

Incidental Paper

**EC '92: The Making of a
Common Market in
Telecommunications**

Morris H. Crawford

Program on Information Resources Policy

Harvard University

Center for Information
Policy Research

Cambridge, Massachusetts

An incidental paper of the Program on Information Resources Policy.

EC '92: The Making of a Common Market in Telecommunications

Morris H. Crawford

July 1988, I-88-2

Project Director
Oswald H. Ganley

The Program on Information Resources Policy is jointly sponsored by Harvard University and the Center for Information Policy Research.

Chairman
Anthony G. Oettinger

Managing Director
John C. LeGates

Executive Director
John F. McLaughlin

Executive Director
Oswald H. Ganley

Morris H. Crawford is the President of International Informatics, an economic research and consulting firm.

Incidental papers have not undergone the reviewing process the Program requires for formal publication. Nonetheless the Program considers them to merit distribution.

Copyright © 1988 by the President and Fellows of Harvard College. Not to be reproduced in any form without written consent from the Program on Information Resources Policy, Harvard University, 200 Aiken, Cambridge, MA 02138. (617) 495-4114. Printed in the United States of America.

PROGRAM ON INFORMATION RESOURCES POLICY

Harvard University

Affiliates

Center for Information Policy Research

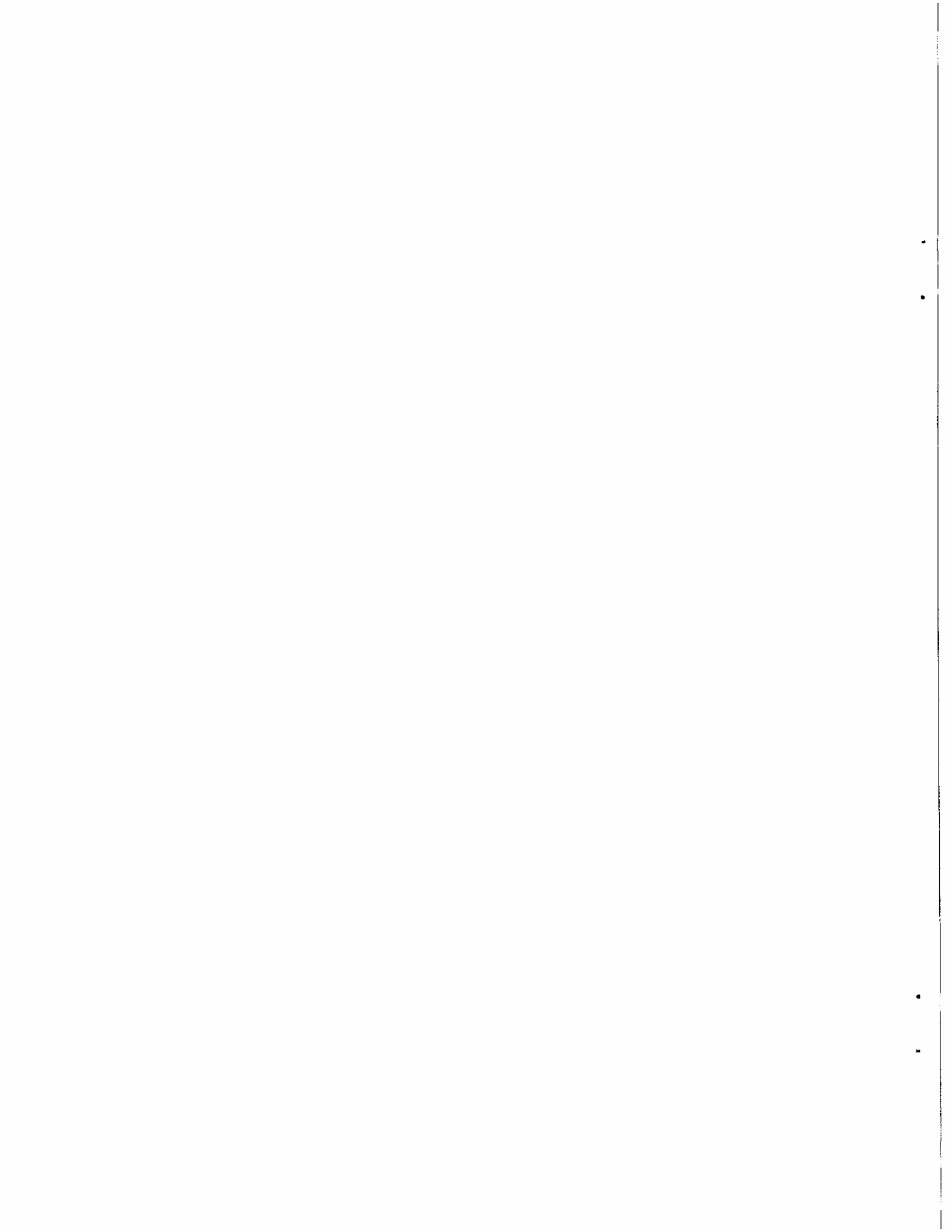
Action for Children's Television
 American Telephone & Telegraph Co.
 Ameritech Publishing
 Anderson, Benjamin, Read & Haney, Inc.
 Apple Computer, Inc.
 Arthur D. Little, Inc.
 Auerbach Publishers Inc.
 Automated Marketing Systems
 Bell Atlantic
 BellSouth Corporation
 Booz-Allen & Hamilton, Inc.
 Bull, S.A. (France)
 Centel Corporation
 CMC Limited (India)
 Commission of the European Communities
 Communications Workers of America
 Computer & Communications Industry Assoc.
 Continental Graphics Corp.
 Copley Newspapers
 Data Communications Corp. of Korea
 Department of Communication (Australia)
 Dialog Information Services, Inc.
 Direction Generale des Telecommunications
 (France)
 Dow Jones & Co., Inc.
 EIC/Intelligence Inc.
 Gannett Co., Inc.
 Gartner Group, Inc.
 GTE Corporation
 Hitachi Research Institute (Japan)
 Honeywell, Inc.
 IBM Corp.
 Information Gatekeepers, Inc.
 Information Industry Association
 Interconsult
 International Data Corp.
 International Resource Development, Inc.
 Invoco AB Gunnar Bergvall (Sweden)
 Knowledge Industry Publications, Inc.
 Korean Information Society Development
 Institute
 Lee Enterprises, Inc.
 John and Mary R. Markle Foundation
 Martin Marietta Corp.
 MCI Telecommunications, Inc.
 McKinsey & Co., Inc.
 Mead Data Central
 MITRE Corp.
 National Telephone Cooperative Assoc.

