

ESG Members

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SINGLE EUROPEAN MARKET - 1992

I referred briefly to developments on this front at our last meeting and I now enclose a copy of Sir Kenneth Bloomfield's paper to Ministers on the likely impact of SEM on Northern Ireland economy, and a brief summary of the work going on in departments to meet the various challenges. The paper has been issued to PCC members.

You will see that the paper envisages a role for ESG in monitoring the various activities across departments. I suggest that we take the topic as an agenda item at our next meeting, when we can discuss the procedures and work plan that we might wish to adopt.

JL Semple

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26 May 1989



As Requested .

With the Compliments
of
The Head of the Northern Ireland Civil Service

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FROM SIR KENNETH BLOOMFIELD

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cc. PS/Ministers B&L - B
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PS/Secretary of State B&L - B

THE IMPLICATIONS OF THE SINGLE EUROPEAN MARKET FOR NORTHERN IRELAND
 AND DEPARTMENTAL ACTION

1. The Commission White Paper of 1985 identified three measures necessary for the achievement of the single market of 320m people:
 - (a) the removal of physical barriers such as customs controls
 - (b) the removal of technical barriers such as rationalisation of national standards, free movement of labour and professions
 - (c) the removal of fiscal barriers such as harmonising indirect taxation.
2. The commitment of Member States to ensure progress towards the Single Market was underlined by the adoption of the Single European Act on 1 July 1987. This Act is regarded as marking a new phase in the development of the EC. It has replaced the original Treaty requirement for decisions to be taken unanimously with a requirement for a qualified majority regarding measures which relate to the establishment of the internal market. The creation of the single market is allied with a commitment by the Community to reduce disparities between the various regions. This objective is being pursued by action through the Structural Funds.
3. This paper, prepared to reflect extensive discussion at PCC, has the objective of updating Ministers on the impact of the Single European Market (SEM) in Northern Ireland.

Section 1 Draws on a recent consultancy report on the likely impact of SEM on Northern Ireland Economy.

Section 2-3 Identify the work going on in Departments to prepare the private and public sectors for the changes.

Section 4 Considers the Cross-Border dimension.

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Section 5

Further actions to ensure that Government continues to exercise effective leadership in relation to SEM developments.



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DR. [REDACTED]

1. 1992 IMPACT IN NI ECONOMY
 - 1.1 PCC discussed "1992: Completing the Single European Market" on 8 March 1989. The discussion opened with the presentation of a study by PA Cambridge Economic Consultants which was aimed at identifying the effects of completion of the internal market on Northern Ireland. This section draws on the Consultants report.
 - 1.2 The Cecchini Report (1988), sponsored by the Commission has attempted to quantify the overall economic effects. This estimates that, if there is full implementation of the proposals, the SEM could result in an initial loss of jobs (as regional economies adjust) but in the medium term about 5 million new jobs could be created with an increase in GDP of 7% over the community as a whole. It is, however, extremely difficult to assess the division of these benefits between Member States and trying to break this down into the impact on individual regions, companies or social groups is all the more difficult. Clearly, the SEM represents an extended domestic market within which the driving force will be increased competition which should encourage efficiency in production and reduce costs. The effect on any one region will be determined by the balance between two effects; first, to what extent will the overall increase in EC growth rates 'trickle down' to the regions? Second, will increased competition shift economic activity in favour of, or away from the region?
 - 1.3 Northern Ireland has a number of characteristics which distinguish it from other regions of the UK and which will be significant in determining the impact of the SEM:

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- (1) peripherality, which has always been a concern for Northern Ireland, is likely to become more pronounced as a result of the drift towards a new central core within the Single Market and this will be further accentuated when the Channel Tunnel opens in 1993. Measures which address the Region's peripherality must be a major element in any strategy for 1992;
- (2) Northern Ireland is the only region of the UK with a land frontier. The issues which this raises are considered further in this paper but it is clear that there will be a sharp increase in economic competition with the Republic of Ireland, especially in the distribution sector. Action needs to be taken to anticipate this and influence the outcome.
- (3) The structure of industry in Northern Ireland includes a relatively high proportion of small to medium-sized local business. Increased competition is likely to lead to rationalisation and the ability of smaller firms in Northern Ireland to match multi-national's ability to benefit from the economies of scale offered by the enlarged market is worrying. A sustained emphasis on improving the competitiveness of local industry is essential if the region is to gain significant growth benefits to offset the potential economic losses associated with the SEM;
- (4) The public sector, which accounts for 38% of employment, is particularly dominant in Northern Ireland. Public expenditure is equivalent to 63% of GDP. The opening of public procurement will have important implications for local suppliers. This is a major concern for the regional economy and will need careful handling within the constraints of the EC procurement directives.

