areas. This in turn will preserve satisfactory nationwide distribution of farm production; and, as a result, hectare-based aid for crop-growers will be calculated according to average regional yields.

All these changes will modify border measures: the severe price cuts should bring European farm product prices more into line with international prices and substantially ease the burden of export aids (restitutions). Part of the domestic market may also be regained, including animal fodder which, in recent years, has mainly been supplied in the form of grain substitutes from the United States. Guaranteed prices live on however, but not at the same high levels. This means that there is still community preference and import prices will continue to be taxed according to the difference between their entry price and the price of the corresponding European products.

The New CAP and GATT Agricultural Talks.

4. New Stakes in the Community's Industrial Policy.

In the EC countries, the most notable recent development has consisted in the changes made to the Treaty of the European Community decided by the Council of Ministers in December 1991 in Maastricht. Not until recently have industrial policies been drafted and implemented at European Community level, due certainly to worries about the performance of European firms in areas such as the textile, shipbuilding, and automobile industries, or in the high-tech sectors of electronics and the bio-industries. From now on, one of the articles of the Maastricht treaty in the section on EPU (Economic and Political Union) clearly places industrial competitiveness among the objectives of the Treaty. For the first time a specific legal basis is provided by this article for Member States to coordinate measures towards a number of industry-related targets within an open competitive market. The targets are: a sharper response by industry to structural changes, incentives to company development, inter-company cooperation and enhanced use of industrial potential for innovation and R & D.

It is quite a new idea for the European Community to have an industrial policy. But the approach adopted by the Commission is one geared to a market-driven economy rather than a protectionist and subsidy-based system. "The primary objective of industrial policy in the Commissions way of thinking is to make free competition possible" According to the Commission, industrial policy must aim to enhance the competitiveness of European industry, but this requires more than just money for subsidies or other interventions. "An industrial policy must avoid [interventionism] but rather militate in favour of competition, which is the foremost prerequisite for competitiveness." (Address given by Mr. M. Bangemann, Vice-President of the Commission, Bonn, January 1992).

5. Eastern Europe: a Painful Transition.

In 1992 all the Eastern European countries were still in the throes of a slump. The ex-USSR republics were badly hit by the accelerating decline in their production, which fell by 20% against a 17% decline in 1991, and by a high inflation rate of over 2,000% against 90% for the previous year. In the other Central and Eastern European countries, the slowdown in production decreased to a 9% level between 1991 and 1992. The implementation of structural reforms brought about an increase in unemployment which has come to affect over 12% of the economically-active population. Under such circumstances, the question of the industrialised countries aid towards the transition of these States is becoming more and more crucial. Without sustained, unfaltering assistance, the ability of the Eastern and CIS countries to make a smooth transition will be seriously compromised. It is widely recognized that for countries such as Poland, Hungary, and ex-Czechoslovakia, what is now most needed is for the aid to be coordinated and finalised. The G7 instructed the European Community Commission to act as coordinator but up until now its role has merely consisted in collecting and circulating information.

The transition in Eastern Europe has brought about a decline in regional trade between the former COMECON countries and has compelled producers in the East to target the Western European markets. For many of them, Western Europe now accounts for 50% of their outlets against 20% to 30% in 1989. The "European accords" between the EC and Poland, Hungary, and ex-Czechoslovakia form the beginnings of a response to the Eastern European countries call for economic cooperation with the European Community. They guarantee "national treatment" (which means the same treatment as that for European firms) for Eastern European contractors. In terms of trade, the ultimate aim of these accords is to make possible the free movement of goods, labour and services between both Europes - and thus to smooth the way for would-be members to join the EC by the year 2000.

The most radical part of the agreements has to do with industry. A coherent timetable has been drawn up by which the EC countries will curb their quantitative restrictions on the trade of manufactured products from the East, except for textiles which will go through a ten-year run-in period. For steel, quantitative controls of exports from Hungary, the Czech and Slovak Republics, and Poland will be abandoned. But completely free access will not be guaranteed, and anti-dumping clauses may still be invoked by EC producers. The agricultural agreements are deliberately vague, with quantitative restrictions only being lifted on a few products; and the same goes for customs tariffs. In total, the countries of the Community have kept up protection against a third to a half of the products imported from Eastern Europe. The same types of trade agreements have been drawn up between Eastern Europe and the EFTA countries.

Macroeconomic Indicators for Eastern Europe 1991-1992.

6. A Difficult Start for a European Environmental Policy.

The scope of the EC on environmental matters was extended at the Maastricht summit when the treaty of European Union was signed at the end of 1991. The treaty obliges the contracting partners to encourage "sustainable, non-inflationary,environmentally-safe growth" (art. 2). Among the tasks given to the Community is included the necessity to implement "a policy concerning the environment". Nevertheless, it is the volition of the Member States that will remain the decisive factor in solving future disputes. In 1991, a European parliamentary report indicated that in 45% of all cases, the Member States did not comply with European decisions or implemented them too late. It has thus become one of the priorities of future European policy to ensure that Community texts are properly applied. At the end of 1990, only 70% of European laws were incorporated into member countries own legal orders.

In 1991, the EC produced 50 million tonnes of packaging waste. At the end of 1992, the recycling rate of such waste in the EC was only 18% per annum. In Germany, the decree of 12 June 1991, called the Töpfer law, compelled manufacturers and distributors to organise recovery and recycling of all packaging waste. Since 1 January 1993, all primary packaging must be recycled. There is a gradual tendency for all the European countries to take steps to recycle packaging and waste, but in a haphazard fashion. Denmark has decided to prohibit tins for beverages and is contemplating the same measure for plastic containers. In Switzerland, drinks have to be packaged in one-way glass, aluminium, or tin containers and if these generate waste in excess of certain quotas they are taxed. Italy imposes recycling of 50% of all glass and plastic beverage containers for 1993. The French government has adopted a law obliging industry to take back used packaging from the beginning of 1993 onwards, in order to recycle it or incinerate it for energy recovery. In 1994, Austria will enforce recovery (for reuse or recycling) of 90% of beverage tins.

For a time therefore, Europe will still be in a muddle owing to the various national laws, each made in splendid isolation. Such complexity can often discriminate against the importer more so than against the local manufacturer, and this despite the fact that any measures applied by individual States are not supposed to impede the free movement of goods and free competition within the Common Market. In the course of 1993, a directive on the subject should be submitted to the EC Commission and then the Council of Ministers. The Commissions ambitious aims for packaging recovery are 90% packaging reuse including at least 60% recycling. The Member States would have five years to set up collection systems and ten years to attain these objectives. This text would also prevent some EC States such as Germany and Denmark from imposing in their domestic markets any overstrict standards or other measures liable to impede the free movement of goods.

1. Heavy Gloom over Investment.

In 1992, confidence of European business managers and consumers plummeted due to uncertainty about future political and monetary developments in the European Com munity. It was thus investments that suffered most from the weak economic situation of 1992-1993. In the EC, they dropped by 0.3% in 1992 and are likely to fall by 0.1% in 1993 under the combined effects of dwindling domestic demand, shrinking foreign orders, the fallback in capacity utilisation, and monetary stringency. An upturn in investment is expected however for 1994, with a growth rate of about 2 to 3%.

During the economic slowdown of 1991-1992 which dragged on into 1993, private consumption was particularly slack. In Western Europe it only progressed by a volume of 1.1% in 1992. The bleak outlook could not tempt companies into investing for they expected sales to be very poor. Their capacity utilisation was also on a downward trend, falling from 77% to 67% between 1990 and 1992 in the four major European countries, Germany, France, Italy, and the United Kingdom. It looks as though the slump in investments reached its lowest level in 1992. The slowdown continues in 1993 but at a more subdued pace. The retrenchments in company investments and in the housing industry are major elements of the 1991-1993 recession. A return to positive growth rates of private investment in Western Europe should come about after 1993.

Lastly, new just-in-time inventory control methods and escalating storage costs have not encouraged firms to build up their stocks during the wait for recovery. The habit of not restocking has tended to worsen the fall-off in activity rather than to ease the recession as it had done the case during other business cycles. For all of Western Europe, the outlook on stock building is zero until after 1994.

Growth in the Volume of Business Investment in Western Europe 1991-1994.

2. And Yet Profit Margins Were Up...

A fairly big wage restraint is expected in many countries. Average profit rates should therefore border on the record levels reached in the late eighties. Among the major countries, progress will be most visible in the United States, France, and the United Kingdom. Over the longer term, the average earned income ratio should revert to the levels of the late sixties and early seventies. Gaps between real wages and productivity levels, which widened during the seventies and were often accused of being a major cause of the increase in European unemployment, will be considerably resorbed.

In spite of the improvement in all these indicators between 1991 and 1992, business decision makers are adopting a wait-and-see attitude on hiring owing to the attendant fixed costs and the risk of redundancy payments, as well as to the uncertain outlook that has continued to compromise growth in consumer demand in 1992-1993. Business managers look upon slack demand conditions, far more than interest rates, as the chief obstacle to investment. At the end of 1992, the industrial climate continued to deteriorate in most EC countries, and particularly in Germany and Spain.

Companies have been taking a very gloomy view of their order books, whether on the domestic or foreign markets, and still consider them to be far too meagre. Prospective demand is reckoned to be weakening and, at the end of 1992, order books had reached rock-bottom levels. Rates of capacity utilisation have been falling since the early nineties in most countries of the European Community and the number of manufacturers who consider their production capacities to be more than adequate is becoming larger and larger.

Employment and Worker's Wages in Western Europe 1992.

Return on Capital Rates for Businesses in Western Europe 1991-1994.

3. Foreign and European Direct Investments Still Buoyant.

Foreign direct investment throughout the world saw even higher growth rates than those of the eighties. In 1989, this was mainly directed towards the EC, which thus overtook the United States as the priority destination. Around half of American foreign investments and a quarter of Japanese investments were channelled into the EC. The reasons behind this mounting attraction of European countries for foreign investors are: the potential offered by the single European market, German reunification, and the opening up of the Central and Eastern European countries. Thus in 1991, Europe received 70% of American foreign investment. The main destinations were the United Kingdom, Germany and the Netherlands. Many American firms developed their operations in Eastern Germany, both to meet local demand and to gain an export stepping-stone to Central and Eastern Europe.

The inroads made by foreign direct investment increased very fast in the European countries, particularly Portugal, Spain, Ireland and Sweden. The relative extent of foreign ownership progressed still further in major European countries such as Italy, Germany and the United Kingdom. The share of foreign companies in domestic production is largest in the areas of the computer, electronics and chemical industries. However there are differences between the recipient countries. In the United Kingdom, for example, foreign firms are largely involved in the automobile sector.

Over 80% of foreign direct investment transits between the developed countries. In 1991, the EC accounted for about half of outgoing direct investments among the OECD countries. A major part (50% to 60%) of direct investment in the European zone, and more particularly the EC, is made up of intra-European flows. The only exception is the United Kingdom which is more open than its partners to American and Japanese investments whilst forming the principal source of foreign investment in the United States. By contrast the EC accounts for only a quarter of the United Kingdoms outgoing and incoming foreign direct investments.

The need in Central and Eastern Europe for foreign direct investment is great and for reasons as diverse as the financing of production reorganisation, the transfer of technology and know-how, the participation in privatisation programmes, etc. But the inflow of investments still remains limited. In 1991, aggregate foreign direct investment in those countries amounted to 2.2 billion ECU, 1.4 billion of which was in Hungary alone. There were over 23,000 joint venture projects in 1991 as against only 6,800 in December 1989. But many projects have never seen the light of day or have only been a means used by Western firms to keep an eye on developments (sleeping partners). Overall, nearly 60% of foreign investors are from Western Europe and chiefly from Germany.