The New York Times Co.
 NEC Corp. (Japan)
 Nippon Telegraph & Telephone Corp.
 (Japan) Northern Telecom Ltd. (Canada)
 Nova Systems Inc.
 NYNEX
 The Overseas Telecommunications Commission
 (Australia)
 Pacific Telesis Group
 Pitney Bowes, Inc.
 Public Agenda Foundation
 Research Institute of Telecommunications and
 Economics (Japan)
 RESEAU (Italy)
 Rizzoli Corriere della Sera (Italy)
 Saint Phalle International Group
 Salomon Brothers
 Scaife Family Charitable Trusts
 SEAT S.P.A. (Italy)
 Southam, Inc. (Canada)
 Southern New England Telecommunications
 Corp.
 State of California Public Utilities Commission
 State of Minnesota Funding
 TEKNIBANK S.p.A. (Italy)
 Telecommunications Research Action Center
 (TRAC)
 Third Class Mail Association
 Times Mirror Co.
 United States Government:
 Department of Commerce
 National Telecommunications and
 Information Administration
 Department of Defense
 National Defense University
 Department of Health and Human Services
 National Library of Medicine
 Department of State
 Office of Communications
 Federal Communications Commission
 General Services Administration
 National Aeronautics and Space Administration
 National Security Agency
 U.S. General Accounting Office
 United States Postal Rate Commission
 United Telecommunications, Inc.
 US West
 The Washington Post Co.



TABLE OF CONTENTS

Executive Summary	i
Introduction	1
A Political Agenda	2
The Interests of Others	4
The EC Process	5
The Competition of the Systems	7
Shifting Alliances	14
The Green Paper On Telecommunications	15
Areas Where Consensus Exists On Community Wide Policy	16
Areas Where Consensus Requires Further Consideration	17
Areas Where Existing Programs Should Be Strengthened	18
The Present Status	19
Putting The Parts Together	22
Acronyms	26
Notes	27



Executive Summary

The European Community is at mid-point in an all-out drive for full economic integration. EC'92 presents complex and controversial issues that make the outcome uncertain in timing and content. Yet at the half-way mark, it seems highly probable that the Community will emerge in 1992 with greater power and influence over global trade and investment. What is not clear is the extent to which the new regime will be protective or liberalized. But it does seem probable that the U.S. and other nations will be dealing with a radically changed Common Market in the 1990s.

A key goal for EC'92 is a Common Market in telecommunications, principally as a means of strengthening high tech competitiveness. A consensus has been reached on some controversial issues, such as permitting public monopolies to compete in enhanced services markets. But several critical questions vital to high tech objectives are not yet resolved. Of particular importance are: Common standards for costing and pricing; open standards for leased line uses; harmonized telecommunications policies that are not overly protectionist; and a politically acceptable balance between the regulated and the partly deregulated national systems.

It is unclear whether EC'92 will lead to a sufficiently open telecommunications environment to fulfill the plan's high tech objectives. Many outside observers predict that an insular Common Market, more integrated within and more protective without, will emerge. However, steps already taken in finance and investment suggest considerable advances for unified and liberalized marketing, and the economic forces that have produced these trends are elsewhere operative. The advocates of open and deregulated telecommunications have also grown in strength and are both powerful and influential in several key countries.

Regardless of its liberal or protectionist coloration, the Common Market of the 1990s will almost certainly present international telecommunications and trade issues in a new and different context.



Introduction

Three years ago the European Community (EC) unveiled a new strategy for intensive economic integration. The plan called for seven years of carefully synchronized action on 300 propositions for national enactment. Many EC watchers dismissed the plan as just one more bureaucratic non-finisher. With the Community vigorously negotiating and clearly staking its future on a successful EC'92, that judgement begins to look wrong. In fact, the US and other nations now seem likely to face a substantially changed Common Market in the next decade.

Far from evident, however, is the kind of market system likely to emerge in 1992. The negotiations have defined the issues and a consensus has been reached on many of them. But the level and form of integration is uncertain. Because of deep divisions within the Community on crucial questions regarding market competition, external relations, and deregulation, important questions of common policy remain unanswered.

The questions at issue permeate debate in the telecommunications negotiations. Telecommunications lies at the heart of the EC'92 high tech objectives. Telecommunications raises fundamental governance issues that the Community faces in other spheres of activity. A consensus has been reached on technical and policy questions that may be compared to the telecommunications portions of the 1988 US-Canada Free Trade Agreement. But EC'92 aspires to a much higher level of market integration than the US-Canada Agreement, and therefore requires a much higher order of consensus on policy than is now evident. The

fundamental nature of policy after 1992 is left in doubt by many unresolved questions.

