

## MEMORANDUM FROM THE DEPARTMENT OF FINANCE AND PERSONNEL

## THE SINGLE EUROPEAN MARKET : REPORT OF DEPARTMENTAL ACTION

## Introduction

This is the fourth paper to PCC providing an update of the action which Northern Ireland Departments have been taking in preparation for the completion of the SEM. The subject was last discussed at PCC in February 1991.

In order to make the report as concise as possible, we have only provided a brief update on reports in the last paper. The Memorandum largely follows the format of previous years but also includes a section on Maastricht and its possible implications for Northern Ireland.

**Section 1** summarises progress on the wider European level and the work of the Economic Steering Group which is tasked with the role of central monitoring of developments in the SEM and co-ordinating Northern Ireland's response to them.

**Section 2** reports on action to prepare the private and public sectors for SEM related activities and sets out the scope for further action during 1992.

**Section 3** gives an updated assessment of the cross-border dimension in relation to the SEM.

**Section 4** gives a brief report on the structural funds and the post 1993 situation.

**Section 5** briefly deals with the Maastricht agreement and how it might impinge on Northern Ireland.

[RA]CCav-3770a

CONFIDENTIAL

1. **THE SINGLE EUROPEAN MARKET AND THE WORK OF ESG**  
The responses to this survey have indicated that they  
**The European Community Perspective**
- 1.1 On the wider European level, it was reported in early December 1991 that 168 of the 282 measures proposed in the Commission's White Paper were in force. 204 had been adopted by the Council of Ministers and 78 further measures proposed to the Council by the Commission were still being considered. The Dutch presidency managed to get agreement on many issues in the normal end year rush and 80% of the original White Paper proposals had been adopted by the end of 1991.
- 1.2 However, much remains to be handled by the Portuguese and UK presidencies in 1992. The most sensitive remaining issues seem likely to continue to be frontier controls and the package of proposals on excise duty structure and rates. In addition, the following areas need to be tackled - the remaining proposals to open up public procurement and the insurance market; trademark regulation; company law; pharmaceuticals; telecommunications and data protection; food, animal and plant health; various transport measures; and directives on financial services.
- 1.3 **Implementation**  
The UK continues to hold third place in the current league table on implementation. However, the most recent Commission reports have shown other Member States, notably Ireland, Italy, Spain and Portugal catching up fast on the leading trio (Denmark, France and the UK).
- 1.4 The Single European Market Report of Departmental Action (PCC No. 91/4) noted that there was no central record in Northern Ireland of how we stand on the implementation of EC legislation. DFP indicated that it would contact Research Departments in order to examine the situation. As a first step, a survey of Departments was conducted in order to record procedures for the implementation of Directives, and to note

CONFIDENTIAL

CONFIDENTIAL

Departments' views on the adequacy of the present informal system. The responses to this survey have indicated that they are mainly depending on their GB lead Departments for information on proposed, or newly-passed Directives. While these informal relationships are usually satisfactory, some shortcomings have been identified, and DFP has been in contact with the Department of Trade and Industry, with the Cabinet Office and the Scottish Office in order to determine how the system of implementation procedures may be improved. A number of options are currently being explored.

**The Work of ESG**

- 1.5 Against this background, the Economic Steering Group has continued its remit of central monitoring of SEM developments and consideration of Northern Ireland's response to them. Within this broad area of work, the following topics have received particular attention:-

- (i) **The Continuation of Northern Ireland's Objective 1 Status.** ESG has discussed the need for NI to retain its Objective 1 status and how best this might be achieved. Members have noted, in particular, the importance of maintaining parity of treatment with the Republic of Ireland; the need for a clear agenda on the type of development programmes for which the Province would seek Structural Funds' support; and the priming of UK representatives to protect Northern Ireland's Objective 1 status in negotiations with the Commission. This is dealt with further in Section 4.
- (ii) **Consumer Aspects of 1992.** Previous discussions at ESG have concentrated on the implications of the SEM for NI producers. To widen the perspective, Professor J Fitzgerald (Economic and Social Research Institute) gave a presentation to ESG assessing the potential effects on consumers. He argued that, from a consumer viewpoint, the most relevant impact would be

CONFIDENTIAL

CONFIDENTIAL

determined by greater centralisation and concentration within the distribution and retailing sectors respectively. He noted, however, that the UK already had an efficient, low priced distribution sector and any major price reductions were therefore unlikely. Moreover, he argued that any benefits from this source might be offset by greater concentration within the retailing sector which would entail less (price) competition. He concluded that, on balance, the SEM impact on consumers in NI in terms of price changes might be broadly neutral.

- 1.6 In last year's report to PCC, it was noted (Annex 3) that the UK's entry into the Exchange Rate Mechanism (ERM) in October 1991 had added a new dimension to EC issues. It was pointed out that the original ERM participants had achieved greater exchange rate and interest rate stability and that inflation rates had converged to low single figures. From a UK perspective, it was further argued that unemployment could only be reduced if domestic costs were contained and that this would require the modification of entrenched wage setting behaviour. Since then, UK inflation and interest rates have indeed converged towards German levels but unemployment has increased substantially. The impact on competitiveness is less certain - while the rate of increase of average earnings has moderated, the gap in producer price inflation between the UK and Germany has shown little sign of narrowing over the past year. It is of course impossible to determine to what extent these economic trends can be attributable to ERM membership since this pattern of events might have been expected anyway given the recessionary conditions prevalent in the national economy over this period.

- 1.7 Last year's paper also noted that a joint NIEC/DFP/DED steering group had been established to oversee a research programme into SEM issues. The project has now completed its first stage with the construction of a common methodological

CONFIDENTIAL

CONFIDENTIAL

framework to be adopted by the researchers in their sectoral studies. The second stage will begin shortly with the appointment of the researchers to investigate the various sectors.

- 1.8 It is important to note that the process begun by The Single European Act is still gathering momentum and its developing impact will extend well beyond the 1992 target date. For example, agreement has been reached in principle to link the EC and the European Free Trade Area (EFTA) to form a 19-nation European Economic Area. On ratification, most of the SEM legislation will be extended to EFTA countries thereby creating a market with a total population of some 375 million. It is proposed that ESG should maintain its programme of work to monitor SEM issues.

Northern Ireland has also developed its own sources of advice through private sector bodies - in line with other regions of the UK. These sources are listed in a DTI publication entitled 'The Single Market - Guide to Sources of Advice' covering both regional and national bodies. The publication is updated regularly.

- 2.1.2 DED has received approval for three Operational Plans for Northern Ireland. The STRIDE Programme aims to strengthen research, technology and innovative development. The TELEMATIQUE Programme is an extension of the STAR Programme and promotes the use of advanced telecommunications by industry and commerce. The PRISMA Programme will provide improved calibration and accreditation facilities to ensure that local industry can compete in the Single European Market with appropriately licensed products. The FE implications of these Programmes will have to be kept under review.

[RA]CCav-3770b

SG/MM/BC

CONFIDENTIAL