Export Prices of Manufactured Goods in Western Europe 1991-1994.

4. What Strategies to Choose for the Single Market?

This analysis of concentration activities, minority shareholding, and cooperation agreements is based on operations involving the top 1,000 industrial firms in the Community (ranked according to their turnover), the top 500 industrial firms in the world and leading firms in the service and distribution sectors. Although the overall level of European inter-company industrial concentrations went down between 1990 and 1991 (following the sharp increase recorded between1987 and 1990), it is still very high. One of the main reasons behind this upsurge in company alliances of recent years has been the prospect of the single market in 1993.

In 1991 majority shareholding operations, including mergers, continued to be the predominant pattern in Europe. Cross-border operations between community and extra-community businesses are now far more common than domestic operations. And the larger the companies, the more likely they are to join forces on a global level. These results are in strong contrast with those recorded a few years ago when the number of strictly domestic alliances outstripped that of international ventures.

In 1991, the sectors most involved in concentration activities were the chemical industry followed by the food and beverage industry. These two major sectors accounted for nearly 40% of all concentration movements over that period, which were also common in the electrical engineering (including data processing) and construction industries. Concentration activity was most prevalent in France and Germany where it accounts for half of the EC total. French, German and British firms were the most active purchasers, accounting for 60% of all EC concentration operations. Among non-European companies, the most active were American companies with a 40% global share. Foreign firms were primarily interested in the chemicals, furniture wood, paper and printing sectors, as well as in the food and beverage industry. The main reasons given for wanting to concentrate are to consolidate market positions, to expand trading activities and to benefit from resulting synergism.

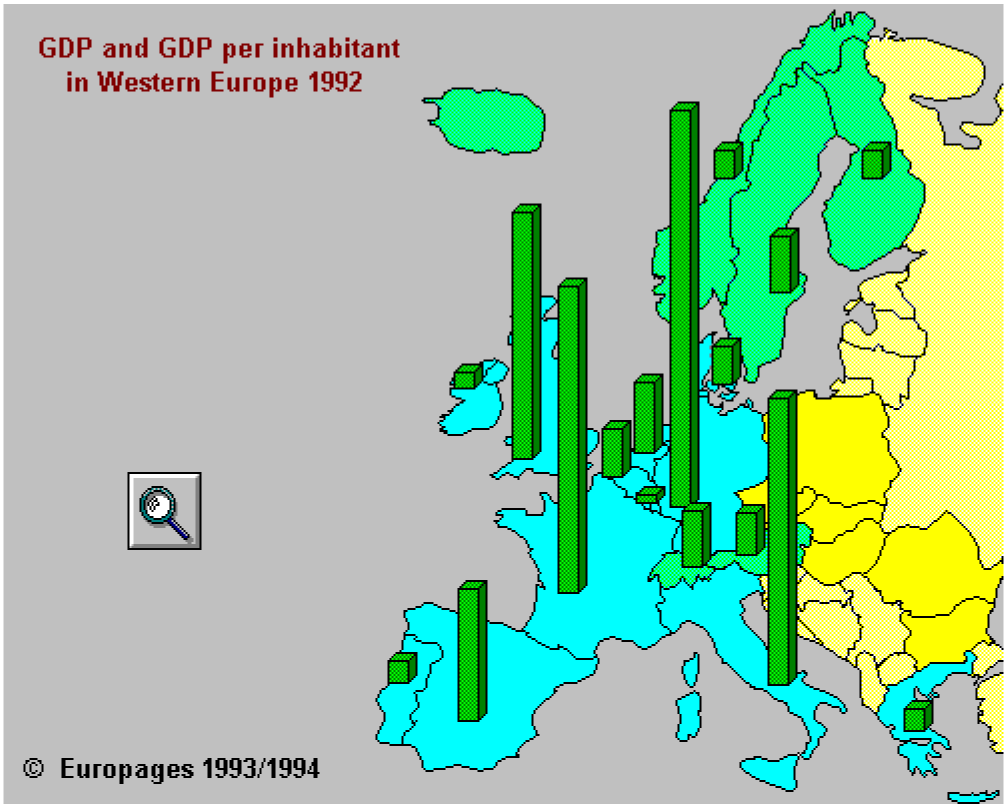
Joint ventures, though temporarily on the wane in 1991, are also a very good way for firms to attain a European or global dimension. They are also one of the forms taken by the numerous strategic alliances that are increasingly being forged by companies, often without setting up joint subsidiaries but simply by swapping information, patents, know-how, engineers, etc. Cross-border operations account for nearly three quarters of recorded joint ventures. Among the motivations invoked by businesses, the most important are: consolidation of the market position, cooperation, and the promise of synergism. Firms are making cooperation agreements in R&D, production, or product marketing with a view to achieving economies of scale, of scope, of integration and/or to attain critical levels and masses in Research and Development. Certainly, for European companies, the answer to global challenges resides in these new forms of cooperation between firms.

Evolution of Business Mergers, Acquisitions, and Concentrations in Western Europe 1988-1991.

Joint Business Formations in the Western European Industrial Sector 1988-1991.

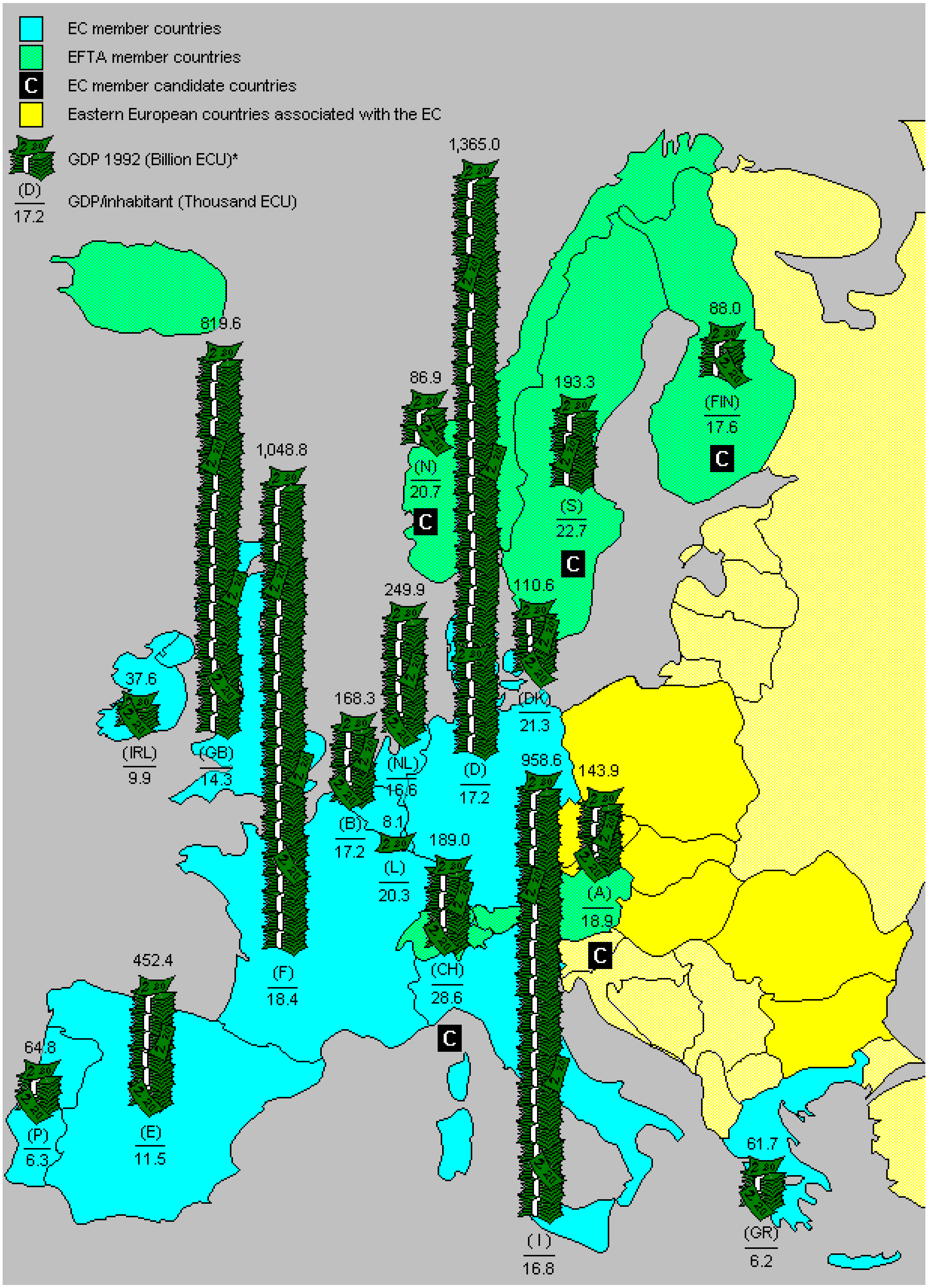
Europe's Top Business Groups by Turnover 1992.

Community Instruments for Company Information and Cooperation.



GDP and GDP per inhabitant
in Western Europe 1992
© Europages 1993/1994

GDP and GDP per inhabitant in Western Europe 1992.



EC member countries
EFTA member countries
C
EC member candidate countries
Eastern European countries associated with the EC
GDP 1992 (Billion ECU)*
(D)
17.2
GDP/inhabitant (Thousand ECU)
1,365.0
819.6
1,048.8
86.9
(N)
20.7
193.3
(S)
22.7
88.0
(FIN)
17.6
249.9
110.6
37.6
(IRL)
9.9
(GB)
14.3
168.3
(NL)
16.6
(DK)
21.3
(D)
17.2
958.6
143.9
(B)
17.2
8.1
(L)
20.3
189.0
(A)
18.9
(F)
18.4
(CH)
28.6
452.4
64.8
(P)
6.3
(E)
11.5
61.7
(GR)
6.2
(I)
16.8

EC member candidate countries**.

EC member candidate countries**	Opening date of negociations
Austria (A)	1/2/93
Switzerland (CH)	postponed***
Finland (FIN)	1/2/93
Norway (N)	5/4/93
Sweden (S)	1/2/93

Eastern European countries associated with the EC.