EC'92 is designed to resolve such policy issues by compromise, based on the mixed systems of its members. The process is intended to produce Community-wide rules that will either harmonize differences among the national systems or create a compromised political mean of the mixed systems. Because of its laboriousness, the results of this effort may be uncertain for a long while to come. Despite these uncertainties, however, potential changes are of sufficient global importance to require an examination of the process aimed at forming this "New Common Market."

A Political Agenda

The Community program aimed toward EC'92 began in 1985, when the Commission of the European Communities issued a White Paper called Completing the Internal Market,¹ a plan for completing by 1992 the economic integration which had been called for in the Treaty of Rome² nearly thirty years earlier. This White Paper has served as the basic document for negotiations and is the progenitor of untold numbers of meetings and analytical and decision papers on integration issues. In 1987, the Commission released a Green Paper,³ which is a plan of action for policy on telecommunications that is filling a similar role on these issues.

The Commission's formulations reflect the frustration of living for three decades with a Common Market that does not match the lofty intentions of the Treaty of Rome, one perceived cost of which is a handicapped high tech industry. Many Europeans believe their high

tech firms would benefit from an integrated market, where R&D would be more effective and large scale production and sales more easily assured.⁴ This is a major motivating factor in the EC'92 effort, and one reason why telecommunications and information products and services have near top billing. These services already comprise a \$90 billion a year market. Many analysts think the industry is behind in technology and is underinvested and over-controlled. More dynamic telecommunications, they say, would bring new vitality into European business and help its information- and science-based services compete in world markets.

The Commission's answer is an interactive program to grind out a legal framework, on a schedule of step-by-step decision making by the Community headquarters in Brussels and its members in Europe's capitals. Its proposal spells out specific steps for setting up a "single internal market without frontiers". These plans were completed in close coordination with governments and were quickly approved by the Council of Ministers. A political "point of no return" was reached when the Parliaments of the twelve Community member countries, as well as the Parliament of Europe, approved the Single European Act,⁵ and a later summit meeting endorsed the EC'92 program. The plan is now a familiar and accepted agenda in every Community member nation. The larger European corporations, including US subsidiaries, are plotting strategies for taking advantage of open borders. With this in mind, merger fever is rising. The daily press reports regularly on the EC program and other media follow the debate as an issue of continuing interest.

Most importantly, EC'92 is coming to center stage on the domestic political scene in the Community countries. Political leaders see it as something it pays to talk about, even when they shy away from commitments on specifics. Interest groups who believe they may be affected by the integration legislation are lining up to make sure their positions are properly dealt with. French President Mitterrand began his reelection campaign with a patriotic ditty, "Gentle France, Dear Country of My Childhood," but followed a few minutes later with an appeal to join him in meeting the challenges of a European Community without trade barriers.⁶ His opponents delivered a similar message. While not quite as lively a topic elsewhere, the EC'92 target has become an accepted political commitment throughout the Community. Politicians in the various nations are competing for who can best lead into the new era, and who can best defend the nation's interests in jobs and money.

The Interests of Others

It is not just the Europeans who have stakes in EC'92, however. The implications for the rest of the world are less compelling only by comparison, and because they are less understood. It is not yet evident just how their interests will be affected, but it is clear that there is a great potential for a successful EC'92 to benefit or damage other countries. A more insular Europe could do others irreparable harm. Europeans who are not a part of the Community could be devastated. Developing countries could be seriously set back, particularly those wanting to export their growing industrial output

and uncertain about selling in the US. A more closed European Community could also cause damage to Japan and North America.⁷

A liberalized Common Market, on the other hand, could inspire the regional trade movement in Asia and elsewhere. It could bolster economic performance in other parts of the world by stepping up laggard European economies and generating greater demand for goods and services from the Community's trading partners. One gauge of the Market's potency is its 35-40 percent of global trade, half inside and half outside the Community. As Commission calculations indicate, a program that raised intra-EC trade by 50 percent or more in the first 10 years could add as much as 1 or 2 percentage points to the 5-6 percent average growth rate of global trade.

New markets approximating \$200 billion annually inside 10 years constitute a significant stake in EC'92, but only to the extent that EC integration is trade-creating and not trade-diverting. The plan lays out the questions and provides a time table for finding answers, but it cannot decree how the market is to be integrated. These are questions for negotiation among EC governments. Answers are now being filtered through a small army of professionals, technicians, public administrators, business executives, and legislators, all essential for guiding the policy makers on the complex technical regulations.

The EC Process

The process leading to integration is not simple. It involves harmonizing policies of nations with differing economic controls and endless numbers of technical requirements. The complexities are magnified because EC'92 is not only aiming at border barriers -- value

added taxes, tariffs, duties, quotas, frontier formalities, and similar impediments to trade. It is also targetting the rules and controls over how domestic business is conducted. The potential impact of EC'92 extends beyond trade per se, for higher degrees of standardization are sought in virtually all areas of economic activity, not just those directly related to border transactions. Sectors that cut across many activities are critical targets, such as regulations and standards in transportation, telecommunications, capital investment, corporate law, and finance. Ironing out every problem seems impossible, and even picking key standards is tricky and contentious.

The stated goal of the White Paper plan is the completion of the Common Market objectives written into the Treaty of Rome thirty years ago, but in actuality, the 1992 and the 1950s goals differ perceptibly. Today's planning reflects three decades of experience and a keener sense of what a unified market area can do for future high tech economies. The Treaty of Rome was never meant to merely eliminate barriers between the signatories. It was also intended to produce uniform conditions governing economic life in the Community, conditions that could, and sometimes did, bring in new sets of restrictions.

