

harmonization in the area of motor vehicles to be fully implemented.

Fewer technical barriers to trade will increase the competitiveness of European automobile producers. European firms will be able to devote more of their R&D efforts to new product development as opposed to adaptive engineering. The reduced complexity of model development and production will also lead to cost savings in the final product.

Tax harmonization. The Commission has asked the Member States to make significant efforts in the harmonization of value-added tax (VAT) rates applied to cars, without waiting for the conclusion of the work under way within the Council concerning the elimination of tax borders and the harmonization of VAT rates in general.

The Commission considers that taxes of such levels as appear excessive in relation to the general framework of the national taxation system have an effect equivalent to that of obstacles to trade. In relation to expected rulings by the Court of Justice on these questions, the Commission will take necessary measures to promote progress in this area on a case-by-case basis to ban or cut additional purchase or registration taxes like those charged in Greece and Denmark.

The harmonization of VAT rates to between 14 and 20 per cent across the Community will result in very significant price reductions in some Member States -- France, Italy, Spain -- and result in much stronger consumer demand. VAT changes and user tax changes will also affect the consumers' choice of car size and thereby affect production and marketing decisions by automobile producers.

Excise tax changes will alter the operating cost of a vehicle and will

influence the choice of gasoline versus diesel engines. This too will affect production decisions.

With respect to EC efforts to achieve harmonization of VAT across Member States, it now appears less and less likely that such harmonization will come about by the end of 1992. Differences among Member States are strong and are unlikely to be resolved in the short term. However, this remains a priority for the Commission and progress can be expected over the medium term.

Government subsidies. The strict containment of government subsidies which distort competition is a necessary component of an effectively functioning Single Market. The two most important instruments used by the Commission to enforce compliance are:

- . the policy of forcing reimbursement of illegal state aids;
- . the requirement that prior notification must be given to the Commission on all proposals to grant government aid, in whatever form, where the cost of the project to be assisted exceeds 12 million ECU.

Clearly, governments in the Member States will be much more constrained in their ability to intervene on behalf of "national champions." As a result new investments, restructuring, mergers and acquisitions should take place more readily and more freely throughout the Community.

EC-wide road worthiness tests for motor vehicles. Periodic road worthiness tests have been carried out for some years in Germany, Belgium, Luxembourg, Italy and the U.K. The Netherlands and Greece introduced testing in 1985. In other countries mandatory testing does not apply to passenger vehicles or light trucks.