Eastern European countries associated with the EC	Signature date of the association agreements
Hungary (H)	16/12/91
Poland (PL)	16/12/91
Czech and Slovak Republics	16/12/91
Romania (R)	1/2/93
Bulgaria (BL)	8/3/93

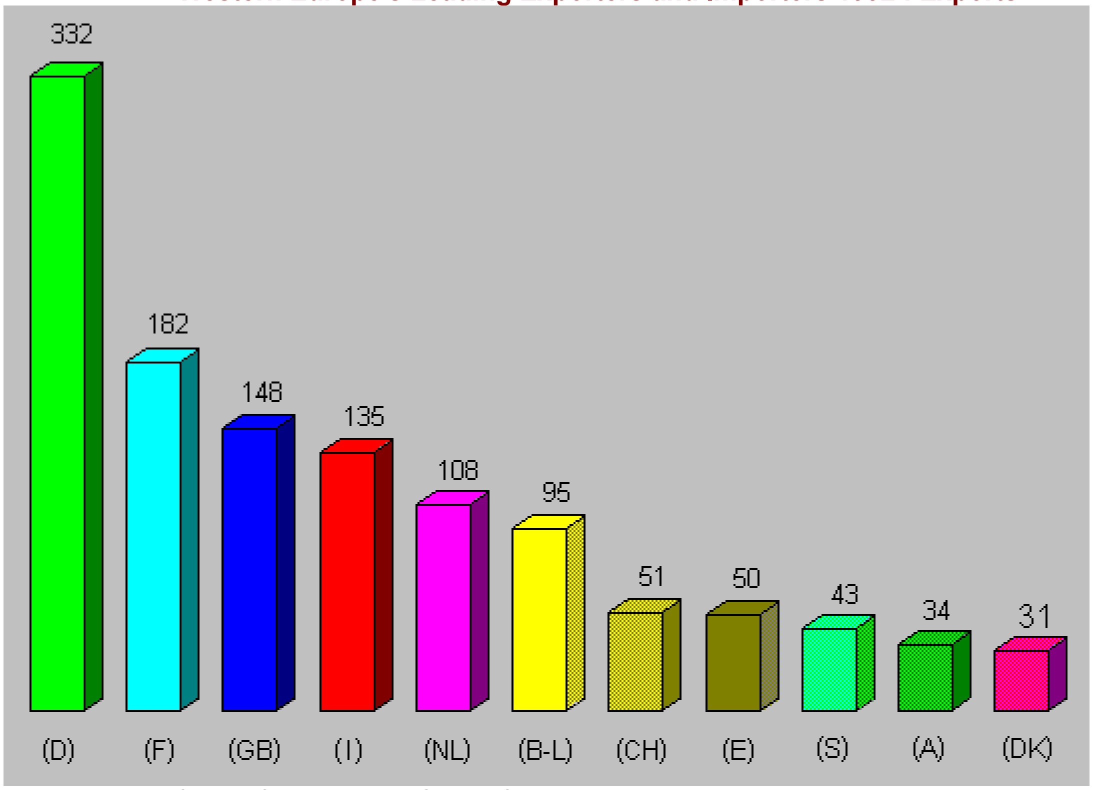
* non definitive data

** Malta and Cyprus are waiting for an eventual opening of negotiations. Turkey's EC candidacy was rejected in 1990 in favour of an associated nation status.

*** The proposal has been temporarily frozen due to the "no" vote pronounced by the Swiss at the time of the December 1992 referendum concerning their ratification of the European Economic Area (EEA) treaty.

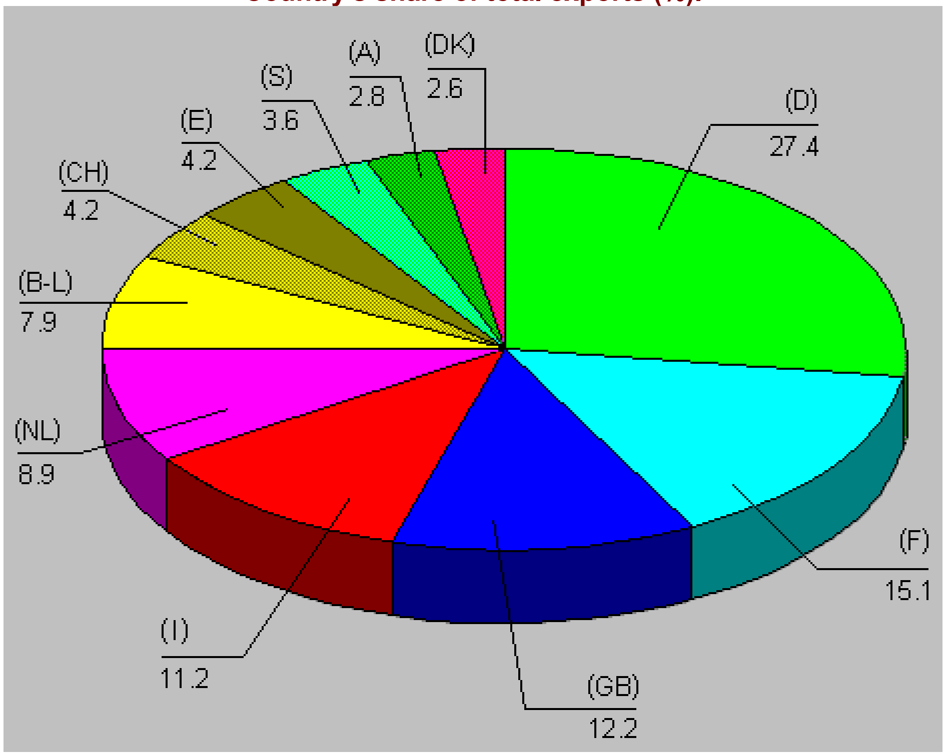
Source: OECD, April 1993 / United Nations

Western Europe's Leading Exporters and Importers 1992 : Exports.



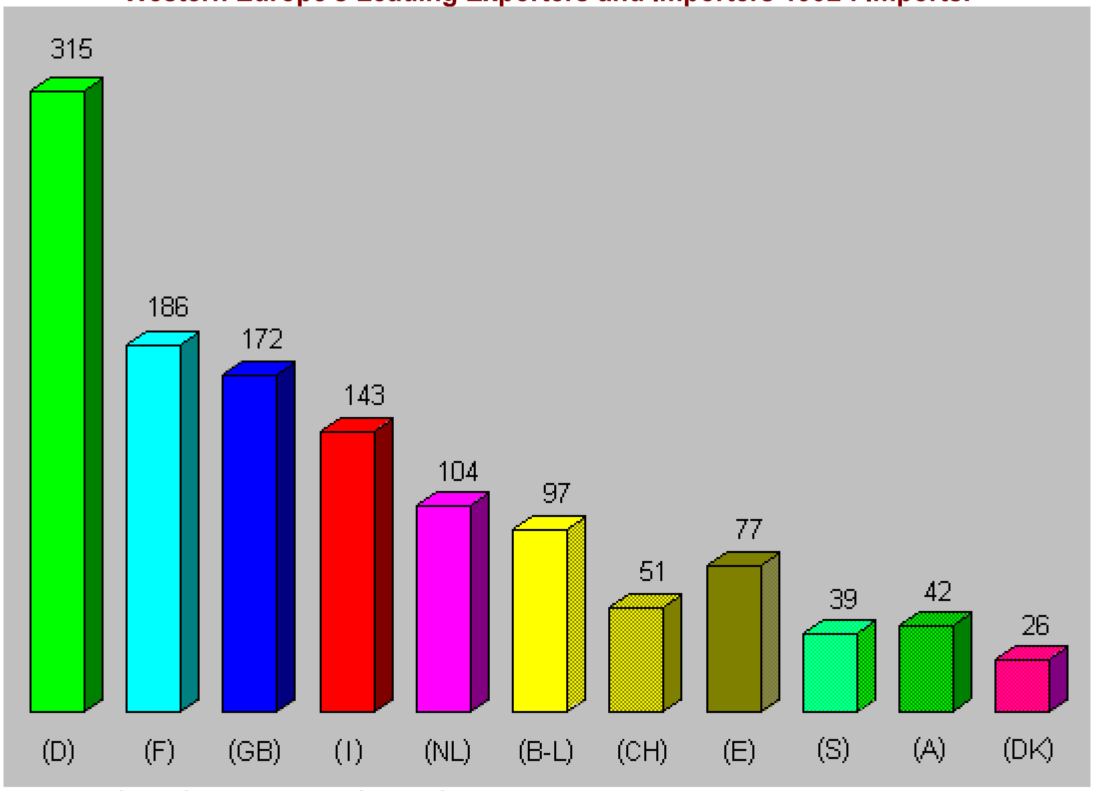
Billion ECU, F.O.B values *Source: GATT, March 1993*

**Western Europe's Leading Exporters and Importers 1992 :
Country's share of total exports (%).**



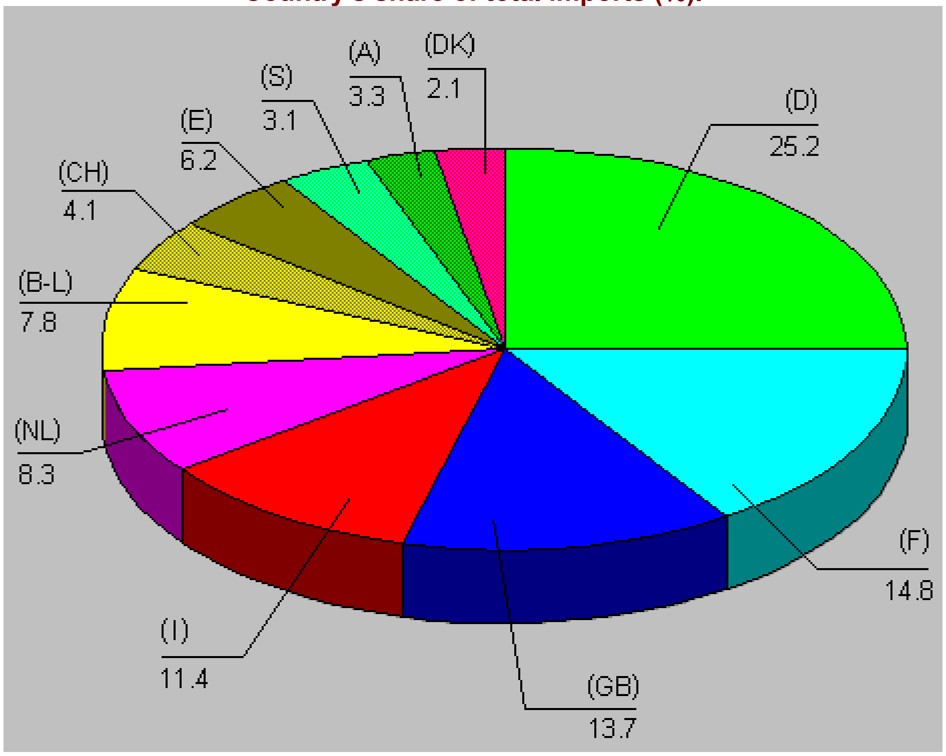
Source: GATT, March 1993

Western Europe's Leading Exporters and Importers 1992 : Imports.



Billion ECU, C.I.F. values *Source: GATT, March 1993*

Western Europe's Leading Exporters and Importers 1992 :
Country's share of total imports (%).



Source: GATT, March 1993

Growth of the GDP in Western Europe 1991-1994.

