

TOWARDS A FINAL ABOLITION OF FRONTIERS

# The European internal market



## European File

Commission of the European Communities  
Directorate-General for Information,  
Rue de la Loi 200 – B-1049 Brussels

**8/85**  
April 1985

**W**ith the establishment of a common market between the Member States of the European Community, new measures are regularly being introduced to ease the free movement of people and goods. The common market is still far from being as untrammelled as its citizens and business community would wish it to be. There are too many frontier queues, too much administrative red tape, too many taxation differences and checks. The European Commission is doing its utmost to remove these barriers. Its long term objective is to do away with all frontiers by 1992. The first phase is to implement a programme of consolidation of the European internal market.<sup>1</sup>

### **An urgent task**

Community Heads of State or Government, the European Parliament and the European Commission have frequently stressed the urgent need for a strengthening of the European internal market:

- The existence of the Community must be a tangible reality for its citizens. They must be able to move from one Member State to another as easily as they travel between different regions of their own country;
- The factors affecting economic and business relations must also be comparable to those between two regions of a single country. The European internal market is not only the natural outlet for the production of Community countries. Strengthened, it can provide essential encouragement for their economic development. By creating a larger market and sharpening competition, a stronger internal market fosters the optimum allocation of resources and production factors, allowing firms to make best use of their comparative advantages, to achieve economies of scale and to become more specialized. Can the Community countries afford to ignore such a trump card when they have lost three million jobs during the period 1973 to 1983? Over the same period, the United States and Japan, which already have markets on a continental scale, have created, respectively, 15 million jobs and 6 million jobs. Can the Community continue to afford the luxury of frontier controls which are the most striking symbol of the inadequacy of the internal market and which increase the price of goods imported from other Member States by at least 5%? How long will Community citizens be prepared to pay the equivalent of a week's wages each year on these increased costs and those generated by the monopolies granted to certain public suppliers?<sup>2</sup>

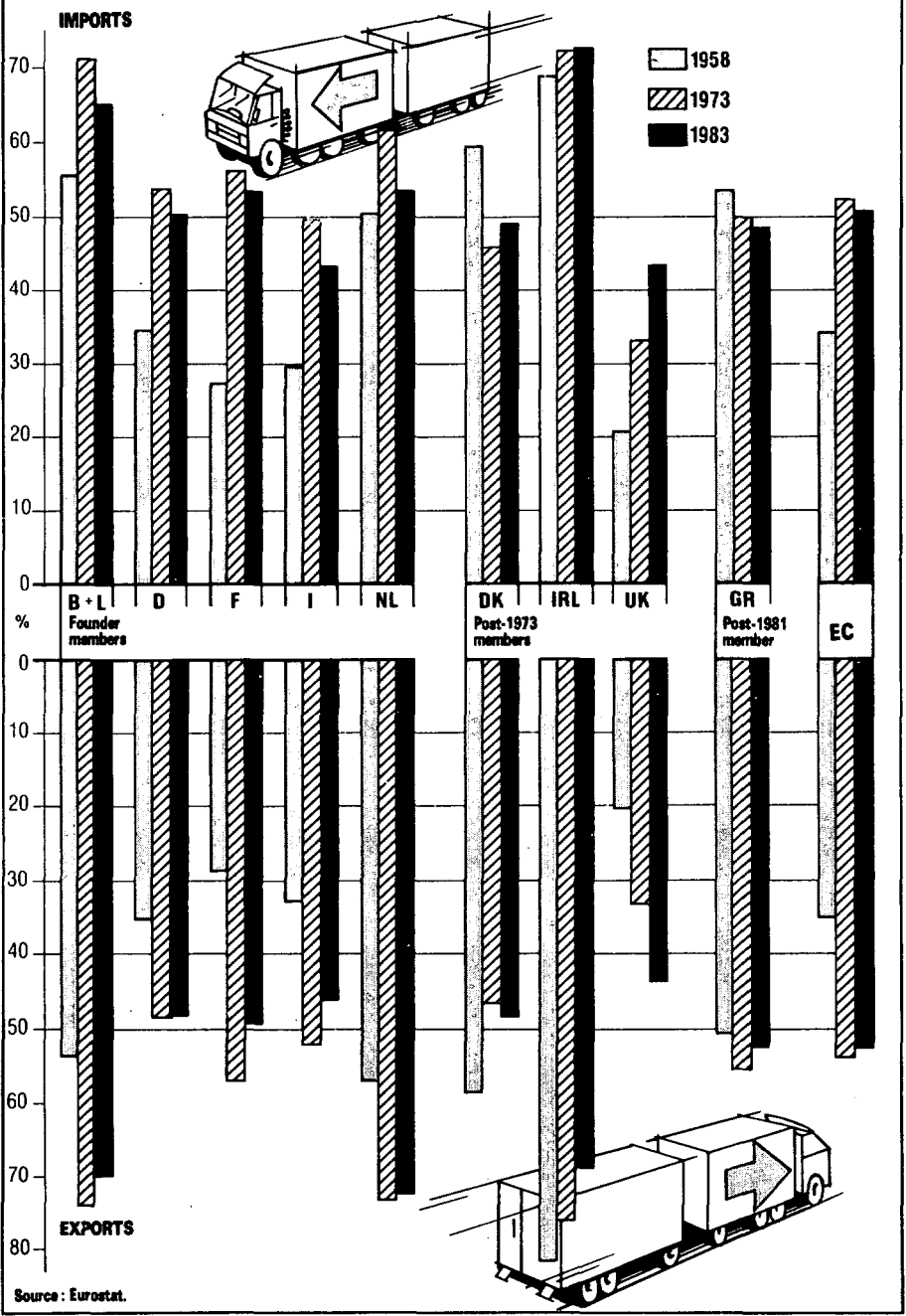
It is a fact that the Community countries have already created a customs union. Between 1958 and 1968 the six founding members abolished all quota restrictions and duties on their internal trade. At the same time they adopted a common external tariff for their imports from other countries. Denmark, Ireland and the