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- (5) Northern Ireland's image as an area of political instability is a long-standing handicap and is bound to be a serious impediment as the region attempts to adapt to the economic opportunities arising from the SEM.

1.4 However, Northern Ireland has a number of advantages in responding to these issues. These include:

- (1) The overall Industrial Development package, taking full account of incentives, the quality, cost and availability of labour, infrastructure and environment should be attractive in European terms. Moreover demographic factors may make the region more attractive to inward investors. Within the EC only the Republic and some Southern regions of Spain and Italy have higher proportions of young people.
- (2) The Region has relatively little activity in some of those sectors which are considered likely to be the most affected, such as Motor Vehicles, Pharmaceuticals and Financial Services. On the other hand, it is worth noting that the Food Industry which is relatively important locally has been identified as one which will be subject to considerable change.
- (3) Northern Ireland's status as the only Objective 1 region in the UK, qualifies for special structural fund assistance. Ministers will be aware of the submission to the EC on the Regional Development Plan for Northern Ireland in March 1989: supporting earning measure submissions and programmes are currently being prepared by Departments and will be submitted to the EC during the rest of this year. One problem, however, is that the advantages of Objective 1 status are obscured by the UK's position on additionality. In particular, it is not possible to show direct additionality to the region from the EC support. All receipts are taken to the Exchequer

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and, at a subsequent stage, are taken into account when the Public Expenditure Total for the region is set. While the Secretary of State has recently secured a small addition to the PE total, which will ease the problems that would otherwise have arisen from EC support for Local Authority and private sector projects, no credit can be taken for this publicly although the practical effect will be that the project sponsors receive the EC grant aid. Additionality is an issue on which Ministers are likely to face increasing criticism from local politicians who will take the line that Northern Ireland is not benefitting from the funds which the EC is allocating to assist the region to adapt to the SEM. Given the fact that most NI services are administered by Central Government, additionality at regional level would always be difficult to prove. While additionality is also an issue in all the GB earning regions, criticism is likely to be particularly pronounced in Northern Ireland because of our Objective 1 status and the comparisons which can be made with the Republic of Ireland - which operates a system of direct additionality for EC funds under a very different structure for the delivery of public services.

- 1.5 In looking ahead the Consultants recommended a continuing need for the dissemination of information, and strong leadership to ensure that companies were in a position to respond to the opportunities and threats of the market. This would include the promotion of marketing skills, formation of allowances with companies here and abroad, retaining and encouraging key personnel and companies, courting non EC investors, and optimising the use of the Structural Funds.
- 1.6 Many of these issues are, of course, already being addressed by Northern Ireland Departments. The remainder of this paper summarises the work already going on within Departments to ensure that the private and public sectors are aware of the

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SEM implications, are able to deal with the threats and are responsive to the opportunities.

2. PRIVATE SECTOR

- 2.1 The Government Campaign to raise awareness and disseminate information on the SEM has been operated on a nationwide basis by DTI. DED has been closely involved with DTI since the awareness campaign was launched to ensure the prompt distribution of information and briefing material. DTI, with the assistance of DED, IDB and LEDU, recently organised a local conference attended by approximately 200 representatives of the business community in Northern Ireland, and other local conferences have been supported. In conjunction with the Department of Industry and Commerce in Dublin, DED also organised a joint North/South Conference on the Single Market at the Irish Institute for European Affairs at Louvain, Belgium, attended by Ministers of both Governments, senior representatives of the European Commission, and about 50 leading figures from the industrial and commercial communities from both sides of the Border. In order to develop a more locally-focused approach to awareness activities, DED took the initiative in establishing a 1992 Co-ordinating Committee, under aegis of Industry Matters, and involving representatives of the industrial and commercial community and Government. Within DED a small group has been established to co-ordinate the efforts of the Department and its two main industrial development agencies, and to ensure that action is taken to plug any obvious gaps, where action is perceived to be necessary. The Government Campaign is now moving from one of awareness towards greater emphasis on understanding and action. The strategies of both IDB and LEDU are already directed towards measures to increase the competitiveness of local industry, which will be central in the run-up to 1992 - research and development, design, quality, marketing, exporting and management development.