(% change in value, at constant prices, as compared with the preceding year)	1991	1992e	1993f	1994f
Austria (A)	3.0	1.5	-0.7	1.8
Belgium (B)	1.4	0.8	0.0	1.9
Switzerland (CH)	-0.4	-0.6	0.2	1.6
Germany (D)	1.0	2.0	-1.3	1.7
Denmark (DK)	1.2	1.1	1.1	2.3
Spain (E)	2.3	1.0	0.1	2.1
France (F)	1.1	1.8	0.0	2.3
Finland (FIN)	-6.4	-3.5	-1.0	2.5
United Kingdom (GB)	-2.2	-0.6	1.4	3.1
Greece (GR)	1.8	1.5	1.4	1.8
Italy (I)	1.3	0.9	0.3	1.9
Ireland (IRL)	2.5	2.6	1.7	2.4
Norway (N)	-2.5	3.0	1.0	2.6
Netherlands (NL)	2.2	1.5	0.5	1.8
Portugal (P)	2.2	1.4	1.1	2.0
Sweden (S)	-1.7	-1.7	-1.5	1.2

e: estimates f: forecasts
Source: International Monetary Fund (IMF), April 1993

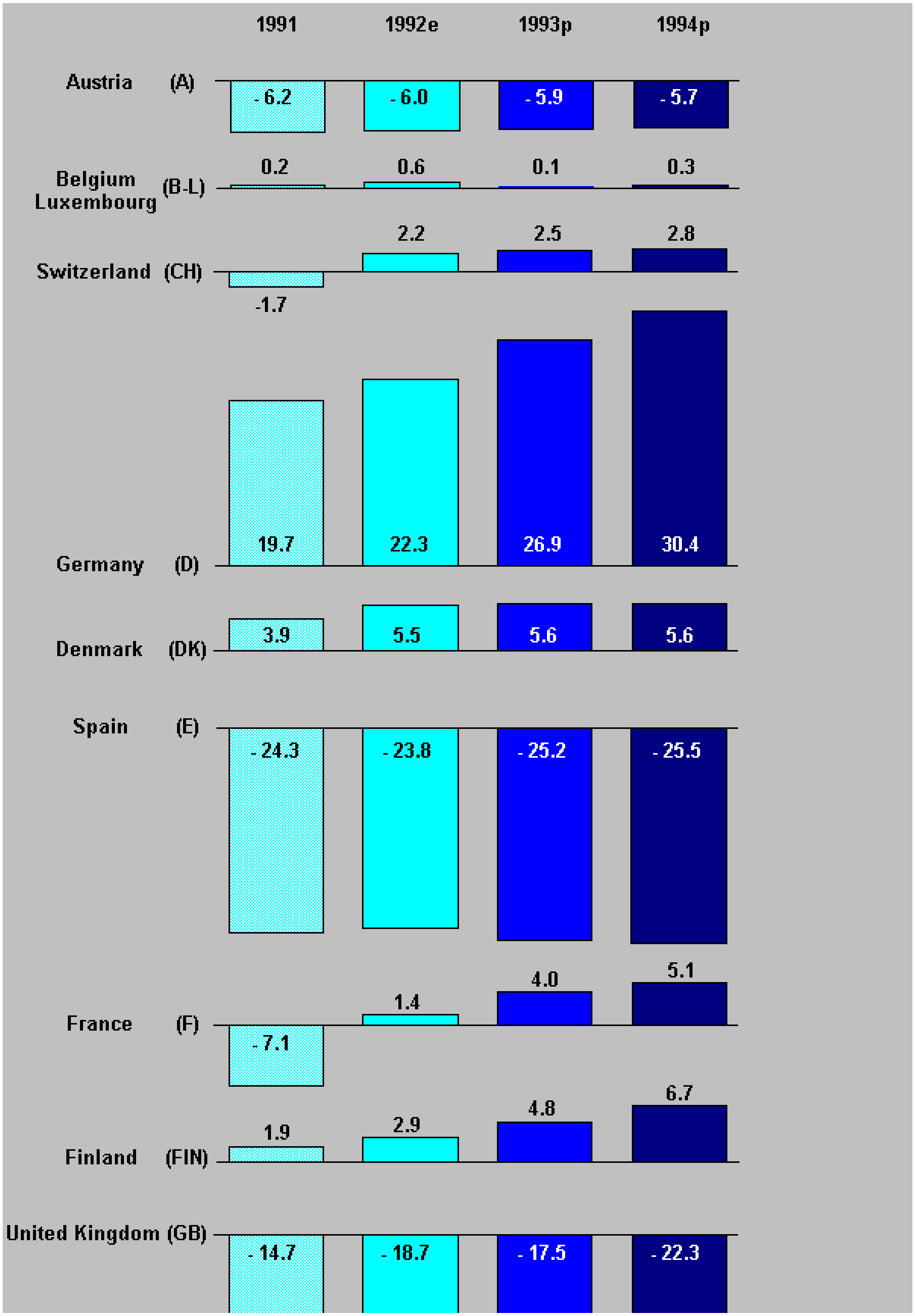
Unemployment Rates in Western Europe 1992-1994.

(% of total labour force*)	1991	1992e	1993f	1994f
Austria (A)	3.5	4.0	4.4	4.7
Begium (B)	8.8	9.3	9.6	9.6
Switzerland (CH)	1.3	3.0	3.8	3.5
Germany (D)	6.7	7.7	8.3	8.1
Denmark (DK)	10.4	11.0	11.0	10.6
Spain (E)	16.3	18.0	19.3	19.1
France (F)	9.6	10.2	10.8	10.8
Finland (FIN)	7.6	13.1	13.1	12.4
United Kingdom (GB)	8.3	10.1	10.8	10.5
Greece (GR)	8.2	9.1	10.2	10.5
Italy (I)	11.0	10.7	11.3	11.4
Ireland (IRL)	15.8	17.2	19.3	20.1
Luxembourg (L)	1.3	1.5	1.5	1.4
Norway (N)	5.5	5.9	6.6	6.2
Netherlands (NL)	5.9	5.6	5.9	5.9
Portugal (P)	4.1	4.2	4.7	4.8
Sweden (S)	2.7	4.8	6.5	6.8

e: estimates   f: forecasts   * according to national statistics

Source: OECD, December 1992

Balance of Trade of Western European Countries 1991-1994.

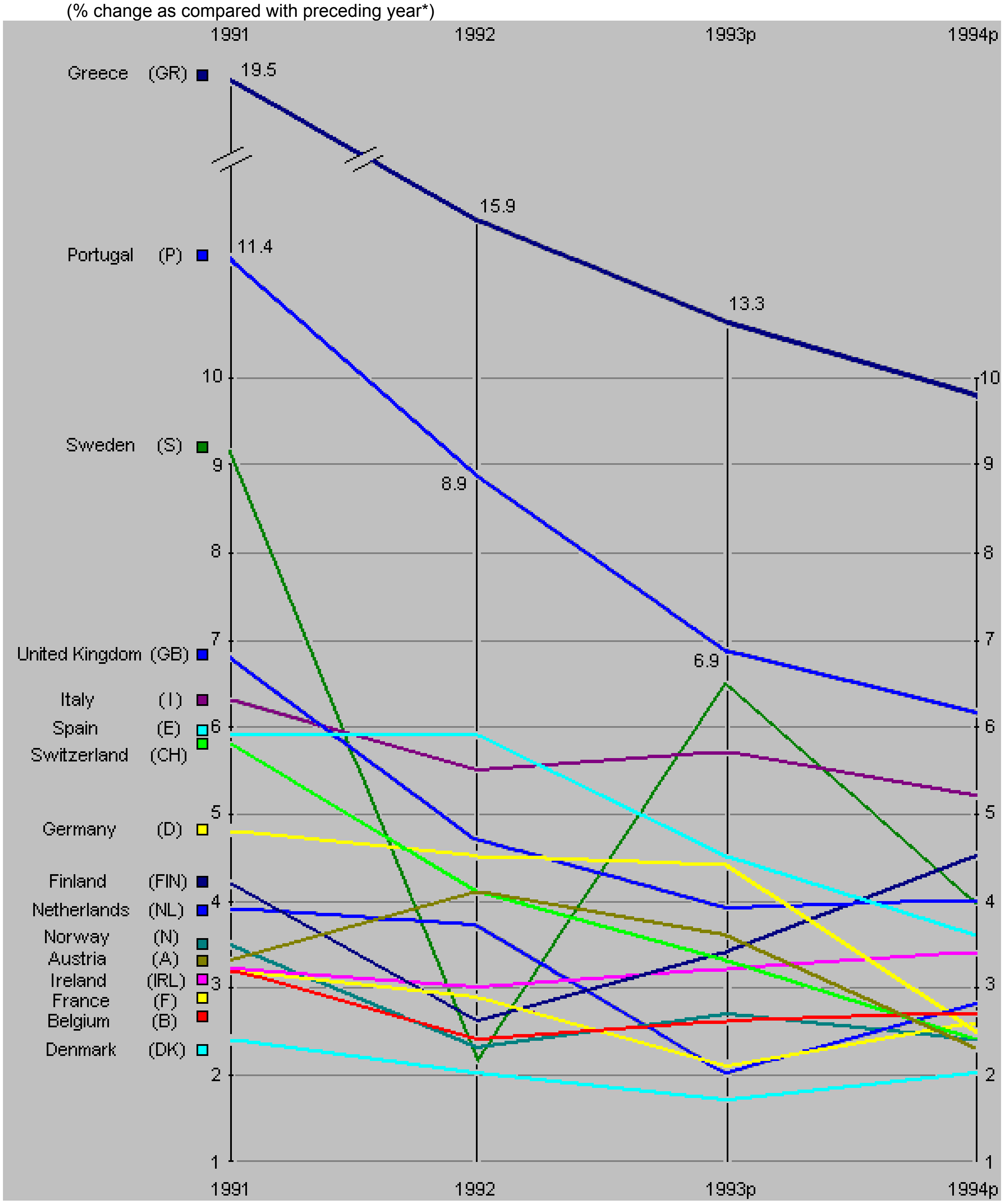


1991
1992e
1993p
1994p
Austria (A)
- 6.2
- 6.0
- 5.9
- 5.7
Belgium Luxembourg (B-L)
0.2
0.6
0.1
0.3
Switzerland (CH)
-1.7
2.2
2.5
2.8
Germany (D)
19.7
22.3
26.9
30.4
Denmark (DK)
3.9
5.5
5.6
5.6
Spain (E)
- 24.3
- 23.8
- 25.2
- 25.5
France (F)
- 7.1
1.4
4.0
5.1
Finland (FIN)
1.9
2.9
4.8
6.7
United Kingdom (GB)
- 14.7
- 18.7
- 17.5
- 22.3

e: estimations , f: forecasts (Billion ECU)
Source: OECD, December 1992

Evolution of Inflation Rates in Western Europe 1991-1994.

(% change as compared with preceding year*)



f: forecasts

* evolution of consumer prices

Source: International Monetary Fund (IMF), April 1993

Inflation Rates in Western Europe 1991-1994.

(% change as compared with preceding year*)	1991	1992	1993f	1994f
Austria (A)	3.3	4.1	3.6	2.3
Begium (B)	3.2	2.4	2.6	2.7
Switzerland (CH)	5.8	4.1	3.3	2.4
Germany (D)	4.8	4.5	4.4	2.5
Denmark (DK)	2.4	2.0	1.7	2.0
Spain (E)	5.9	5.9	4.5	3.6
France (F)	3.1	2.8	2.0	2.5
Finland (FIN)	4.2	2.6	3.4	4.5
United Kingdom (GB)	6.8	4.7	3.9	4.0
Greece (GR)	19.5	15.9	13.3	9.8
Italy (I)	6.3	5.5	5.7	5.2
Ireland (IRL)	3.2	3.0	3.2	3.4
Norway (N)	3.4	2.3	2.7	2.5
Netherlands (NL)	3.9	3.7	2.0	2.8
Portugal (P)	11.4	8.9	6.9	6.2
Sweden (S)	9.3	2.3	6.5	4.0

* evolution of consumer prices f: forecasts
Source: International Monetary Fund (IMF), April 1993

Budget Deficits in Western European Countries 1991-1994.