---

<sup>1</sup> This file updates and replaces our No 12/83.

<sup>2</sup> M. Albert and R. J. Ball: 'Towards European Economic Recovery in the 1980s', Report to the European Parliament, 1983.

**Intra-Community trade as a % share of total trade**



Source: Eurostat.

United Kingdom went through the same process between 1973 and 1977. Greece, which entered the Community in 1981, will complete the process by 1986, the year in which Spain and Portugal are also due to join the Community.

But, despite its importance, the abolition of customs duties alone does not amount to the creation of a genuine single market. During the 1960s the Community countries agreed an impressive list of measures intended to complete the work launched by the customs union. The Community Council of Ministers adopted several hundred directives intended to narrow the differences between national arrangements, whether legislative, regulatory or administrative, which directly affected the operation of the common market. But this spectacular progress slowed noticeably in the 1970s. A telling symptom of this stagnation is the fact that the intra-Community share of the total trade of Member States increased sharply between 1958 and 1973 but has shrunk, for the most part, since that date (see table).

One of the most troublesome areas is taxation. In 1967 the Community standardized the system of value-added tax. But in other respects fiscal harmonization has not kept up with the progress made elsewhere. Admittedly, this is a very sensitive subject because of its political, economic, social and budgetary implications. But the consequences are clear to see: tax controls are now the major obstacle to the crossing of frontiers within the Community.

Since 1980, pressure from the Heads of State or Government and the European Parliament has enabled the Community to relaunch successfully the creation of a European internal market. But more needs to be done and more quickly. The European Commission has asked the Member States to make considerable progress before the end of 1985 in seven broad areas of action outlined in its 1984 communication 'Consolidating the internal market'. The time appears to be ripe to move forward. The economic upturn in industrialized countries will make the necessary efforts easier to undertake; the fruits of these efforts will underpin the economic revival which can only be lasting and complete if supported by a genuine internal market. But how great an effort will be necessary?