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2. IDB are now contacting all client companies through a comprehensive visiting campaign with the objective of assessing how local industries are approaching 1992. This work will identify the threats and opportunities as seen by particular sectors. One of the elements which IDB is particularly conscious of is the increased impetus which the SEM is likely to give to both vertical and horizontal integration and the probability that this will reinforce the tendency for ownership and control of local industry to shift outside Northern Ireland. On the positive side, IDB have, for some time, been successfully using the SEM concept as a marketing and promotional weapon in its efforts to attract new investment from abroad, especially the Far East. Additionally, IDB's programme of trade missions and attendance at trade fairs has been increasing the emphasis on continental Europe as the prime target of export activity. The Marketing Intelligence Centre within IDB is the most extensive source of information on EC markets in Northern Ireland and the demands for its services have doubled in the last 18 months.

2.3 LEDU has recently published a booklet on the Single European Market which includes an action checklist for small businesses, together with an exporters handbook and a booklet on the preparation of a marketing plan, all of which are geared towards 1992. A recent study has indicated that 42% of LEDU's clients with more than 5 employees have some sales outside Northern Ireland. With this in mind, LEDU has organised a series of sectorally-based seminars, with particular focus on marketing in the SEM, to be held during May. The European Commission recently issued an invitation for tenders relating to the extension of the current network of Euro Info Centres, and in recognition of the importance of small and medium-sized businesses in the economy, DED in conjunction with LEDU and IDB decided that an application for the establishment of a Centre in Northern Ireland should be lodged. These Centres offer local businesses direct access

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to information emanating from the EC on support measures, community legislation, technical standards, public procurement etc. It was agreed that LEDU would take the lead in the preparation of the application, and if successful, would serve as the host organisation, but incorporating a networking arrangement with other agencies, both public and private, in the field of economic development. The application has been lodged with the Commission, and while no formal decision has been announced as yet, the application is expected to be successful, with the Centre in operation by the Autumn.

- 2.4 Industrial Science Division, as the technical arm of DED, has a crucial role to play in assisting businesses to prepare for the Single Market and, as part of the development of its corporate strategy, it is examining ways in which it can extend its current information dissemination activities to ensure that local firms have access to up-to-date information on the new technical standards emerging from the Single Market programme.

Agriculture Sector

- 2.5 The prospects for agriculture are inextricably bound with the prospects for the food processing sector in general and there are concerns as to how the relatively fragmented structures, particularly in relation to marketing, will deal with the potentially greater opportunities to trade high quality, high value product on equal terms with competitors. The ROI may be better placed and organised to take such opportunities. Whilst trade through ROI processing outlets may provide equal benefit to the NI producer, there would be a net loss of local value added output.

There are specific concerns on the implications of frontier control relaxation in relation to the spread of plant and animal disease. The Commission's proposals for export

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certification, random import checks etc are receiving little support from many of the Member States and DANI are keeping in close touch with MAFF as negotiations proceed.

The EC's current agrimonetary system which involves the use of fixed "green" rates and Monetary Compensatory Amounts is extremely complex and unwieldy and in some cases causes trade distortions and provides encouragement for smuggling across boundaries. The Commission propose to abolish MCAs by 1992. This is strongly supported by the UK Government and would be very helpful in reducing the scope for fraud from illegal movements. There are likely to be great difficulties with this issue over the next few years given the divergent national interests which will have to be satisfied.

Construction Industry

2.6 The proposed EC supplies and works procurement directives will open up the construction market to increased competition. DOE(NI) will review the impact on contracting and purchasing policy and is keeping abreast of UK policy through membership of a DOE(GB) led working party. It is also worth noting that there are a number of Civil Engineering Groups in Northern Ireland which are already active in pursuing contracts for their services in overseas markets and these may now be able to take advantage of opportunities in Europe.

Transport Industry

2.7 It has already been noted that transport links are vital to a peripheral area such as Northern Ireland. The Region has a particular interest in the extent to which increased competition in external transport services (both air and sea) can reduce fares transport costs. The SEM will enhance business opportunities for Northern Ireland operators, and it is DOE's view that they are more likely to gain rather than lose by freer movement of transport. Port operators are

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particularly conscious of the potential competition from across the border. Belfast, for example, operates services three times a week to Rotherdam and are hoping that this will increase to a daily service if the increase in trade up to 1992 justifies it. However, Belfast Port is also anxious about the effect that extra funds for Port investment in the Republic may have. Clearly a modern port in the South of Ireland with better access to the South of England and the Channel Tunnel link could pose a significant threat. There are grounds for concern that Holyhead rather than Liverpool will develop as the Channel Tunnel Link Railhead.