(debit balance as a % of GDP and at current prices)	1991	1992e	1993f	1994f
Austria (A)	-2.1	-1.9	-1.6	-1.4
Begium (B)	-6.4	-6.1	-5.5	-4.4
Germany (D)	-3.2	-3.4	-3.2	-2.7
Denmark (DK)	-2.0	-2.6	-2.4	-1.8
Spain (E)	-4.9	-4.7	-4.3	-3.8
France (F)	-2.2	-3.9	-3.0	-2.9
Finland (FIN)	-5.9	-8.9	-7.1	-5.7
United Kingdom (GB)	-2.8	-6.3	-7.6	-6.7
Greece (GR)	-16.1	-13.2	-10.6	-9.5
Italy (I)	-10.2	-9.5	-10.2	-8.9
Ireland (IRL)	-1.9	-2.5	-2.8	-2.8
Norway (N)	-0.4	-3.4	-3.2	-2.6
Netherlands (NL)	-2.6	-3.8	-3.7	-3.1
Portugal (P)	-6.1	-5.4	-4.9	-4.2
Sweden (S)	-1.5	-7.9	-9.9	-9.8

e: estimates , f: forecasts
Source: OECD, December 1992

Net Debt Load of Western European Governments 1989-1994.

(as a % of GDP, with liabilities as (+) and assets as (-))	1989	1992e	1994f
Countries with high debt			
Belgium (B)	120.3	124.3	125.0
Italy (I)	96.1	106.7	112.4
Ireland (IRL)	107.3	97.4	93.6
Greece (GR)	73.5	81.7	83.6
Countries with average debt			
Netherlands (NL)	57.2	59.7	61.7
Austria (A)	56.9	52.1	49.0
Spain (E)	30.4	35.8	38.8
United Kingdom (GB)	30.4	35.6	45.3
Countries with low debt			
Denmark (DK)	26.0	29.1	30.9
France (F)	24.8	28.8	32.2
Germany (D)	22.5	22.7	25.9
Finland (FIN)	-1.6	11.0	22.0
Sweden (S)	-5.4	3.4	22.8
Norway (N)	-20.2	-16.6	-9.6

e: estimates , f: forecasts

Source: OECD, December 1992

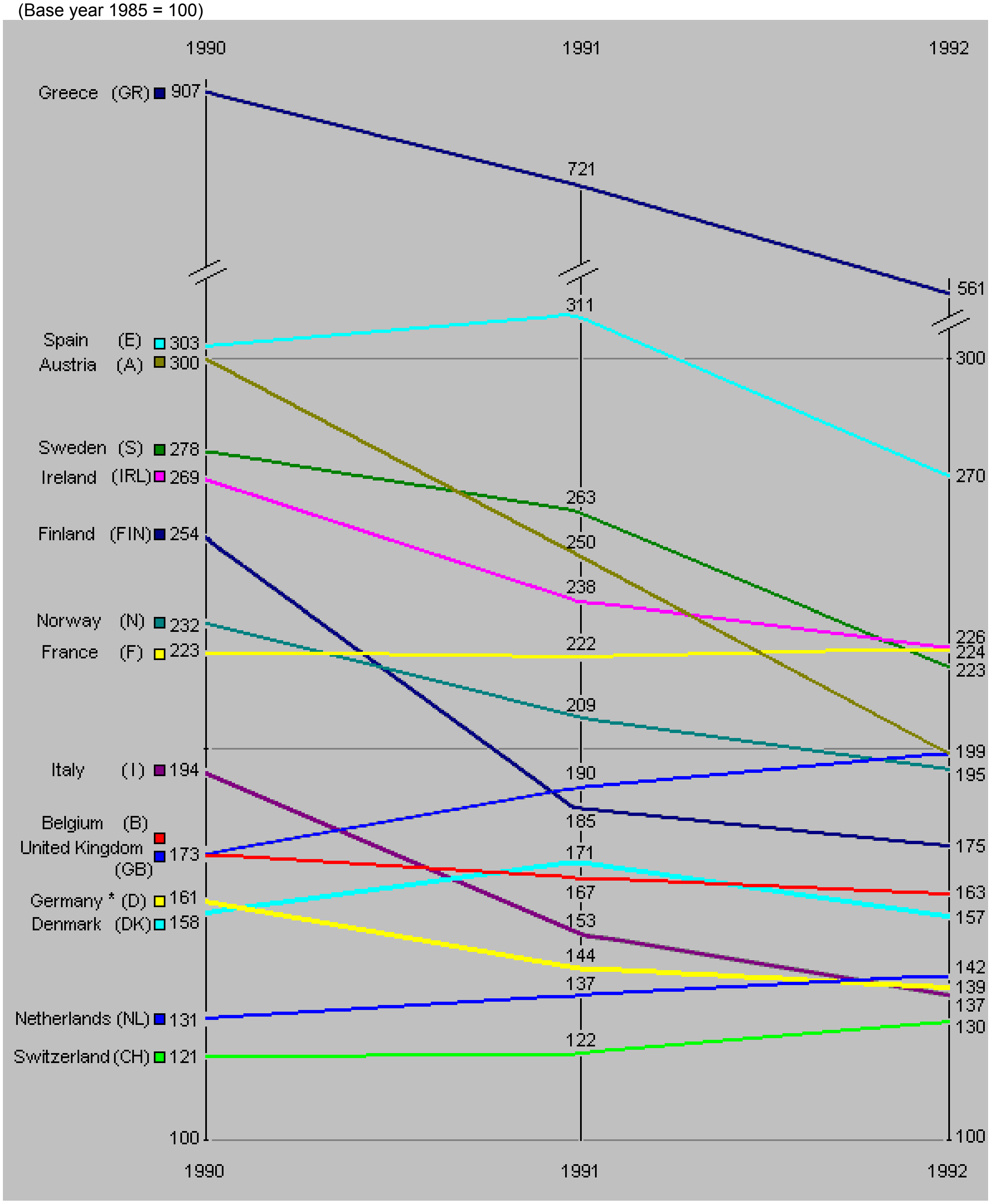
Long- and Short-term Interest Rates in Western Europe 1991-1994.

	Short-term interest rates (%)				Long-term interest rates (%)			
	1991	1992	1993f	1994f	1991	1992	1993f	1994f
Austria (A)	9.4	9.3	7.9	6.6	8.6	8.3	7.3	6.8
Belgium (B)	9.3	9.4	7.8	6.5	9.2	8.7	8.0	7.3
Switzerland (CH)	8.1	7.2	6.0	5.0	6.2	6.4	5.5	5.0
Germany (D)	9.2	9.5	7.8	6.5	8.5	7.9	7.2	6.7
Denmark (DK)	9.7	11.5e	8.7	6.9	9.3	8.9e	8.2	7.3
Spain (E)	13.2	13.3	12.1	10.5	12.4	12.1 e	12.2	10.5
France (F)	9.6	10.3	8.2	6.5	9.4	9.0	8.2	7.3
Finland (FIN)	13.0	13.2 e	10.3	9.0	12.6	13.8	12.0	10.5
United Kingdom (GB)	11.4	9.6	6.6	6.5	9.9	9.1	8.2	8.0
Greece (GR)	28.7	28.7	24.5	18.3	27.0	27.0	23.5	18.5
Ireland (IRL)	9.8	n.a.	9.3	7.9	9.1	9.1	8.1	7.6
Italy (I)	12.0	14,4	13.0	10.9	11.3	13.7	11.7	10.9
Norway (N)	10.5	12.9	9,5	7.5	9.9	9.6	8.8	7.9
Netherlands (NL)	9.2	9.4	7.8	6.5	8.7	8.1	7.6	7.0
Portugal (P)	n.a.	n.a.	14.5	12.5	n.a.	n.a.	13.5	11.5
Sweden (S)	11.5	12.8	9.9	7.9	10.6	10.4	9.2	8.2

e: estimates , f: forecasts n.a.: not available
Source: OECD, May 1993

Share Price Indexes for Western European Countries 1990-1992.

(Base year 1985 = 100)



* the 1990 data does not include the ex-G.D.R.
Source: OECD, April 1993

ECU Exchange Rates 1990-1992.

(1 ECU in national currency*)		1990	1991	1992
Austria (A)	Austrian schilling	14.440	14.431	14.217
Belgium\Luxembourg (B\L)	Belgian/Luxembourgian franc	42.425	42.223	41.595
Switzerland (CH)	Swiss franc	1.762	1.772	1.818
Germany (D)	German mark	2.052	2.051	2.020
Denmark (DK)	Danish krone	7.856	7.909	7.810
Spain (E)	Spanish peseta	129.316	128.469	132.513
France (F)	French franc	6.914	6.973	6.849
Finland (FIN)	Finnish markka	4.855	5.002	5.806
United-Kingdom (GB)	British pound sterling	0.714	0.701	0.738
Greece (GR)	Greek Drachma	201.412	225.216	246.981
Italy (I)	Italian lira	1 521.941	1 533.235	1 595.286
Ireland (IRL)	Irish pound	0.768	0.768	0.761
Norway (N)	Norwegian krone	7.948	8.017	8.042
Netherlands (NL)	Dutch guilder	2.312	2.311	2.275
Portugal (P)	Portugese escudo	181.108	178.614	174.698
Sweden (S)	Swedish Krona	7.52	7.479	7.533

* yearly average
Source: Eurostat

Macroeconomic Indicators for Eastern Europe 1991-1992.

(% change as compared with preceding year)	Disinflated GDP		Inflation		Exports (value)		Imports (value)		Unemployment*	
	1991	1992f	1991	1992f	1991	1992f	1991	1992f	1991	1992f
Albania	-29.9	-23.0	35.5	300	-41.5	n.a.	20.8	n.a.	n.a.	n.a.
Bulgaria	-22.9	-4.0	33.0	n.a.	2.0	5	-18.0	4	10.4	13
Czech and Slovak Republics	-15.9	-7.0	58.7	10	n.a.	n.a.	n.a.	n.a.	6.6	n.a.
Hungary	-10.2	-5.0	35.0	n.a.	45.9	14	51.2	-9	8	12.5
Poland	-9.0	0.0	70.3	n.a.	12.6	n.a.	28.1	n.a.	11.4	13
Romania	-13.0	-8.0	167.0	n.a.	-3.8	n.a.	-11.8	n.a.	2.9	7
Slovenia	-15.0	-10.0	117.7	200	-15.6	8	-12.8	n.a.	8.1	12
Russian Federation	-11.0	-17.5	90.0	n.a.	n.a.	n.a.	n.a.	n.a.	0.1	2.7

f: forecasts n.a.: not available
* as a % of total labour force
Source: EBRD (European Bank for Reconstruction and Development), 1992

Growth in the Volume of Business Investment in Western Europe 1991-1994.

