

OPENING OF EC PUBLIC PROCUREMENT MARKETS

Public markets, which constitute a major part of economic activity, continue to be plagued by discriminatory practices. By systematically favouring domestic suppliers over foreign ones, public buyers are being denied the benefits of increased competition.

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Before proceeding to a discussion of the major public procurement markets represented by the aerospace, defence and urban and inter-city transport industries, it is important to understand the significant role that public markets play in the European economy. Public markets (government procurement markets) represent approximately \$600 billion for the European Community (EC), or approximately 15 per cent of its gross domestic product (GDP).⁴ In consequence of the aggregate size of EC public markets, regulation changes applicable to them have the potential of changing both the structure of industries and their method of doing business. This report studies three industries that are particularly sensitive to such regulation changes because of the large proportion of sales that each directs to public sector clients. In the EC, aircraft purchases were worth \$12.9 billion in 1986, urban and long-distance transport equipment purchases were worth \$5.4 billion in 1986⁵ and military purchases were worth \$39.6 billion in 1988.⁶

The structure and importance of public procurement markets in the EC vary from country to country. State-owned enterprise and government shares of public purchases vary considerably between member states. For instance, in Belgium, state-owned enterprise purchases account for 63 per cent of public purchases. In France, the Federal Republic of Germany and Italy, they represent between 35 and 40 per cent. Public purchases covered by formal purchasing procedures represent approximately \$400 billion in the EC (between 7 and 10 per cent of its GDP). The importance of public purchases covered by such procedures within each member state, however, again varies. These purchases represent about 8 to 11 per cent in Belgium, 6 to 9 per cent in France, 5 to 8 per cent in the Germany, 6 to 8 per cent in Italy and 10 to 14 per cent in the U.K. Purchases not covered by formal procedures are current expenses such as electricity, insurance, telephone, heating and rents.

Contract awarding practices by government agencies have been considered to be discriminatory, and, as a result, there is very little intra-EC trade in public procurement markets. Penetration of public procurement markets by imports has been much lower than it has for the economy as a whole. In fact, the share of imports in public procurement markets in the major member states is estimated to vary between 0.4 per cent (in the U.K.) and 3.8 per cent (in the Federal Republic of Germany), compared with penetration by imports for the economy as a whole from a low 19 per cent (in Italy) to a high 42 per cent (in Belgium). In spite of the existing differences between member states (in the structure of the public sector and in the contract awarding procedures), certain common points can be found. In all member states, markets such as military equipment, telecommunication material and railway equipment have a high degree of government control.

Since 1971, the EC has sought to liberalize government procurement markets by adopting two directives⁷ that required member states and national administrations to co-ordinate market procedures for entering into contracts (that is, markets in which the client is the state or the public administration), as well as to open access to contracts to all EC companies. Until March 1987, however, there were two important exceptions to the directives: first a minimum level of applicability for public works (one million ECU) and for public supplies (200 000 ECU) and, second, the exclusion of some sectors (hydro, energy, telecommunications and transports).

In view of the apparent lack of success of these measures, the European Commission made significant amendments to the existing directives (which did not apply to the excluded sectors). These amendments and proposals were developed in order to improve the transparency of procedures for service offers, invitations to tender, and tenders.