

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 310 final

Brussels, 14 June 1985

COMPLETING THE INTERNAL MARKET

White Paper from the Commission
to the European Council
(Milan, 28-29 June 1985)

CONTENTS

| | Page |
|---|-----------|
| - Declarations by the European Council relating to the Internal Market | 3 |
| INTRODUCTION | 4 |
| PART ONE : THE REMOVAL OF PHYSICAL BARRIERS | 9 |
| I. Introduction | 9 |
| II. Control of goods | 10 |
| Commercial and economic policy | 11 |
| Health | 12 |
| Transport | 13 |
| Statistics | 14 |
| Conclusion and timetable | 14 |
| III. Control of individuals | 14 |
| PART TWO : THE REMOVAL OF TECHNICAL BARRIERS | 17 |
| I. Free movement of goods | 18 |
| The need for a new strategy | 18 |
| The chosen strategy | 19 |
| Harmonisation - a new approach | 19 |
| Preventing creation of new obstacles | 21 |
| Mutual recognition | 22 |
| Nuclear materials | 23 |
| II. Public procurement | 23 |
| III. Free movement for labour and the professions : a new initiative in favour of Community Citizens | 25 |
| IV. Common market for services | 26 |
| Traditional Services | 27 |
| Financial services | 27 |
| Transport | 29 |
| New technologies and services | 30 |
| V. Capital movements | 32 |
| VI. Creation of suitable conditions for industrial cooperation | 34 |
| Creation of a legal framework facilitating cooperation between enterprises | 35 |
| Intellectual and industrial property | 37 |
| Taxation | 38 |
| VII. Application of Community law | 38 |
| Infringements | 38 |
| Transparency | 39 |
| Competition policy and state aids | 39 |

| | |
|---|-----------|
| PART THREE : THE REMOVAL OF FISCAL BARRIERS | 41 |
| I. Introduction | 41 |
| Commercial Traffic and Value Added Tax | 43 |
| The Individual Traveller | 44 |
| Excises | 45 |
| II. Approximation | 46 |
| The Broad Picture | 47 |
| Value Added Tax | 48 |
| Excises | 50 |
| III. The Commission's proposals | 51 |
| Value Added Tax | 51 |
| Excises | 53 |
| Enforcement | 53 |
| Derogations | 54 |
| CONCLUSION | 55 |
| ANNEX : Timetable for completing the Internal Market by 1992 | |

**DECLARATIONS BY THE EUROPEAN COUNCIL
RELATING TO THE INTERNAL MARKET**

"The European Council... instructs the Council :
- to decide, before the end of March 1983, on the priority
measures proposed by the Commission to reinforce the
internal market"

Copenhagen, 3/4 December 1982

"It asks the Council and the Member States to put in hand without
delay a study of the measures which could be taken to bring about
in the near future...
the abolition of all police and customs formalities for
people crossing intra-Community frontiers..."

Fontainebleau, 25/26 June 1984

"The European Council... agreed that the Council, in its
appropriate formations :
... should take steps to complete the Internal Market,
including implementation of European standards"

Dublin, 3/4 December 1984

"... the European Council laid particular emphasis on the
following... fields of action :
a) action to achieve a single large market by 1992 thereby
creating a more favourable environment for stimulating
enterprise, competition and trade ; it called upon the
Commission to draw up a detailed programme with a specific
timetable before its next meeting".

Brussels, 29/30 March 1985

INTRODUCTION

1. "Unifying this market (of 320 million) presupposes that Member States will agree on the abolition of barriers of all kinds, harmonisation of rules, approximation of legislation and tax structures, strengthening of monetary cooperation and the necessary flanking measures to encourage European firms to work together. It is a goal that is well within our reach provided we draw the lessons from the setbacks and delays of the past. The Commission will be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic and binding timetable."
2. In such terms did the Commission define its task in the "Programme of the Commission for 1985" which was presented to the European Parliament on 6 March. On 29 and 30 March, the European Council in Brussels broadly endorsed this view and
 "laid particular emphasis on ... action to achieve a single market by 1992 thereby creating a more favourable environment for stimulating enterprise, competition and trade ; it called upon the Commission to draw up a detailed programme with a specific timetable before its next meeting".
3. This White Paper is designed to spell out the programme and timetable. Given the European Council's clear and repeated commitment to the completion of the common market, the Commission does not intend in this Paper to rehearse again the economic and political arguments that have so often led to that conclusion. Instead the Commission, which wholeheartedly shares the Council's commitment and objective, sets out here the essential and logical consequences of accepting that commitment, together with an action programme for achieving the objective.
4. The Treaty clearly envisaged from the outset the creation of a single integrated internal market free of restrictions on the movement of goods; the abolition of obstacles to the free movement of persons, services and capital; the institution of a system ensuring that competition in the common market is not distorted; the approximation of laws as required for the proper functioning of the common market; and the approximation of indirect taxation in the interest of the common market.
5. In the early days attention concentrated on the common customs tariff, which was established eighteen months ahead of the 12-year programme set out in the Treaty. It was a remarkable achievement - one that we can look back on with pride and one from which we can derive inspiration for the future. That task achieved, attention turned to indirect taxes. The high water mark was perhaps the adoption - unanimously by the Council - of the 6th VAT directive in 1977. But thereafter momentum was lost partly through the onset of the recession, partly through a lack of confidence and vision.