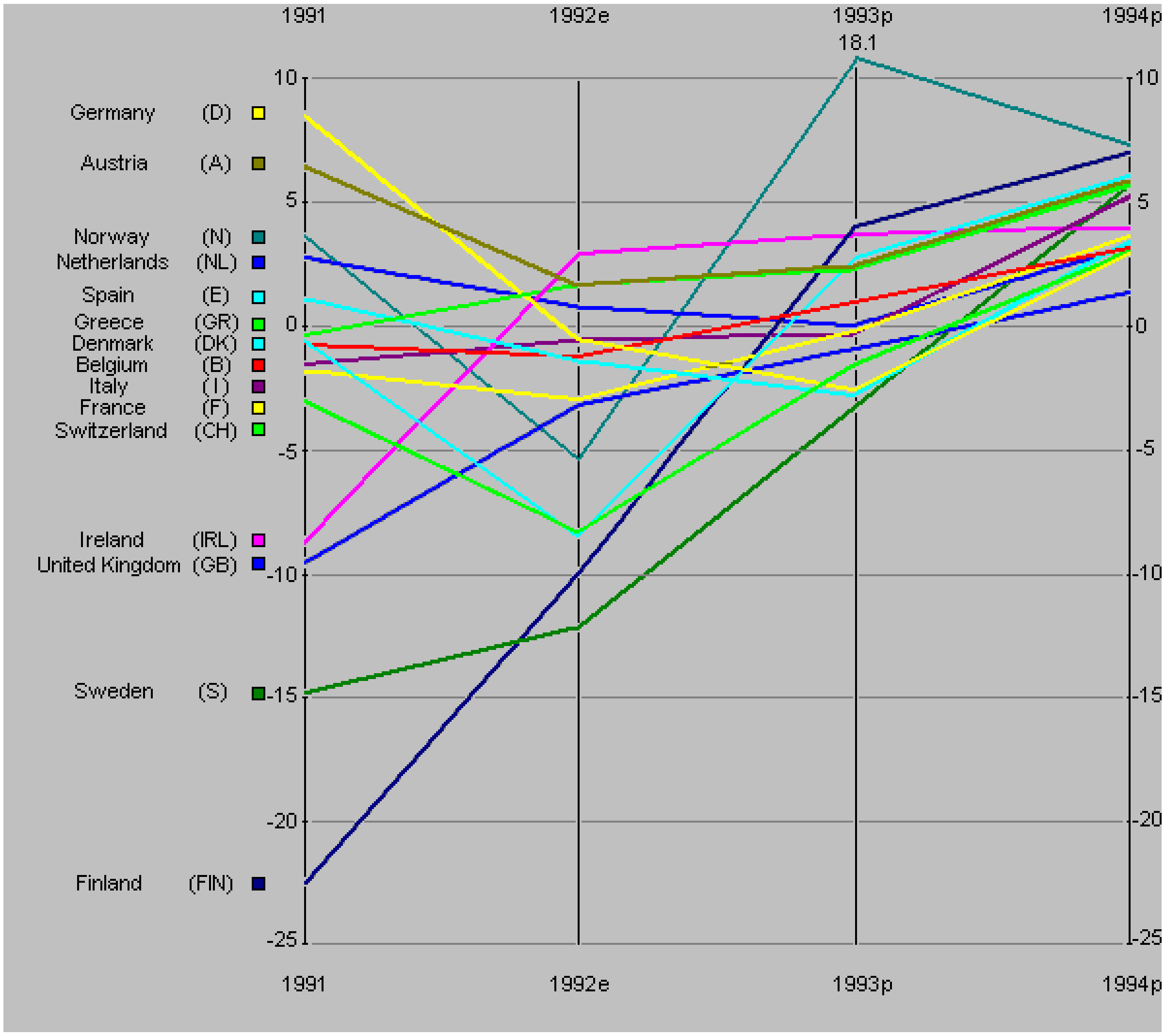
(gross fixed capital formation in the non-residential* private sector as a % change from the preceding year)	1991	1992e	1993f	1994f
Austria (A)	6.4	1.6	2.1	4.3
Belgium (B)	-0.4	-0.8	0.5	3.5
Switzerland (CH)	-3.1	-8.3	-1.6	3.0
Germany (D)	8.5	-0.6	-2.6	2.9
Denmark (DK)	-0.6	-8.5	2.8	6.0
Spain (E)	1.1	-1.4	-2.8	3.4
France (F)	-2.0	-3.3	-0.6	3.3
Finland (FIN)	-22.5	-10.0	4.0	7.0
United-Kingdom (GB)	-9.6	-3.2	-1.0	1.3
Greece (GR)	-0.3	2.1	2.9	6.0
Italy (I)	-1.8	-0.6	-0.3	5.2
Ireland (IRL)	-8.7	2.9	3.7	4.0
Norway (N)	3.4	-5.5	18.1	7.2
Netherlands (NL)	2.7	0.8	0	3.1
Sweden (S)	-14.5	-11.8	-3	6.0

e: estimates , f: forecasts
* non residential private sector: businesses, not including the real estate sector
Source: OECD, December 1992

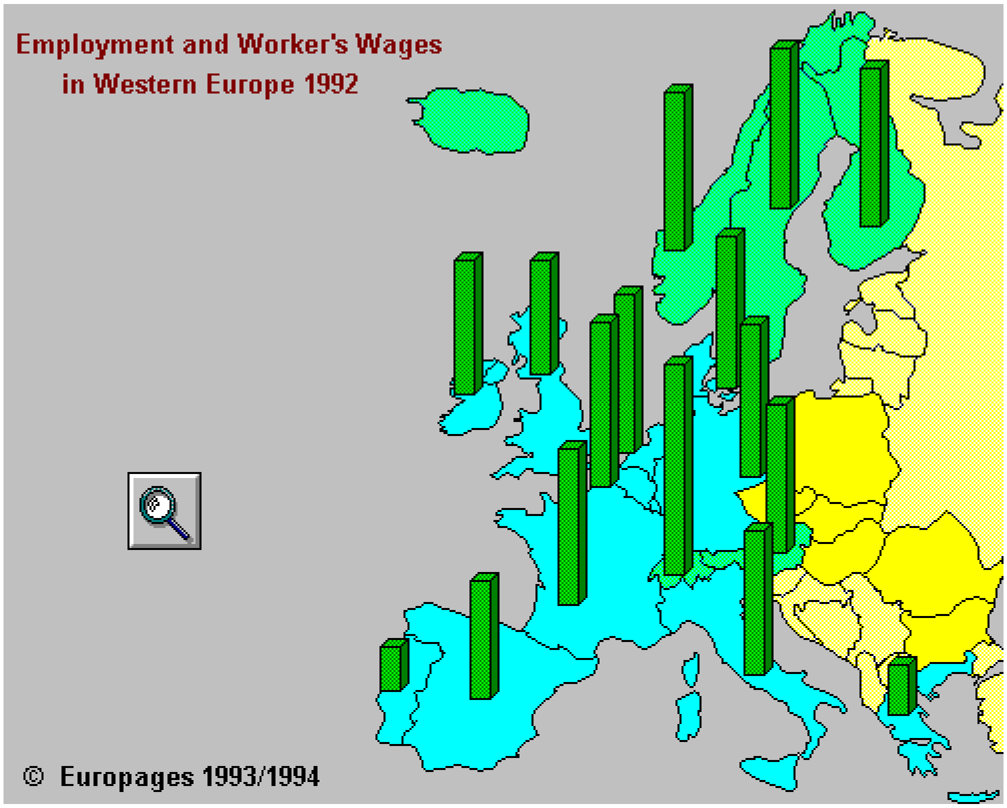
Graph.

Growth in the Volume of Business Investment in Western Europe 1991-1994.

(gross fixed capital formation in the non-residential* private sector as a % change from the preceding year)



e: estimates , f: forecasts
* non residential private sector: businesses, not including the real estate sector
Source: OECD, December 1992


Employment and Worker's Wages
in Western Europe 1992
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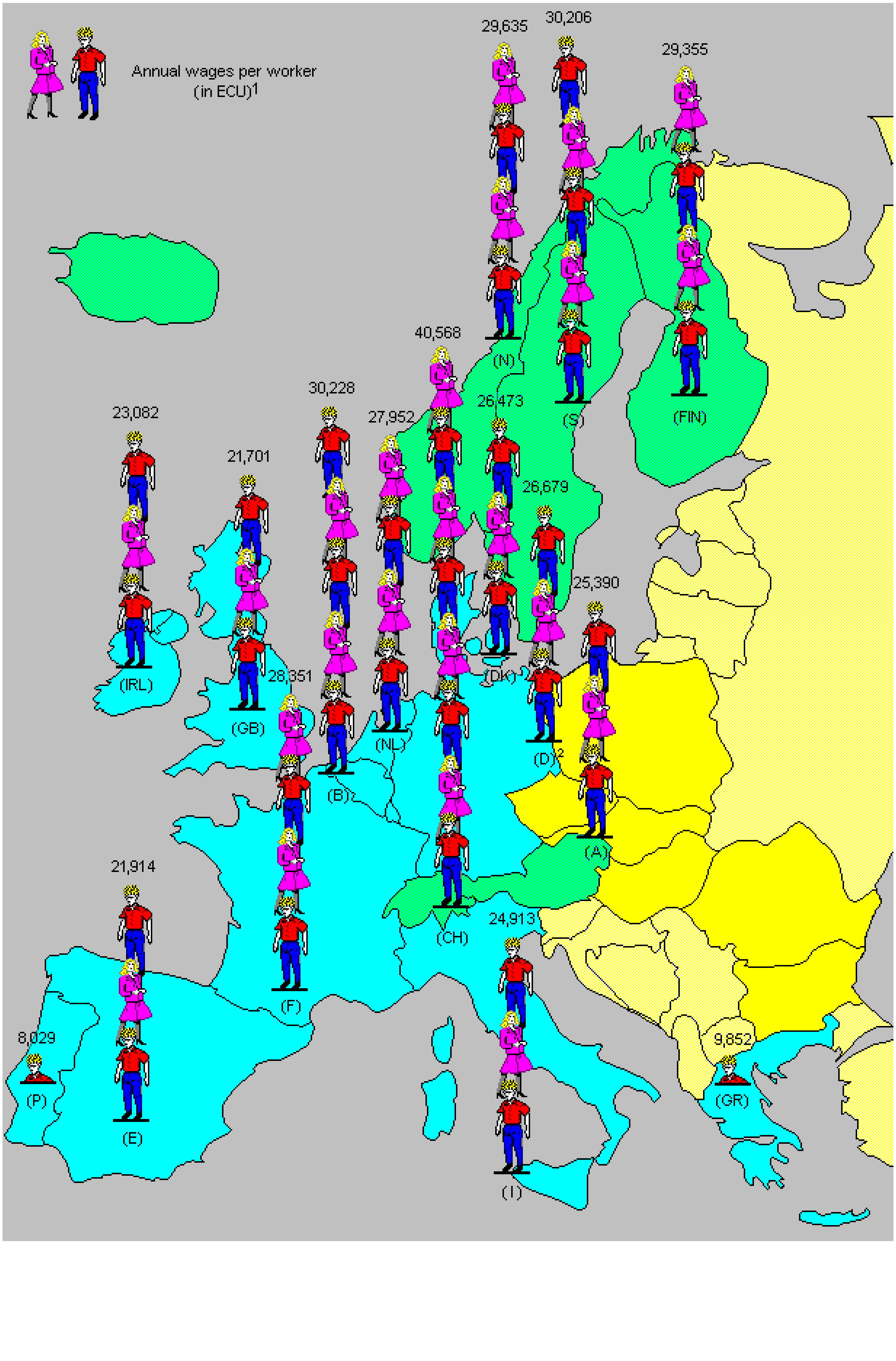
Worker's Wages in Western Europe 1992.



Annual wages per worker
(in ECU)1
29,635
30,206
29,355
40,568
(N)
30,228
26,473
23,082
27,952
(S)
(FIN)
21,701
26,679
25,390
(IRL)
28,351
(DK)
(GB)
(NL)
(B)
(D)2
(A)
21,914
(CH)
24,913
(F)
8,029
9,852
(P)
(GR)
(E)
(I)

Employment in Western Europe 1992.