The Distribution Sector

- 2.8 This is an area where there is likely to be far-reaching change. Northern Ireland has a system of distribution in which local intermediaries and agents still play a major role. This has been changing but more slowly than in GB and the pace of change could be greatly accelerated by the SEM as UK and European organisations increasingly try to streamline the distribution process and cut out 'middle men' in order to reduce costs. There will, no doubt, be opportunities for Northern Ireland based traders to extend their distribution networks to the ROI but, on balance, there could be a considerable threat to the local trading sector. The other side of this problem, however, is that increased competition and efficiency in distribution should be reflected in lower prices to local consumers.
- 2.9 It seems clear that the distribution sector could be one of the main areas of cross border competition with companies regarding the island of Ireland as one market which merits a single distribution point. In these circumstances the attractions of the South will have to be countered. It is essential, therefore, to ensure that there are clear lines of responsibility for the distribution sector within Government and to develop an active policy to influence events.

3. PUBLIC SECTOR

3.1 The main implications for the public sector of SEM can be considered under the headings of

- (1) Issues connected with changes in Public Procurement procedures
- (2) The volume of changing EC regulations and specifications
- (3) Educational initiatives

Public Procurement

3.2 It has already been noted that the scale of public expenditure in Northern Ireland ensures that public procurement is of major importance in the local economy. Total procurement expenditure in the region is of the order of £800m per annum. The EC Public Supplies Directive will only apply directly to public sector supplies procurements in excess of £140,000 approx and projects funded by the EC and these obviously represent the largest and most lucrative contracts for local suppliers. Wider competition should lead to lower costs and EC studies have estimated that the cost of national tendering adds 0.6% to EC GDP. Departments and their associated public sector bodies with major purchasing responsibilities (eg DHSS, DOE, DENI) will need to become familiar with the new procedures, and there will be initial learning curve problems whilst these are assimilated. The procurement process will also inevitably take longer, as prescribed periods for responses to tenders etc will be built in to ensure fair competition for all parts of the EC. The Central Unit on Purchasing (NI) in DFP is alert to the implications and is charged with keeping Departments and other public bodies abreast of their changing responsibilities.

3.3 It is already clear that this aspect of the SEM will be actively policed and enforced by the Commission. A crucial point for Northern Ireland, therefore, will be the difficulty of retaining any overt local sourcing preference (a 5% local preference scheme operates at present). With wider tendering it seems inevitable that a higher proportion of sourcing will shift outside the region and this emphasises the importance of the work being undertaken to ensure that local manufacturers are aware of the implications of the procurement directive and that public purchasing organisations are alert to the implications of their actions for the local economy. Clearly, it is also essential that local suppliers with the potential to export should be alert to the introduction of mandatory European standards to which they must conform and that they should be encouraged to tender for public contracts in the ROI and other EC markets. CUP(NI) and IDB's Local Sourcing Unit are establishing a procedure which should ensure that local companies are kept fully informed on public procurement opportunities within Northern Ireland. The Local Sourcing Unit will use the same procedures to inform local companies of public procurement opportunities within the EC; this data will be available to IDB via the local networking of the "Euro Information Centre" referred to in para 2.3.

4 Similar issues arise as a result of the Public Works directive, whereby all public works contracts in excess of £3.5m approx must go to open EC tender. £75m worth of contracts fall into this category in the current year and, again, will require purchasing Departments and public bodies to be aware of the new processes. DOE(NI) will take the lead in assessing the implications for local purchasing bodies in respect of this directive. Some purchasers have attempted to introduce 'local labour' clauses into such contracts in an effort to ensure that jobs created go to local people. It is

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significant that where these cases have ended up in EC Courts strong action has been taken and grant aid has been stopped. This emphasises that the increasing application of EC procurement procedures will also limit our ability to promote a significant local sourcing element in the expenditure which we allocate for special sub-regional initiatives such as Making Belfast Work and the Londonderry Initiative.

Changing EC Regulations and Specifications

3.5 One of the features of SEM is the sheer volume of new EC legislation and directives. The agenda for completing the market consists of some 300 legislative proposals and the majority of these are scheduled to be tabled by the end of this year. It is worth noting that about a quarter of the measures relate to agricultural/veterinary controls. Other examples are: changes in specifications and codes to allow for the use of any material or designs produced in EC to be used in contracts in NI, construction products directive which impacts on NI Building regulations, new IT standards to be incorporated in public sector procurements. Keeping abreast of these changes as they emerge from Brussels is a major task in itself. Departments are already alert to this and maintain links with both Whitehall Departments and Brussels on EC issues. Moreover, the Department of Finance & Personnel has a co-ordinating role in relation to EC issues and will assist Departments by the dissemination of information relating to SEM.