Some advocates of integration stress removal or lowering of barriers as the route to free flow of trade. Others emphasize the need to agree on unified rules and policies in order to assure that trade will flow. In practice, unification requires simultaneous action of both kinds. Market policy under the Treaty of Rome combines negative with positive integration, the one by lowering trade barriers, the

other by establishing common rules and standards for the conduct of trade.⁸

This dual line of action strategy has worked reasonably well for trade in goods, where trade barriers are readily identifiable as trade barriers. Its effectiveness remains to be proven when trade is in telecommunications and other services. Here, the critical barriers are most often the residue of earlier times when these services were meant only for domestic consumption. Success for EC'92 hinges on its competency when dealing with national standards and regulations that hinder or add unnecessarily to trading costs. While they may not be restrictive in themselves, standards and regulations can become so when nations impose different requirements that are costly to comply with. Parts for a central switching system, for instance, often must be designed in a half dozen versions to satisfy the Community's different national standards. This raises the direct costs of production and development. It also adds indirectly to higher costs, to pay for altering system designs and for operating more complex supply and maintenance systems. For effective competition, the need will be to develop Community-wide standards and rules that will not inhibit intra-EC transactions and will make possible a comprehensive cost reduction.⁹ EC'92 has set this job in motion.

The Competition of the Systems

Drawing up intra-EC codes essentially requires looking for innumerable common denominators among the systems in the Community. The process is one that produces conflicting efforts on several fronts, and has been called the "competition between regulatory systems."¹⁰

Most conspicuous is the conflict between the strong regulators and the more laissez-faire members. Public attention has focussed on the champions of the opposing camps, but it is the officials of industry, labor, and government, arguing cases in the conference halls of Europe, who carry the battle. These individuals head large companies, giant trade unions, or huge public agencies, and associate themselves with a regulatory stand -- to which their own fortunes may be tied. A crucial consideration for these leaders and the groups they represent is the large amount of manpower and capital invested in the details of each system. Any change can be costly and, no matter how justified, the incentive to avoid more than trivial change is correspondingly great. The big gainer is perceived as the country whose system now most closely approximates the integrated norm that will emerge in the 1990s.

Nowhere is the conflict between strong regulators and laissez-faire advocates more in evidence than in the telecommunications and information services negotiations. The contest here pits Germany on the regulatory side of the field and the United Kingdom as a laissez-faire supporter.

The Bundespost makes the rules and operates the facilities in Germany, though not single-handedly. Adversaries in the business community seek a more competitive system that would better supply the commercial needs of the country. Those in the provincial governments would like more authority in their own hands, including the right to market a wide range of telecommunications services. Those in policy agencies in the Federal Government want a more dynamic, open

telecommunications system that would stimulate better performance in the German economy.¹¹

Bundespost's adversaries have had some impact on policy making, but have not been able to seriously challenge its constitutionally preeminent role. Bundespost sets a policy dedicated to traditional concepts of provision of telecommunication services by monopoly. It applies the principles to new information services at home and is an effective advocate of their extension as Community-wide policy. It is, moreover, a big money maker. Besides subsidizing the mail and residential telephone users, Bundespost nets about \$4 billion a year for itself and funds for the Treasury. Deregulation would mean less revenue for Bundespost and a tax increase for budget-minded Germans.

The United Kingdom represents a less clearly defined concept of public service. Having moved away from a state-owned monopoly for telecommunications, it is now moving toward deregulation in enhanced information services. British policies are more responsive to the needs of the business community than Germany's. At home, its policies have produced rates and conditions of service that have been instrumental in maintaining or improving London's preeminence in international banking and finance. In Brussels, Britain is generally the leading advocate of Community-wide adoption of a pro-business stand.¹²

Other EC members usually line up behind or between the UK and Germany, depending mainly on the strength of the national Post, Telephone and Telegraph Administration (PTT), with Spain and Italy frequently siding with Germany, or the extent to which deregulation and

competition are accepted, where the Netherlands and France often support the United Kingdom.

Reconciling these opposing approaches to telecommunications and information policy making is essential for developing a Community-wide system, and is the most formidable task in the EC'92 telecommunications program.

Another source of disagreement in negotiations arises from the different perspectives of EC officials in Brussels and of government and business leaders in member countries. The problem is in some measure one of coordinating actions to keep a complex proceeding on track. Temperatures rise when a government officer reads a Brussels release that he thinks stretches the meaning of what he has said. The White Paper concocted its elaborate time table, where Commission actions are phased so that the Community program does not outpace national approvals, to guard against this kind of trouble. However, programming of this nature, though vital, can only set up mechanisms for bringing issues to focus. It cannot stop and does not necessarily diminish the impact of controversy.

The greatest difficulty to overcome is the inevitable need to transfer authority when Europe's capitals agree to follow common Community policies.¹³ This is not just a matter of immediate concern, when nationally protected industries are placed under Community-wide standards that may provide a lower level of defense against international competitors. Equally important is dealing with later contingencies, when the national freedom to maneuver has been reduced. Then, independent actions in times of crisis will be ruled out by a commitment to follow joint actions that might be detrimental to a

avored industrialist at home. Brussels sees the transfer of authority as one that will enhance overall Community welfare. Paris, Bonn, and other capitals, however, see it in terms of "real" options lost as well as in "potential" gains won.

Opponents of unification get a lot of mileage by labeling the transfer of authority as a loss of sovereignty. Brussels responds that this isn't so, since governments have control over Community policy making. But it's not the same when twelve nations are making the decisions. To arrive at an acceptable mix on thousands of situations where authority and an unknown element of sovereignty are being shifted from Europe's governments to the European Community constitutes an enormously complicated negotiating problem.

