with Britain. Canada's Superintendent of Financial Institutions has also given a more stringent interpretation than most countries, stating that provisions for general risk cannot be included in aggregate own funds. Large provisions for loans to less developed countries (LDCs) cannot be included in calculation of Canadian banks' capital, contrary to the practice accepted in the U.S.

b) Investment Services Directive

The Investment Services Directive, now at an early drafting stage, will be the equivalent for investment operations of the Second Directive in the banking field. This Directive is also built around the concept of a single licence. It will be complemented by the Capital Adequacy Directive, which will set the minimum capital acceptable for investment banking activities. There are grey areas when the activities of credit institutions overlap credit and investment banking.

c) Free Movement of Capital

The issue of free movement of capital was resolved by the European Financial Area Directive of June 1988. Most Member States must permit free flow of capital within the EC no later than June 1, 1991. Longer adaptation periods have been granted for some countries.

d) Tax Harmonization

Large differences exist in both the level and structure of taxation across the EC. Harmonization will be difficult because fiscal policies are traditionally an important element of each country's economic and social policies. A directive is at the drafting stage, and negotiations are being pursued to narrow the gap in value-added tax (VAT), and to harmonize policies on withholding tax. Countries such as France and Italy are concerned that the new regulations could facilitate capital flight. Luxembourg, on the other hand, intends to preserve its tax haven system.

2.4 Prospective Changes in Markets

A brief guide produced by three European economic institutes (Bureau d'Informations et de Prévisions Économiques [BIPE], IFO and PROMETEIA) analyses the impact of Europe 1992 on various markets. The guide focuses on six criteria. The first three concern demand and movements of goods, and the last three concern organization of supply:

1) the suppression of border controls and harmonization of indirect taxation (except banking and insurance, sectors for which savings taxation has been taken into account);

2) the harmonization of technical standards;

3) decreased intervention and the opening up of government contracts;

4) increased access to the market for services;

5) freer movement of capital and measures relating to company law; and

6) creation of research and development programs at the European level.

According to this system, the activities most strongly affected will be financial services, the first to feel the effects of the free movement of capital. Industry has been traditionally exposed to international competition, but construction and services generally serve a domestic market, and will thus be more strongly affected by a unified market. Firms with a previously limited horizon will need to look outwards and take advantage of freedom of establishment and free movement of labour and of their new freedom to offer services.

The governing principle of European market integration is to establish at the same time adequate safety and control regulations, as well as a high level of