- According to the European Commission, the renewed drive to create an internal market will produce results only if confidence is restored in the Community's aims: only if the Community's citizens are once again convinced that European integration is irreversible and if the business community is convinced of the value of the Community market as a focus for its sales and its investments. Rather than making piecemeal progress over a number of years, efforts must be directed towards action on a broad front in order to achieve a 'qualitative leap forward' such as the one which established the customs union.
- Such a relaunch will need no new policies and no extra financing. The springboard has already been fashioned by the adoption of a number of proposals put forward by the European Commission. These must be followed by a limited number of other proposals, many of which are already on the table

of the Council of Ministers. There is no question of attempting to bring all national legislation under the Community umbrella. The Commission proposes only Community measures which help to reduce not to increase bureaucracy by minimizing obstructive formalities or replacing national rules with a Community approach and, even then, only when absolutely necessary. The Treaty of Rome and the case-law of the European Court of Justice permit national arrangements which obstruct the free movement of goods if they are imperative for the protection of human health and safety. In many cases, it is not necessary to actually harmonize national legislation but useful progress can be made through the mutual recognition of standards and national safeguards and many types of administrative cooperation.

## **1. The abolition of frontiers for people**

The creation of a truly Community identity pre-supposes not just the simplification of personal checks at intra-Community frontiers but their complete abolition. The Community Heads of State or Government gave a commitment to move in this direction in 1984.

- Formalities: it has already been decided that a European passport will be introduced progressively from the beginning of 1985. But this development will be robbed of much of its impact unless it is accompanied by a genuine reduction in the formalities undergone by travellers between the Member States. In a first phase, there should at least be a general acceptance of the practice introduced in some Member States of setting aside separate checkpoints for Community citizens and subjecting them only to spot-checks. In addition, the sending of money to other Community countries for the purpose of tourism or study should no longer be subject to restrictions which run contrary to European law.
- Allowances: tax allowances for travellers between the Member States have been increased regularly to their present level of 280 ECU.<sup>1</sup> The European Commission has suggested that the limit should be raised to 400 ECU from July 1985 and that the allowance for small personal consignments should be raised from 70 to 130 ECU. The Commission also hopes to simplify the tax allowance formalities for people who move home from one Member State to another.

## **2. Living in another Member State**

All Community citizens must have the right to live in another Member State. In 1961 the Council of Ministers agreed a regulation permitting the free movement of salaried workers throughout the Community together with programmes to allow

---

<sup>1</sup> One ECU (European Currency Unit) = about £ 0.61, Ir. £ 0.71 or US\$ 0.65 (at exchange rates current on 7 March 1985).

the freedom of establishment and the freedom to offer services in other Member States. Progress already made has still to be completed in the following areas:

- The professions: Community directives already allow the right of establishment to members of many professions. In the health sector, doctors, dentists, vets, general nurses and mid-wives are already covered. The same right must be extended to pharmacists, architects and engineers. The creation of a general system for recognition of university diplomas, sought by the European Council, would allow rapid progress in this direction.
- Insurance: insurance firms already have the right to set up shop in any other Member State but they cannot offer services across Community frontiers. But increased competition would be in the interest of policy holders as well as that of companies who wish to expand their international activities.
- Cross frontier workers: a living symbol of the Community of the future, workers of this kind must be given special arrangements, especially in the taxation field. The European Commission has suggested the general acceptance of the principle of taxation in the country of residence.
- Retired people, students etc.: the right to live, without time limit, in another Member State must also be given to citizens who do not work. In addition, academic recognition of diplomas and study periods must be introduced to allow young people to continue their studies in another country.

### **3. The abolition of frontiers for goods**

A number of measures have recently been agreed to ease the free movement of goods and samples and, especially, to reduce the administrative burden on road hauliers. Arrangements already in force will be complemented, at the beginning of 1988, by the introduction of a single customs document to replace the 70 different forms currently in use in the Community. But in the long run frontier formalities and checks must be abolished, not just simplified. The European Commission is seeking immediate progress in a number of areas:

- VAT: imported goods should enjoy the same terms for the payment of VAT as domestically produced goods. The payments procedure should therefore be switched from the frontier to the final destination within the importing country.
- Community transit: urgent improvements are needed, including the exemption of certain goods shipments from the guarantee requirement and the abolition of the requirement that a transit note be lodged.
- Fuel allowance for commercial vehicles: this allowance has recently been increased to 200 litres but it should be raised to the capacity of a standard fuel tank in order to do away with the checks made on entering and leaving some Member States.