	Total labour force* (thousands)	Total labour force / Total pop. (%)	Jobless (as a % of total labour force)*
Austria (A)	3,662	48.2	4.0
Belgium (B)	4,200	42.9	9.3
Switzerland (CH)	3,616	54.8	3.0
Germany (D)	38,794	48.8	7.7
Denmark (DK)	2,851	54.8	11.0
Spain (E)	15,163	38.4	18.0
France (F)	25,033	44.3	10.2
Finland (FIN)	2,502	50.0	13.1
United-Kingdom (GB)	28,188	49.0	10.1
Greece (GR)	3,996	40.0	9.1
Italy (I)	23,823	41.7	10.7
Ireland (IRL)	1,363	35.9	17.2
Luxembourg (L)	204	51.0	1.5
Norway (N)	2,130	50.7	5.9
Netherlands (NL)	5,389	35.7	5.6
Portugal (P)	4,824	46.8	4.2
Sweden (S)	4,467	52.6	4.8

*estimates

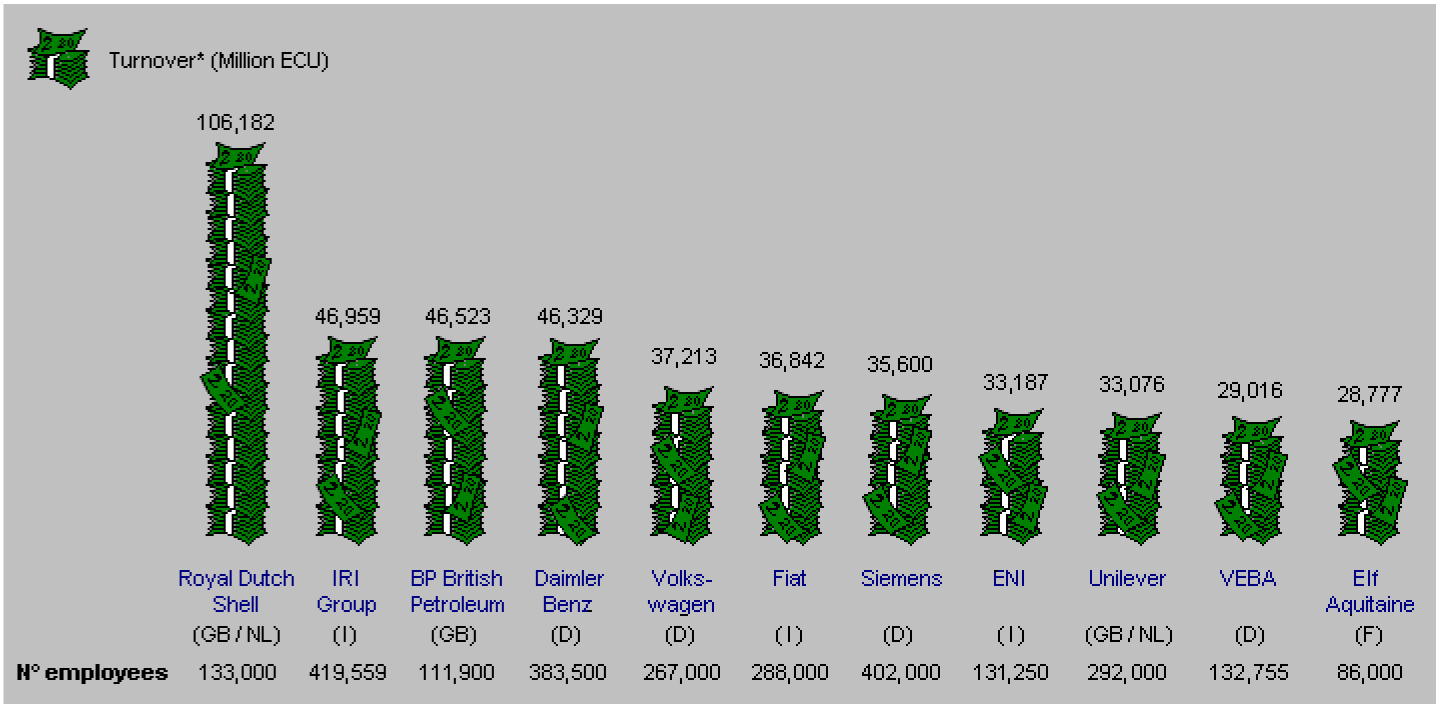
1 gross wages payed by business
2 1991 data
Source: OECD / UNO

Return on Capital Rates for Businesses in Western Europe 1991-1994.

(as a % of invested capital)	1991e	1992e	1993f	1994f
Austria (A)	11.4	11.1	10.9	11.1
Belgium (B)	13.4	13.0	12.7	12.7
Switzerland (CH)	7.4	6.8	7.0	7.3
Germany (D)*	14.7	14.2	14.0	14.0
Denmark (DK)	10.6	10.7	10.7	10.7
Spain (E)	18.2	18.1	18.0	18.5
France (F)	13.8	14.2	14.4	14.8
Finland (FIN)	6.3	7.1	8.0	9.0
United-Kingdom (GB)	9.6	10.4	11.3	12.1
Greece (GR)	11.0	11.6	12.0	12.1
Italy (I)	12.8	12.2	12.2	12.2
Ireland (IRL)	8.6	8.4	8.1	8.2
Norway (N)**	4.9	5.0	4.7	4.5
Netherlands (NL)	17.4	17.0	16.6	16.5
Sweden (S)	10.4	12.0	12.5	12.5

e : estimates (partial), f : forecasts * ex-West Germany
** not including naval construction and oil and gas extraction
Source: OECD, December 1992

Europe's Top Business Groups by Turnover 1992.



* year-end 1991
Source : European Business Press Group (EPBG)

Evolution of Business Mergers, Acquisitions, and Concentrations in Western Europe 1988-1991.

(number of operations)	1988/1989	1989/1990	1990/1991
Belgium (B)	18	21	9
Germany (D)	90	124	111
Denmark (DK)	2	16	14
Spain (E)	65	74	35
France (F)	112	101	115
United-Kingdom (GB)	111	168	82
Greece (GR)	n.a.	3	8
Italy (I)	49	73	51
Ireland (IRL)	8	3	2
Luxembourg (L)	4	3	0
Netherlands (NL)	23	28	21
Portugal (P)	10	8	7
TOTAL	492	622	455

n.a.: non available

Source: European Community Commission: XXIst report on Competition, 1992.

Export Prices of Manufactured Goods in Western Europe 1991-1994.

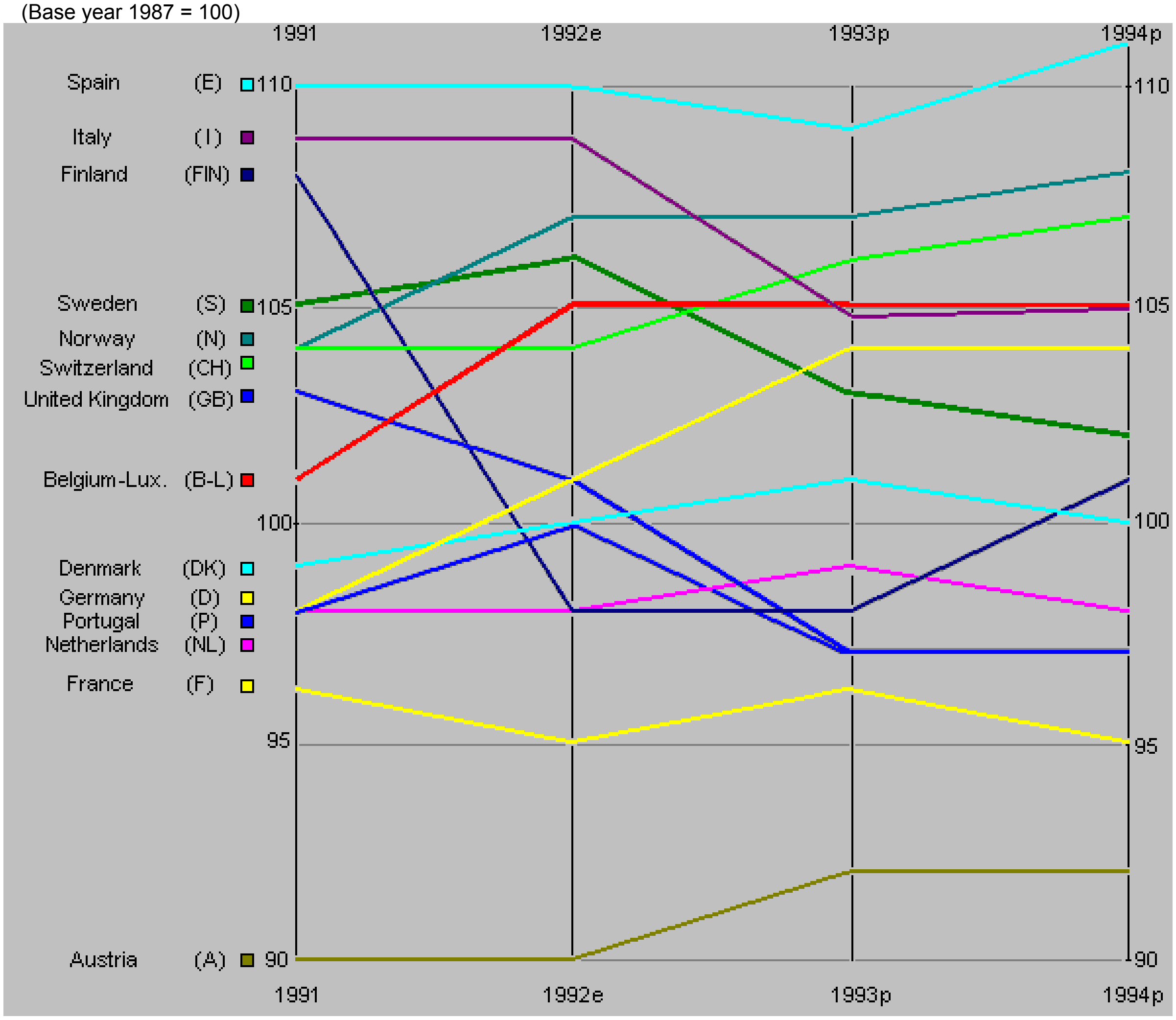
(Base year 1987=100*)	1991	1992e	1993f	1994f
Austria (A)	90	90	92	92
Belgium\Luxembourg (B\L)	101	105	105	105
Switzerland (CH)	104	104	106	107
Germany (D)	98	101	104	104
Denmark (DK)	99	100	101	100
Spain (E)	110	110	109	111
France (F)	96	95	96	95
Finland (FIN)	108	98	98	101
United-Kingdom (GB)	103	101	97	97
Italy (I)	109	109	105	105
Norway (N)	104	107	107	108
Netherlands (NL)	98	98	99	98
Portugal (P)	98	100	97	97
Sweden (S)	105	106	103	102

e: estimates , f: forecasts, * relative prices in a common currency
Source: OECD, December 1992

Graph.

Export Prices of Manufactured Goods in Western Europe 1991-1994.

(Base year 1987 = 100)



e: estimates , f: forecasts, * relative prices in a common currency
Source: OECD, December 1992

Joint Business Formations in the Western European Industrial Sector 1988-1991.