3.6 It must be acknowledged, however, that Northern Ireland's direct links with Brussels seem to be relatively narrow in comparison with other high priority regions and this must be a weakness at a time when EC institutions are significantly extending their influence through the introduction and regulation of the SEM. Increasing attention has been given in recent years to encouraging the secondment of staff but it is still the case that relatively few Northern Ireland personnel work in or have experience of the Commission.

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Educational Initiatives

3.7 DENI has already been involved in three EC programmes:

COMETT, where the principal objective is the strengthening of co-operation between higher education and industry and commerce in the field of training as a means of enhancing the Community's ability to respond to the challenges posed by technological and social change;

ERASMUS, with objectives of freedom of movement within EC and increased co-operation within education; and

THE EUROPEAN STUDIES PROJECT, which links secondary schools in Europe through an electronic mail network.

3.8 The Single Market is bound to increase the importance of EC citizens having more than one language, and firms involved in business negotiations, responses to tenders, and marketing will increasingly need to be able to respond quickly in other EC languages. DENI is keeping in touch with the development of EC proposals for a new programme, entitled LINGUA, designed to promote education and training in the languages of the EC. DENI has also set up an internal working group to consider what steps should be taken in education to prepare for the Single Market. It is focusing on three main themes:

- (1) achieving greater competence in spoken European Languages;
- (2) promoting education about Europe; and
- (3) promoting education in Europe.

The working group is aiming to produce its report in June.

4. THE CROSS BORDER DIMENSION

- 4.1 Departments will be considering further whether, and in what way, SEM represents an opportunity for increased Anglo-Irish co-operation. It has been pointed out that there are similarities between the two economies: small home markets, peripherality, high transport costs, dependence on inward investment large agricultural and large public sectors. While this may produce some scope for co-operation it is also likely to reinforce economic competition and, as this paper has made clear, there are many areas in which the Irish must be seen as potential competitors. This is particularly obvious in the case of external transport links - both regions have a strong interest in efficient external links but also a strong interest in ensuring that their local links do not lose business across the border. The Irish have raised the possibility of tackling the scope for co-operation at Conference level and Central Secretariat are pursuing with Departments whether there is a need for such formal structures.
- 4.2 Government in the Republic has been active in promoting awareness of 1992 issues among industry. Indeed the profile of EC issues tends to be high in the Republic not least because of the obvious importance of EC funding and the impact of direct additionality. This was recently reflected in the prominence given to the preparation of their National Development Plan which has been submitted to the EC, as an application to the Structural Funds. The Northern Ireland Plan was submitted at the same time and both plans have sections on cross-border arrangements and recognise that further opportunities may be forthcoming in the context of the SEM. The Irish will again hold the Presidency of the Council of Ministers in the first half of next year. European issues are therefore likely to loom very large in the Irish consciousness, and this may serve also to heighten their profile in Northern Ireland.

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4.3

The Republic is likely to be seriously worried about the impact of 1992 on cross-border trade. Cross-border personal shopping has in the past caused serious losses to traders in the South and to the Irish Exchequer, provoking the Irish Government to impose its '48-hour rule' in 1987. The rule is almost certain to be judged illegal by the European Court this year or next, in principle opening the way to the trade as before. Taxation policy after 1992 is still in a state of flux; absolutely unlimited imports and exports now looks unlikely to be permissible from the start; but the likelihood is that travellers' allowances will increase, and commercial trade will become more liberal. The Irish may well seek and obtain special treatment of some sort. But if they are seen to be protected from Northern Ireland competition, while competing with Northern Ireland in other spheres, the matter could become controversial.

4.4

The question of physical controls at borders, especially on people, is a contentious one within Europe. The implications for Northern Ireland will be the subject of another submission, to follow shortly.

5.

1992 - FURTHER ACTION

5.1

While it is evident that it is difficult to make a precise assessment of the effects of the Single European Market, this paper has identified the broad issues for Northern Ireland and reviewed the action being taken. There is, of course, some uncertainty about the rate at which the EC will succeed in moving towards its goal of removing all barriers to internal trade, but it is already clear that the pace of change is likely to be at a peak in the coming year. Both the public and private sectors will need to keep abreast of the large number of measures emerging from the European Legislative process. The current workload for Departments in relation to EC activity is likely to increase in intensity and the SEM will increasingly demand the attention of the business sector, as well as attracting the interest of the

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is undertaken into the impact of EC developments on Northern Ireland; and

(5) that attention is given to the positive presentation of the whole Government effort in relation to the preparations for 1992.

5.4 In conclusion, Ministers are asked to note this broad review of the implications of the SEM for Northern Ireland and the actions of Departments. It is proposed that ESG should produce a further progress report for PCC and Ministers in the Autumn and at appropriate intervals thereafter.