- Administrative cooperation:** links between national administrations must be strengthened by the organization of exchange visits and meetings between customs, veterinary and technical officials and police forces. The Commission has decided to send authorized officials to make regular checks on the services of Member States to ensure that goods are moving freely and that the rules are being applied correctly.

#### **4. Abolition of technical and tax barriers to trade**

The abolition of customs barriers, checks and formalities will not, in itself, guarantee the free movement of goods. This is also obstructed by the barriers thrown up by differences in national safety rules and standards, measures to protect the life and health of people and animals and taxation systems. Community achievements in this area are already substantial. Between 1969 and 1973 general programmes were set up for the elimination of technical barriers generated by divergent national standards and specifications. These programmes led to the adoption of a range of Community directives instituting simplified procedure which allow them to be updated regularly in the light of technical progress. The European Commission's major objectives at present are:

- Removing contraventions of the principle of free movement.** It is the duty of the Commission and the Court of Justice to ensure that goods circulate freely according to the terms of the European Treaties. The Commission will strictly oppose any national measure whose effect on the free movement of goods is disproportionate to its overt aim or which appears intended mainly to protect domestic producers. In principle, the Commission points out in its communication, any product legally manufactured and marketed in one Member State must be given free access to the rest of the Community market. Furthermore, as the Council of Ministers confirmed in June 1984, goods which have undergone technical tests in the exporting country do not have to be tested a second time in the importing country. Double taxation is also forbidden.
- Technical barriers to trade.** The first priority is improved cooperation between national governments. Community States recently agreed to give prior notice to the Commission of the adoption of any new national standards or technical regulations. They also agreed to undertake a permanent review of all national rules, many unnecessary or outdated, which impede free trade. At the same time, the Community must pursue its efforts to harmonize national laws, in as flexible a way as possible, in cases where divergences between legislation make Community action necessary to ensure both the protection of the health and safety of consumers and the free movement of goods. A programme already launched for the harmonization of legislation in the veterinary, food hygiene, seed and animal feed sectors must be carried through without delay. For manufactured goods, the Commission hopes to win agreement, as part of its new standards policy, on the basic requirements for public health and safety. It will also send detailed product definitions to the private bodies which establish European standards.

- VAT and excise duties: the general acceptance of valued-added tax was a significant advance but the rates applicable to different products and services remain different in individual Member States. The Commission will continue to seek a reduction in the number of different rates and to bring in line the kinds of goods and services to which VAT is applied. The structure of excise duties on alcoholic drinks, tobacco products and mineral oils must also be harmonized. At the same time, progress towards tax harmonization demands that Member States inform and consult the Commission before adopting major new national departures in this area.

## **5. The creation of a European legal environment for business**

Business needs a clear legal framework in order to make the best use of the opportunities provided by a European market of more than 270 million consumers. Action is needed in the following areas:

- Competition policy: the European Commission has wide powers to forbid or abolish distortions in intra-Community trade, whether resulting from State aids to industry, from company agreements or from abuse of a dominant position. Decisions have still to be taken on the control of large business groupings and mergers. The Council of Ministers must end the delay in establishing a Community policy in this area.
- Company law: a regulation on the setting up of a European economic interest grouping should be agreed in 1985. In addition to this, work must be continued on permitting the creation of European limited companies and establishing rules on the merger of companies from more than one Member State. These developments will finally give business the means to cooperate more extensively and adapt to the scale of the Community.
- Direct taxation: to improve business conditions and encourage cooperation, a common tax regime is needed for parent companies and their subsidiaries in different Member States as well as a common tax system for mergers, divisions and contributions of assets across Community frontiers. An arbitration procedure is also necessary to eliminate certain cases of double taxation. A long-term objective could be the creation of a common system of corporation tax.
- Industrial property: to help industry and business to develop production and distribution policies better attuned to the continental scale market, the Council of Ministers should agree the Commission's proposals on trade marks and the creation of a Community trade mark.
- Public procurement markets: the opening up and transparency of decision-making on public procurement are already regulated by Community directives intended to place firms in all Member States on an equal footing. Improvements are needed, however, in the directives themselves and in their application. What is more, a number of sectors, in which there is a considerable



amount of public purchasing, have been excluded from existing arrangements: transport, water, energy and telecommunications. Community industry will not retain or restore its competitiveness in these vitally important sectors unless it can build on a continental scale market. They must therefore be opened up gradually to competition and common standards must be established. The Council has recently recommended action of this kind in the telecommunications sector.