(number of formations)	National Formations			European Community formations			International formations			Total		
	88/89	89/90	90/91	88/89	89/90	90/91	88/89	89/90	90/91	88/89	89/90	90/91
Agro-alimentary and beverage products	4	5	5	2	2	5	3	4	0	9	1	
											1	
Chemical, glass, ceramic, and rubber goods	8	1	4	9	9	1	1	1	1	2	3	
		2				1	1	6	3	8	7	
Electric and electronic manufacturing	8	2	3	7	8	1	1	1	1	2	2	
						2	4	3	2	9	3	
Mechanical engineering	6	5	1	2	3	1	2	4	2	1	1	
										0	2	
Computer manufacturing	0	0	1	2	0	1	3	0	2	5	0	
Metallurgy	9	6	4	3	6	4	3	4	2	1	1	
										5	6	
Automotive and other vehicle production	4	5	4	2	1	6	1	5	7	7	2	
					2						2	
Wood, furniture, paper, and publishing	4	3	3	5	6	5	0	5	2	9	1	
											4	
Drilling and mining (extraction) industries	2	1	1	0	0	0	0	0	2	2	1	
Textiles, clothing, leather and shoes	3	0	0	0	2	0	0	2	1	3	4	
Construction materials	4	2	4	3	2	2	0	1	1	7	5	
Various industries	4	0	3	1	5	2	0	6	1	5	1	
											1	
Total	5	4	3	3	5	4	3	6	4	12	15	1
	6	1	3	6	5	9	7	0	5	9	6	

Source: European Community Commission: XXIst report on Competition, 1992.

Convergence Indicators of the EC Countries as Set out by the Maastricht Treaty 1991-1992.

	Inflation*		Government's budget balance		National debt/GDP		Long term interest rates	
	1991	1992	1991	1992	1991	1992	1991	1992
Belgium (B)	3.2	2.4	-7.6	-6.8	134.4	133.4	9.3	8.8
Germany (D)	4.8	5.0	-3.2	-3.2	41.7	42.5	8.5	7.8
Denmark (DK)	2.4	2.1	-2.3	-2.3	66.7	71.3	9.6	8.9
Spain (E)	5.9	5.9	-4.9	-5.1	44.7	46.0	12.6	12.6
France (F)	3.1	2.8	-2.1	-2.9	47.1	47.7	9.2	8.7
United-Kingdom (GB)	5.9	3.7	-2.7	-6.3	34.4	35.9	9.9	9.0
Greece (GR)	19.5	16.0	-17.4	-13.8	115.5	114.8	23.3	21.5
Italy (I)	6.3	5.5	-10.2	-10.4	103.5	108.5	13.0	13.5
Ireland (IRL)	3.2	3.3	-2.8	-1.8	98.0	100.0	9.2	10.0
Luxembourg (L)	3.1	2.8	1.5	1.0	6.2	5.8	8.2	7.8
Netherlands (NL)	3.9	3.3	-3.9	-4.0	79.6	80.0	8.7	8.0
Portugal (P)	11.4	9.2	-6.7	-5.7	65.3	69.5	18.5	16.5
EC average	5.1	4.5	-4.6	-5.3	59.4	61.3	10.3	9.9
Convergence criteria established by Maastricht	4.4	4.0	-3.0	-3.0	60.0	60.0	11.0	10.7

* evolution of consumer prices

Source: International Monetary Found (IMF), January 1993

Maastricht Treaty Convergence Criteria

On February 7 1992 in Maastricht, the heads of the twelve EC countries signed the treaty on European Union. The Maastricht treaty launched the run-up to Economic and Monetary Union (EMU) which should be completed by 1 January 1999, with the single European currency seeing the day shortly afterwards. For this union to come into effect, the different European economies have to be brought progressively into line with one another in terms of both their actual economic situations and their economic policy decisions.

The treaty sets out five convergence criteria, organised into four groups:

1/ Inflation: A countrys inflation rate shall be no more than 1.5% higher than the average level in the three lowest-inflation countries.

2/ Long-term interest rates: These rates shall be within 2% of the average interest rates in the three lowest-inflation countries; the underlying principle being that these three rates will reflect the anticipated inflation for the different countries.

3/ Exchange rate stability: Before joining the EMU, countries must demonstrate that they are apt. This means that they have agreed to keep their currencies within the narrow fluctuation band in the EMS, without changing their parities during the two years prior to entering the Union.

4/ and 5/ Governmental budgetary status: Countries must comply with the following two requirements: national debt must fall below 60% of the GDP and public sector deficit must be below 3% of the GDP.

At the end of 1992, France, Denmark and Luxembourg were the only countries to meet the criteria concerning public finance. Nevertheless, the United Kingdom and Germany are expected to qualify without having to change their core fiscal policy to any great extent. On the contrary, all the other countries will all have to take steps to lighten their deficits and debt ratios. As current debt ratios are high in Italy, Greece, Ireland, Belgium and the Netherlands, it is not reasonable to expect them to meet the debt requirements before 1996.

The EMS Crisis from June 1992 to May 1993*

- **2 June 1992 :** The outcome of the Danish referendum on the Maastricht treaty was a small majority of "Nos".
- **2 July :** The American Federal Reserve lowered its discount rate to 3% (from 3.5%)
- **16 July :** The Bundesbank raised its discount rate to 8.75% (from 8%).

Mid-July through to end August : Progressively weaker dollar against the DM, speculative movements on the pound sterling, the lira, the peseta and the escudo. On 2 September the dollar fell to its all-time low compared with the DM (1 USD = 1.3880 DM).

8 and 14 September : On the 8th, the Finnish markka, which had been pegged to the ECU, began floating and the Danish krone was attacked. The 14th saw the first adjustment within the EMS: the lira was devalued by 3.5% and all the other EMS currencies were revalued by 3.5%.

16 September : The pound sterling was taken out of the European Exchange Rate Mechanism (ERM).

17 September : Second adjustment in the EMS. The peseta was devalued by 5%, the lira was taken out of the Exchange Rate Mechanism.

20 September : The French referendum on the Maastricht treaty resulted in a small "Yes" majority.

21-23 September : Pressures on the French franc on the exchange markets. The Banque de France and the Bundesbank let speculators know that they were in close collaboration. The Bundesbank intervened in the exchange market to purchase francs. The Banque de France raised its 5 to 10 day repurchase agreement rate from 10.5% to 13%. Late September the franc steadied.

19 November : The Swedish krona began floating.

23 November : Third adjustment within the EMS. The peseta and escudo were devalued by 6%.

10 December : The Norwegian krone began floating. On 8 January 1993 the Royal Decree of 19 October 1990 pegging the krone to the ECU was abrogated.

30 January 1993 : Fourth adjustment, the Irish pound was devalued by 10%.

13 May 1993 : The Spanish peseta was devalued by 8% and the Portugese escudo by 6.5%

** European Monetary System*

The Monetary Deadlines of Maastricht

Phase 1: 1 July 1990 - 31 December 1993 (Art. 109 E.2 (a))

1/ Lifting of all restrictions on the flow of capital. 2/ Measures to abolish monetary financing. 3/ Progress towards convergence: adoption of multi-year programmes.
4/ Removal of obstacles preventing ECU usage.

Phase 2: 1 January 1994 - 31 December 1998 at the latest (Art. 109 E.1)

1/ Convergence.
2/ The European Monetary Institute (EMI) begins to work.
3 /The EMI facilitates the use of the ECU and monitors its development.
4/ No monetary financing of budgets.
5/ No automatic bailing out.
6/ Supervising of budgetary situations of countries with excessive deficits.
7/ Run-up to independence of the Central Banks.
8/ Groundwork for third phase with the setting up of a logistical, regulatory and organisational framework of the European System of European Central Banks by 31.12.96 at the latest.

Phase 3: 1 January 1999 at the latest (Art. 109 J.4)

1/ A single monetary policy and the ECU - a full-fledged currency.
2/ A single market; a single currency: the ECU.

The New CAP and GATT Agricultural Talks*

American proposals (October 1990)

First on the agenda was the zero option proposal which targeted total abolition of agricultural support by the year 2000. The original proposal has developed as follows:
1/ Tariffing measures designed to change all protection mechanisms, including internal price support measures, into customs duties. Once these have been fixed, they will be reduced by 75% between 1986-88 and 2000.
2/ A 90% cutback in export subsidies over the same period.

Community proposals (November 1990)

1/ A 30% reduction in the support package for most farm products between 1986 and 1996.
2/ Limited tariffing.
3/ No specific pledges on export aid policies.
4/ Readjustment between imported grain and other cattle feed.

The Dunkel trade-off (Arthur Dunkel: GATT Secretary General, December 1991)

1/ 36% curb on export subsidies and 24% reduction in the subsidised export volume between 1993 and 1999.
2/ 20% decrease in internal support over the 1993-1999 period.
3/ 36%Cutback on customs duties between 1993 and 1999, including those arising out of the change from non-tariff to tariff barriers.
4/ Minimum guaranteed access to domestic markets, amounting to 3% of domestic consumption (5% in 1999). A temporary safeguarding mechanism may be applied.

Status of negotiations on 20 November 1992

The EC signed a tentative agreement that ressembles the Dunkel project. It allows six years to achieve: a 36% cutback in credits on subsidised exports; a 36% reduction in border protection and minimum access for imports corresponding to 3% of domestic consumption (subsequently to be raised to 5%); and lastly, a 20% decrease in internal aid, not including any aid planned for by the CAP reform. Late November, the Commission found this tentative agreement compatible with the CAP reform and officially submitted it to the GATT in Geneva on 16 December 1992 . France, however, opposes the initiative and considers it null and void.

* *Common Agricultural Policy*

Community Instruments for Company Information and Cooperation.

A series of instruments and programmes set up by the Commission of the European Communities is designed to enable companies to get in touch with other European firms. They offer a wide range of information, advice and contacts.

1/EIC: Euro Info Centres.

The Euro Info Centres were formed in 1987 by the SMB Task Force within the European Commission. They offer small and medium-sized European businesses easy access to community information on Community standards, legislation, subsidies, environmental laws, fiscal policies, etc. These centres work closely with EC press and information bureaus to provide locally-established advisory aid structures for businesses. Over 200 centres in the EIC network have been opened in Europe. They are governed by a central structure in Brussels which coordinates them from within the Directorate General XXIII in charge of corporate, trade, and tourism policies and social economy.

In practical terms, the EICs are linked to one another by a computerised system of access to the following data bases: CELEX (a legal file indicating European regulations, institutional groundwork documents, Court of Justice rulings, parliamentary issues and national governmental measures taken pursuant to directives), SCAD (European bibliography), SESAME (R&D and energy projects), TED (public procurements), EABS (research and technical programme results financed mainly by the EC), PABLI (Community development programmes), AGREP (agronomical research projects), RAPID (Community spokesman service).

2/Inter-company cooperation instruments in Europe.

In addition to the EIC network, DG XXIII has developed further community actions aimed at enhancing SMB cooperation and development, such as the Bureau de Rapprochement des Entreprises (an organism for the development of inter-company ties), the Business Cooperation Network, Europartnership, or Interprise, to name a few. The Bureau de Rapprochement des Entreprises was set up in 1973 to further international cooperation through a network of 408 correspondents dispersed throughout 50 countries. The Business Cooperation Network works through a network of 600 company consultants and intermediaries covering Community and EFTA countries and many East European countries. Since 1988, these consultants have analysed through the use of a codified system 46,000 cooperation opportunities proposed by companies and have sent them by electronic data transmission to the BC Net centre in Brussels charged with putting the companies in contact with one another.

The other instruments set up by DG XXIII aim to establish direct contact between companies at meetings organised between a region and DG XXIII. Thus Europartnership has organised meetings in Dublin, Andalusia, Wales, Porto and Leipzig with a view to motivating and creating contacts between European companies, regional directors and local firms. Interprise is an initiative that encourages partnership between industries and services in Europe, open to all companies whether or not they are European. Other initiatives are also being taken by DG XXIII to encourage subcontracting.

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