

differences in the percentage of VAT are an impediment to cross-border trade.

The EC Commission has proposed to deal with this problem through harmonization of excise taxes within the EC and convergence of the value-added tax rates of Member States. The standard rated value-added tax could vary between 14 and 20 per cent, and, for specific products, a reduced rate of between 4 and 9 per cent could apply.

Manufacturers in markets with high VAT rates have been disadvantaged since they could not compete with other countries or with the rest of the Community because of higher costs (higher taxation). As long as reductions are passed on to consumers, products with high current rates and high demand elasticities could generate higher sales as future rates fall.

These policies will marginally lower costs. The major impact will come from indirect implications of these policies. By eliminating the tariff barriers, the European Community is showing all Europeans that each country is only a part of a larger entity -- the European Economic Community. The "European mind" is focused on forming the largest economic entity in the world.

These policies are positioning Europeans to compete internationally by permitting them to rationalize their industries, set the context for the emergence of world leading firms, exercise international leadership in setting standards and achieve large economies of scale.

c) Harmonization and Mutual Recognition of Technical Standards

Two main standardization bodies received mandates from the Commission to elaborate and harmonize standards: the European Committee for Standardization (CEN) and the European Committee for Electro-technical Standardization

(CENELEC). In most cases, their work is based on international quality standards.

The rationale behind the adoption of common standards is that compliance with one set of rules enables a manufacturer to sell in 12 Member States without having to adapt its product to national specifications.

Although there has been no vote yet and although the recommendations from each Member State differ widely, the European Community is trying to identify a labelling process that would simplify and reduce to one the number of labels required to distribute a product throughout the EC.

The policy of the European Commission with respect to standards is based not only on the principle of selective harmonization but also on the principle of mutual recognition. Mutual recognition means that all products legally manufactured and marketed in one Member State must also be admitted in all other Member States without any impediment. In principle, EC Member States will no longer be able to use national standards to bar products of other EC countries and will, therefore, have to accept certificates and licences issued on the basis of tests conducted according to the rules of other member countries or issued according to a common set of rules.

These standards will become particularly important in specific areas such as mechanical engineering (refrigeration, ventilation, heating, valves equipment, textile machinery, boilermaking, chemicals, plastics and food machinery), electrical and electronic engineering (control and distribution, automation and installation equipment, power transformers, and measurement and regulation equipment) and, of course, environmental products.

The importance of these regulations is that currently most Member States have their own standards in these fields, especially in the electrical products area. The Community members will set standards in order to reorganize themselves with the global market in mind.