The most persistent recurrences reflect the bullish Commission attitude toward Community targets and its lobbying for liberalized answers to integration. Member governments, in contrast, tend to be more reserved. EC officials who have affiliated with the Commission have committed themselves to cooperation within the Community, and in some measure as well to the ideal of a "real Common Market". The Commission's leadership takes its mission seriously, and proceeds, with some justification, from the attitude that little can be accomplished unless Brussels takes charge and forges ahead despite the anguished cries from the capitals.

Thus, there is a built-in conflict that can easily erupt when a single-minded bureaucracy is dealing with national administrators and businessmen who have multiple interests. The encounters are frequent and they can be disruptive. Even when the Commission is carrying out orders and dutifully implementing directives of governments, the

process can break down. Government leaders may simply change their minds, or shift positions when they come up against unforeseen circumstances. Moreover, since politically-determined orders are reached by compromise, governments may try to slant interpretations their way and dispute a rendering that is considered fair and correct by the Commission.

Governments sometimes question Commission action because of possible conflict with other international obligations, an objection that Brussels may understand, but not welcome. All EC members are necessarily worried about Community standards for information and telecommunications that may conflict with what is being done in the International Telecommunication Union (ITU) or the European Conference of Postal and Telecommunications Administrations (CEPT), or other international organizations. Or they may consider that other bodies are better problem solvers for the case at hand than the Community. Britain and France, for instance, have taken numerous broadcasting issues to the Council of Europe, since geography and a deserved reputation for dealing with mass media issues makes that twenty-one member organization a more relevant body for satellite broadcasting, as well as television and radio programming. Negotiating a convention on satellite broadcasting in this forum appears more realistic to several EC capitals than does an arrangement agreed to only by the twelve Community members.

A third source of conflict comes from differences in stage of development. The poorer Community members, like Portugal, Greece, and Ireland, and to some extent Spain, have systems that shelter their emerging industries and don't want to relinquish them.

Telecommunications in these countries are government owned and run and are not well developed. Inability to compete makes these countries unsympathetic to most proposals for competition in information services and causes them to ask for exceptions when Community-wide competitive services are under consideration. Indeed, they are seeking more protected intra-EC markets for their products and services, especially their middle tech items (automobiles, steel, clothing, ceramics, and glassware) that the Community increasingly imports from NICs of East Asia and Latin America.

Under present rules, more advanced EC members have installed such defenses as "voluntary export restraints," subsidies, and quotas that often indirectly affect the poorer countries. Some industrial trade is impeded by incompatible standards and technical regulations in the larger countries. So long as the principal national markets (Italy, UK, Germany, and France) are fragmented by technical guidelines and grading systems (e.g., for pharmaceuticals, computers, and electrical and telecommunication equipment), manufacturers in weaker Community nations will be hampered in intra-EC trade competition.¹⁴

On the other hand, Community-wide policies on investment and financial services are weakened when the poorer countries insist on retaining restrictive regimes over capital movements and securities marketing. The less developed members say they must contend with budgets that are shaky even with financial controls, and maintain that liberalization would result in unacceptable losses of foreign exchange and development capital. For them, control over the financial markets is equated with control over financial information flows and services.

Shifting Alliances

None of the above differences are a matter of black and white. Nor is their effect on negotiations for EC'92 wholly predictable. The alliances between governments in one area of negotiation may not hold in another. Germany is pro-regulatory on telecommunications and pro-liberalization when it comes to investment and securities. Differences also exist within nations. Anti-privatizers and reregulator bureaucrats abound in the United Kingdom. Deregulation is a new phenomenon in Europe and is running into unforeseen problems that could easily, as in the United States, set off a backlash. Many German business executives who disagree with the Bundespost are trying to bring about changes in its conservative ways.

Most important is the continually shifting ground in government leadership. Privatization and deregulation are identified with a few strong personalities, like Margaret Thatcher and Jacques Chirac, who are not political immortals. (Chirac was voted out of office in May 1988). Even corporate Europe, where the strongest champions for open economies and free trade are found, shows doubt and uncertainty about how far to push liberalization. Traditional regulation of industry may be shaken by technological revolutions and the demands of the information age. But the liberal economics that is the logical accompaniment of the new era still rests on shallow foundations. Economic liberalization may not yet be sufficiently entrenched in Europe that it could survive intact a significant shift in the political lineup in the major nations.

The Green Paper On Telecommunications

Despite the formidable obstacles in reaching agreement on any advance in EC commitments, the Commission completed its Green Paper on telecommunications in mid-1987. This document initiated a series of meetings and issue papers on specific proposals. In the Green Paper, the Commission presented the case for more harmony in administering Community telecommunications and laid out a framework for negotiations to that end. New technologies, the Green Paper pointed out, have changed telecommunications production from top to bottom. Requirements for its services have changed radically. These events have made the old regulatory order obsolete. Community members have been working to improve regulatory systems, but their independent efforts have led to inefficiencies. Therefore, a Common Market in telecommunications, the Green Paper concluded, would both strengthen the industry and lead to more effective uses of its services.

The Green Paper posed three questions for Community discussion of harmonized administration of telecommunications: What is needed to make EC telecommunications an effective element in the new Common Market? What specific issues should be dealt with on a Community-wide basis? And, how should these issues be resolved in Community action?

In setting the tone for the discussion, the Commission played it down the middle. It acknowledged the public service traditions of the Telecommunication Administrations (TAs) and envisaged their participation in the newly emerging services markets. It stressed that any continuing service monopoly should be subject to restraints against imposing restrictions on those who use its services. The Commission also concluded that a liberal and flexible competitive

environment was indispensable for the overall development of the Community's technology and services markets.

As a framework for consultation and discussion the Green Paper set forth ten "Proposed Positions". After its issue, the Commission received formal comments and undertook consultations with government officials, telecommunications administration directors, trade union officers, and industry executives.