## **6. Freeing the movement of capital**

In the early 1960s Community directives freed certain capital flows, and thereby encouraged trade and mobility of people and businesses. But further progress has not proved possible. There has, in a sense, been a retreat since several Member States have invoked safeguard clauses to suspend partially the effect of these Community measures. It is both possible and necessary to reverse this trend. An industrially-sound Community pre-supposes a common market in productive capital. Governments have, in any case, come to realize that the restrictions introduced during the recession have done little to restore fundamental economic equilibria. Their usefulness is all the more illusory, given the growing interdependence of economies, particularly those of the Community. Factors which favour a return to greater financial integration in the Community include: the success of the European Monetary System, which has reduced fluctuations in exchange rates between national currencies; the increasing use of the European Currency Unit (ECU), based on a basket of national currencies, by private operators for commercial and financial transactions; the establishment of information exchanges between stock exchanges. But more must be done. The European Commission has appealed to governments to relax gradually their safeguard measures and abolish exchange control restrictions on international companies. The same should apply to collective investment undertakings, whose legal status should be harmonized.

## **7. The improvement of transport systems**

The delay in creating a common transport policy has hindered the creation of a genuine European internal market. The progress now expected in this area will improve the competitiveness of transport operations and help to achieve a better integration of European economies.

- Infrastructure: each year the Community gives matching finance for road, rail and other projects of Community-wide importance. The European Commission would like to place these projects in a longer-term perspective by establishing priority political objectives and concrete investment criteria.
- Road transport: the quantitative restrictions imposed on international road transport operations, traditionally subjected to licences and quotas, are not justified from an economic point of view and they prevent the transport sector

— and consequently Community industry in general — from functioning properly. Community ministers have just decided to double over five years the number of Community licences for road haulage, which free their holders from the need to obtain bi-lateral licences valid for only one country. Another recent decision partially harmonizes weight and dimensions standards for heavy goods vehicles. Once again, more must be done. The Commission would also like to harmonize tax rates for commercial vehicles.

- Railways: Community ministers recently recommended railway companies to increase their cooperation in the handling of international passenger and goods traffic. They have also been asked to agree a proposal on the improvement of the financial situation of railway companies.
- Air transport: a number of Community measures already apply to civil aviation. Community rules on competition must now be extended to this sector. More flexible methods should be introduced for fixing fares of scheduled flights between the Member States ■

---

The contents of this publication do not necessarily reflect the official views of the institutions of the Community. Reproduction authorized.

---

### Commission of the European Communities

Information offices (countries fully or partially English speaking\*)

**Ireland** 39 Molesworth Street, Dublin 2 – Tel. 71 22 44

**United Kingdom** 8 Storey's Gate, London SW1P 3AT – Tel. 222 81 22  
– 4 Cathedral Road, Cardiff CF1 9SG – Tel. 371631  
– 7 Alva Street, Edinburgh EH2 4PH – Tel. 225 2058  
– Windsor House, 9/15 Bedford Street,  
Belfast BT2 7EG – Tel. 40708

**Australia** Capitol Centre, Franklin Street, PO Box 609,  
Manuka 2603, Canberra ACT - Tel. (062) 95 50 00

**Canada** Inn of the Provinces-Office Tower, Suite 1110, 350 Sparks Street,  
Ottawa Ont. K1R 7S8 – Tel. (613) 238 64 64

**USA** 2100 M Street, NW, Suite 707,  
Washington DC 20037 - USA – Tel. (202) 862-9500  
– 245 East 47th Street, 1 Dag Hammarskjöld Plaza,  
New York, NY 10017 - USA - Tel. (212) 371-3804

---

\* Offices also exist in other countries including all Member States.