In these investigations, the Commission found a consensus on a number of proposals and concluded that this justified drawing up a more specific Action Program. The program provided for continuing work on three sets of issues: Those where a consensus seemed to exist; those where further discussion was needed before a clear consensus can be established; and, ongoing projects that were related to the EC'92 effort and needed to be correlated with it.¹⁵

The following is a summary of the principal points of consensus that the Commission incorporated into its Action Program.¹

Areas Where Consensus Exists On Community Wide Policy

The Commission expects to have detailed agreement on each of the several areas by the end of 1988, although progress may vary from one item to another. The work program calls for agreement to be reached in all of these areas and to be put in force during the 1989-92 period.

1. Full liberalization of the terminal equipment market should be reached by 1991. Unrestricted marketing of equipment should be ensured both within and between member countries, subject to type approval in accordance with the Treaty and relevant EC directives.
2. The value-added end of the telecommunications services market should be open to competition, although the dividing

¹For the numerous acronyms that follow, consult the list at the end of this paper.

line between competitive and non-competitive services remains uncertain. The TAs may continue to have exclusive rights in providing and operating network infrastructures. Action on opening the service markets to competition should be completed by 1990.

3. The regulatory and operational activities of the TAs should be clearly separated to avoid possible abuse of their dominant positions.
4. Telecommunication tariffs should be based on a common set of principles and related to costs of production.
5. TAs should be permitted to participate in newly competitive areas on an equal footing. Clear requirements for transparency of operations should be established, especially in regard to procurement and cross-subsidization. Organizational and financial controls should not be imposed that would inhibit the TAs' ability to compete. The EC "rules of competition" law should be applied alike to TAs and private providers in the new competitive services.
6. Standards should be set for defining requirements that TAs impose on network users to maintain Community-wide and global interoperability. Analysis of the conditions for opening up provision of leased lines should be completed by mid-1988 and for general public data networks by the end of 1988. Analysis for ISDN should be completed by mid-1989. The standards defined should cover technical interfaces, tariffs, conditions of use, and network termination points.

Areas Where Consensus Requires Further Consideration

Where a consensus does not yet exist, the Commission's program is fuzzy, especially when an acceptable degree of consensus is not in sight. To improve the chances of reaching agreement, targets originally set out in the Green Paper have in some cases been lowered or extended.

1. Further negotiation is necessary for a coherent position on satellite communications. A consensus does not appear possible in regard to competition in satellite communications. Discussions have identified areas where consensus would be desirable: regulation of two way satellite communications; regulation of markets for earth stations; balancing relationships between EUTELSAT, national, and private systems, and the European Space Agency; and on development of international satellite communications.

2. A consensus is elusive on promotion of Europe-wide services by a market-led approach. This could involve joint Community-wide network planning, provided it is compatible with the EC rules on competition. A TA memorandum, suggesting that digital mobile communications might be jointly developed, is under examination.

3. Additional work is necessary on the development of common tariff principles and stronger convergence on tariff structures. The work should be directed toward higher transparency, and should seek to avoid excessive divergences of tariffs or distortions of competition.

4. Further discussion is necessary for defining the Community positions on major international telecommunications questions. These include preparations for the GATT Round and negotiations in the ITU. The WATT-C meeting in December 1988 is regarded as a matter for urgent priority. Community regulations should be flexible enough to allow full implementation of the internal market and still be compatible with the fair trading framework of the GATT Round. Further work is also needed on bilateral issues with EFTA countries, the US and Japan, and with the Third World.

5. Further discussion is required on effective means for matching requirements for personnel with the expanding need for technically trained individuals in the new service industries.

Areas Where Existing Programs Should Be Strengthened

Several projects already underway are consistent with the EC'92 plan and indeed may bolster it. The Commission's program calls for specific action that would support these projects in varying ways.

1. The RACE program for consolidating research and development is considered essential for ensuring the long term convergence and integrity of the network infrastructure of the Community. Support should be stepped up for a coordinated introduction of ISDN and digital mobile communications.

2. Programs to promote a strong European role in services and industry should be strengthened. These include TEDIS, which offers major stimuli for cooperation in electronic data exchange. Other important programs are INSIS and CADDIA that call for Community-wide cooperation in data communication, electronic message systems, and interconnection of large data bases. The more general ESPRIT program on information technology should also be supported to create a favorable environment for stronger Community participation in the information age.

3. Strong support should be given to the Community programs for ensuring full participation of less favored regions in all Common Market programs. These programs should aim at assuring that these regions are fully integrated into the new markets and are provided all opportunities to utilize information technologies to reduce the gaps in economic development.

The Present Status

What can be said so far about this work program on telecommunications? Is the Commission's assessment too rosy? Is the consensus adequate for building an integrated internal market? Are the work program's targets doable? What can realistically be expected for 1992?

Despite signs of an overly enthusiastic Commission, progress on EC'92 does now appear real, and it is encountering predictable resistance from predictable resisters. Governments are bristling over the Commission's pressure to keep to a schedule that some telecommunications officials are starting to say "is like rewriting history in five years."¹⁶ Or, more irritably, that "the Commission snaps its fingers and expects us to jump". Other areas under negotiation are clouded by questions that have forced a narrowing of scope of EC'92, not pleasing to the Commission. Behind much of the bickering are the folks back home -- communications workers who think their jobs may be lost, and telephone equipment makers who envisage foreign products pouring into their territory.

Events thus far suggest that the key gap between the regulator and liberal positions has been more clearly defined and narrowed in some respects, but has not yet been bridged. Much work appears to remain even in areas where consensus is evident, and negotiating on details

seems likely to get tougher, rather than easier. Some areas where consensus is not yet in sight include issues that are vital for a common market in telecommunications, such as deciding on common principles for price setting. Policy on external markets is still unclear. And intellectual property rights are only now being tackled in EC'92 forums. (See Green Paper on copyright, June 1988¹⁷). Events also suggest that progress on Community-wide rules has been impressive, for instance, with regard to trade in terminal equipment. EC'92 could wind up not very dissimilar from the US-Canada Free Trade Agreement on those issues covered in both arrangements.¹⁸ There is a striking resemblance on one very important question, the position of a monopoly provider of telecommunications services. On this point, the Americans and Canadians decided that a monopoly would be acceptable for providing basic telephone services, and could compete directly or through an affiliate in enhanced services markets. The agreement defined several limitations on what a monopoly can do.

The EC would also allow a monopoly to provide basic services, and to compete in the value-added services markets. The consensus covers a comparable list of restraints on monopolistic behaviour, such as no cross-subsidizing, no predatory marketing, and no discriminatory sales. However, important details concerning access to basic services that are in the US-Canada agreement have yet to be worked out by the European Community.

The most telling distinction between US-Canada and EC'92 is one of orientation. The EC negotiations are oriented toward the supplier of basic telecommunication services, while the US-Canada agreement is oriented toward information services for users. The Community's

formulation reflects the preeminent position of the TA's and their power to set an agenda on terms they like. The Green Paper's subject is "Telecommunication Services And Equipment," and it treats enhanced services as a special category of telecommunications service. The US-Canada agreement, in contrast, reflects the desire of users for remedies to difficulties they have been encountering. The title of that agreement is "Computer Services And Telecommunication Network Based Services," and it places users and suppliers on the same footing.

The distinction is real, not just symbolic. Telecommunications standards offer many advantages for users, especially interconnectability and uniform tariffs. Users prefer them to be international, simple, and permissive to innovators. The US-Canada agreement meets these needs head on, while the EC'92 work program deals with them as an adjunct to other questions. One of the greatest challenges to the EC is to produce a Community-wide order that will respond adequately to user requirements. The Commission's approach makes it more difficult to avoid complex rules. Its conditions extend far into the decision-making prerogatives of users, thus lessening their options for employing equipment and forcing them into inefficient and costlier uses. This is just one of the many challenges the Community faces in defining a common telecommunications policy.

Will the Community successfully answer these challenges? The character of the Common Market in telecommunications may depend on how the following four groups of policy questions are dealt with in the EC'92 process.

1. Can liberalization of enhanced services be achieved that will satisfy the multitude of potential users and energize the high tech efficiency that is the objective of EC'92?

2. Will the Community be able to harmonize national telecommunications policies without building a common protective wall around itself? To what extent will the Community be open to non-members? How will the principle of "equal market access" be applied to telecommunications and telecommunications services?

3. How permissive will Community-wide rules be to open market forces? To what extent will they reflect the administrative systems preferred by the traditionally minded telecommunications industry?

4. Can the Common Market in telecommunications capture the "One Europe" spirit envisioned in the Treaty of Rome and contribute to making the Community an economic powerhouse of the 1990s?

Putting The Parts Together

The telecommunications negotiations cannot be viewed in isolation from the Community-wide arrangements of which it is a part. The EC'92 plan is like breaking down twelve jigsaw puzzles and reassembling the parts in a single, unified mural. The Community might be said to have reached a point where the parts are out in the open, the general purpose of the mural has been agreed upon, and the method of reassembling the pieces has been decided. What remains is to bring the parts together with an artistry that will achieve the broad EC'92 goals of market integration, increased trade, and improved economic performance.

Putting it all together will be a political act. The Common Market that emerges must be a political mean of the systems of twelve members, and must, itself, be a mixed system. The controversial questions that have yet to be answered concern proportions in combining direct control and public regulation with laissez-faire and reliance on competitive market forces.

The uncertain strength, the commitment to deregulation and privatization, and the momentum of a movement that has engaged Europe for little more than a decade, are the principal unknowns. Technological advance and the convergence of the computer and the telephone have sparked and will continue to fuel the movement. These are the forces that are compelling change in administering public services. How issues of telecommunications administration are addressed have been influenced by the U.S. experience. But American precedents have not served as blueprints for Europeans with different legal and institutional histories. These precedents will continue to be watched with great interest for whatever lessons they may offer, but will not necessarily be used as guides for European policy or substitutes for actual experience.¹⁹

One clear difference from American deregulation is the slower, more bureaucratic, and less experimental pathway that the Europeans are taking. Even while negotiating Community policy in telecommunications, Europe's administrators are reforming their domestic systems. All of the larger nations are in the middle of major domestic policy investigations, France and Britain being more vigorously involved than Germany and Italy. Important deregulatory steps can be expected in the UK and France before 1990. However, the deregulatory movement in the Community is not generally expected to become much clearer for several years, either in purpose or content.

The reality of the present stage of the deregulation movement points to two uncertainties about the course of EC'92: First, is it possible for the Community to formulate definitive deregulatory codes and standards at the present time? And, second, will advocates of an

open policy toward the rest of the world have sufficient deregulatory experience to support their case?

These uncertainties about the mix of national policies suggest that the transition to a Community-wide policy is likely to extend beyond 1992. They also suggest the necessity for de facto policy making when EC members face exterior trade issues where Community-wide action is called for. While outside factors may well play an influential role in these circumstances, the EC could slide toward a protectionist mode in order to hold the line on common policy. Thus, tough policy could become a byproduct of the uncertain status of the deregulation movement.

Many European voices are calling for the tough line. Reciprocal market access is a favored theme, where the EC would open its markets only to the extent that others, mainly the US and East Asia, open theirs. It seems likely that reciprocity principles could become a part of the new Common Market, and that access to Community markets could become a chit for bargaining with outsiders. Commission officials are now saying that "if our partners want to take advantage of our integration and profit from the dynamism it will create, they will have to open their own markets on equivalent terms."²⁰

Another popular argument is directed toward loosening IBM's hold on European computer markets, and America's growing dominance over software markets, and toward taking direct action to get the job done. "Fortress Europe" groups are also talking about Community-wide warfare against the East Asian NICs and Japan, first extending and then enlarging the quotas now imposed nationally on a few of their products.²¹ Many observers speak of EC'92 as though a protectionist

regime is a foregone conclusion. Only time and events will provide the answers.

Regardless of its protectionist-liberal coloration, the new Common Market can hardly fail to present new problems and opportunities for policy in the US and other countries. EC'92 promises to be a major event that could become a primary pace setter for the next quarter of a century.

Acronyms

CADDIA	Cooperation in Automation of Data and Documentation for Imports/Exports and Agriculture
CEPT	Conference of Postal and Telecommunications Administrations
EFTA	European Free Trade Association
ESPRIT	European Strategic Program for Research in Information Technologies
GATT	General Agreement on Tariffs and Trade
INSIS	Inter-institutional Integrated Services Information System
ISDN	Integrated Services Digital Network
ITU	International Telecommunication Union
NIC	Newly Industrialized Countries
RACE	Research in Advanced Communications in Europe
TAs	Telecommunication Administrations
TEDIS	Trade in Electronics Data Interchange Systems
WATT-C	World Administrative Telegraph and Telephone Conference

Notes

1. Completing the Internal Market, Commission of the European Communities, COM(85)310 Final, White Paper, Brussels, Belgium, June 1985.
2. Treaty Establishing the European Economic Community, (Commonly known as "The EEC Treaty"), Rome, Italy, 1957.
3. Toward a Dynamic European Economy. Green Paper on the Development of the Common Market for Telecommunications Services and Equipment, Commission of the European Communities, COM(87)290 Final, Brussels, Belgium, June 30, 1987.
4. See, for instance: Brian Hindley, "Trade in Services Within the European Community," in: Herbert Griersch (Ed.), Free Trade in the World Economy, Westview Press, Boulder, Colorado, 1987, pp. 468-486.
5. "Single European Act," Commission of the European Communities, Bulletin of the European Communities, Supplement 2/86, Brussels, Belgium, 1986.
6. James Markham, "Mitterand Above the Campaign Trail," The New York Times, April 12, 1988, p. A-3.
Guy Sorman, "France's Election Will Deliver Gains in War of Ideas," The Wall Street Journal, April 13, 1988, p. 29.
7. Anthony Rowley's articles in The Far Eastern Economic Review are perceptive analyses of the impact of EC'92 on East Asia as well as other areas. See, for instance: "European Single Challenge," The Far Eastern Economic Review, Volume 140, Number 18, May 5, 1988, pp. 127-134. See also: "European Trade: Twelve and Six Make What?" The Economist, January 23, 1988, p. 42.
8. Jacques Pelkmans, "Completing and Opening the Common Market," in: Herbert Griersch (Ed.), Free Trade in the World Economy, Westview Press, Boulder, Colorado, 1987, pp. 429-461.
9. Ibid., pp. 448-454.
10. Hindley, pp. 478-480.
11. Comments on telecommunications systems are based on information contained in: Robert R. Bruce, Jeffrey P. Cunard, and Mark D. Director (Eds.), From Telecommunications to Electronic Services, Butterworth and Co., Ltd., London, 1986. This publication, sponsored by the International Institute of Communication, London, contains lengthy descriptions and analyses of the telecommunications systems in Europe, Japan, and North America, written by professionals from each country.

12. See, for instance: InterMedia, Volume 15, Number 4/5, September 1987, dedicated to "European Community Telecommunications Policy," and especially Jeremy Tunstall and Michel Palmer, "Deregulation -- British Muddles, French Plans," pp. 34-37.

13. See, for instance: William Pool, "Moves Towards a Common Market in Insurance," Common Market Law Review, Volume 21, 1984, pp. 123-147. Cited in Hindley, p. 472.

14. Pelkmans, pp. 440-446.

15. Towards A Competitive Community Wide Telecommunications Market in 1992. Implementing The Green Paper On The Development Of The Common Market For Telecommunications Services And Equipment, Commission of the European Communities, COM(88)48 Final, Brussels, Belgium, 1988.

16. See, for instance: Richard L. Hudson, "Europe's Phone-Deregulation Drive Slips," The Wall Street Journal, March 31, 1988, p. 18.

17. Copyright Issues Requiring Immediate Action. Green Paper on Copyright and the Challenge of Technology, Commission of the European Communities, COM(88)172 Final, Brussels, Belgium, June 7, 1988.

18. Sectoral Annex On Computer Services And Telecommunications Network Based Services of the Canada-US Free Trade Agreement. Reprinted in Transnational Data And Communications Report, January 1988, pp. 28-29.

19. See Bruce, Cunard, and Director's synthesis chapter on regulatory interrelationships among principal national telecommunications systems in recent years.

20. "Single European Market," The Economist, April 3, 1988, pp. 52-54. Mark M. Nelson, "Protectionism Looms as Europeans Unify," The Wall Street Journal, May 10, 1988, p. 34.

21. "Ils Ne Venderont Pas," The Economist, March 26, 1988, p. 61. Craig Forman, "Business Fears Regulation Could Make Matters Worse," The Wall Street Journal, April 11, 1988, p. 24.