6. The recession brought another problem. The Treaty specifically required not simply the abolition of customs duties as between the Member States, but also the elimination of quantitative restrictions and of all measures having equivalent effect. Originally it was assumed that such "non-tariff barriers", as they are commonly called, were of limited importance compared with actual duties. But during the recession they multiplied as each Member State endeavoured to protect what it thought was its short term interests - not only against third countries but against fellow Member States as well. Member States also increasingly sought to protect national markets and industries through the use of public funds to aid and maintain non-viable companies. The provision in the EEC Treaty that restrictions on the freedom to provide services should "be progressively abolished during the transitional period" not only failed to be implemented during the transitional period, but over important areas failed to be implemented at all. Disgracefully, that remains the case.
7. But the mood has begun to change, and the commitment to be rediscovered : gradually at first, but now with increasing tempo. The Heads of State and Governments at the European Council meeting in Copenhagen in 1982 pledged themselves to the completion of the internal market as a high priority. The pledge was repeated at Fontainebleau in June 1984; at Dublin in December of that year; and, most recently, in Brussels, in March 1985. The time for talk has now passed. The time for action has come. That is what this White Paper is about.
8. The case for the completion of the internal market has been argued elsewhere: and, as the communiqués at successive European Councils have indicated, it has been accepted by the Heads of State and Governments of the Member States. But it is worth recalling that the objective of completing the internal market has three aspects :
 - First, the welding together of the ten, soon to be twelve, individual markets of the Member States into one single market of 320 million people ;
 - Second, ensuring that this single market is also an expanding market - not static but growing ;
 - Third, to this end, ensuring that the market is flexible so that resources, both of people and materials, and of capital and investment, flow into the areas of greatest economic advantage.
9. Whilst, therefore, the discussion in this Paper will be directed primarily to the first of these objectives there will be a need to keep the other two objectives constantly in mind and to ensure that the measures taken contribute to those ends.
10. For convenience the measures that need to be taken have been classified in this Paper under three headings :

- Part one : the removal of physical barriers
- Part two : the removal of technical barriers
- Part three : the removal of fiscal barriers.

11. The most obvious example of the first category are customs posts at frontiers. Indeed most of our citizens would regard the frontier posts as the most visible example of the continued division of the Community and their removal as the clearest sign of the integration of the Community into a single market. Yet they continue to exist mainly because of the technical and fiscal divisions between Member States. Once we have removed those barriers, and found alternative ways of dealing with other relevant problems such as public security, immigration and drug controls, the reasons for the existence of the physical barriers will have been eliminated.
12. The reason for getting rid entirely of physical and other controls between Member States is not one of theology or appearance, but the hard practical fact that the maintenance of any internal frontier controls will perpetuate the costs and disadvantages of a divided market ; the more the need for such controls diminishes - short of total elimination - the more disproportionate become the costs, expenses and disadvantages of maintaining the frontiers and a divided market.
13. While the elimination of physical barriers provides benefits for traders, particularly through the disappearance of formalities and of frontier delays, it is through the elimination of technical barriers that the Community will give the large market its economic and industrial dimension by enabling industries to make economies of scale and therefore to become more competitive. An example of this second category - technical barriers - are the different standards for individual products adopted in different Member States for health or safety reasons, or for environmental or consumer protection. Here the Commission has recently launched a major new initiative which has been welcomed and endorsed by the Council. The barriers to the freedom to provide services could perhaps be regarded as a separate category; but these barriers are analogous to the technical barriers which obstruct the free movement of goods, and they are probably best regarded as part of the same category. There is an additional merit in such an approach since the traditional dichotomy between "goods" and "services" has fostered an attitude in which "services" are somehow regarded as inferior and relegated to the bottom of the queue. Technical barriers are technical barriers whether they apply to goods or services and all should be treated on an equal footing. The general thrust of the Commission's approach in this area will be to move away from the concept of harmonisation towards that of mutual recognition and equivalence. But there will be a continuing role for the approximation of Member States' laws and regulations, as laid down in Article 100 of the Treaty. Clearly, action under this Article would be quicker and more effective if the Council

were to agree not to allow the unanimity requirement to obstruct progress where it could otherwise be made.

14. The removal of fiscal barriers may well be contentious and this despite the fact that the goals laid down in the Treaty are quite explicit and that important steps have already been taken along the road of approximation. This being so, the reasons why approximation of fiscal legislation is an essential and integral element in any programme for completing the internal market are explained in detail in Part Three of this Paper. Approximation of indirect taxation will raise severe problems for some Member States. It may, therefore, be necessary to provide for derogations.
15. We recognise that many of the changes we propose will present considerable difficulties for Member States and time will be needed for the necessary adjustments to be made. The benefits to an integrated Community economy of the large, expanding and flexible market are so great that they should not be denied to its citizens because of difficulties faced by individual Member States. These difficulties must be recognised, to some degree they must be accommodated, but they should not be allowed permanently to frustrate the achievement of the greater progress, the greater prosperity and the higher level of employment that economic integration can bring to the Community.
16. Last year, the Commission submitted a Consolidation Programme⁽¹⁾ identifying a series of proposals to be adopted by the Council in 1984 and 1985. This White Paper pursues this effort in a wider perspective and with a view to completing the Internal Market by 1992. It therefore comprises the essential items of last year's paper without expressly repeating the Consolidation Programme which still remains valid.
17. This White Paper is not intended to cover every possible issue which affects the integration of the economies of the Member States of the Community. It focusses on the Internal Market and the measures which are directly necessary to achieve a single integrated market embracing the 320m people of the enlarged Community. There are many other matters - all of them important in their own way - which bear upon economic integration, indirectly affect the achievement of the Internal Market and are the subject of other Community policies.
18. For example, it is a fact that in order to facilitate the key role which the internal market can play in the policy for the recovery of industrial structures, the suspension of internal borders must be accompanied by actions which strengthen research and the technological base of the Community's industry. Such actions will allow firms to benefit from the size of the single market. It is within this context that the present work of strengthening the Community's technological base should be seen.

(1) COM(84) 305 final of 13 June 1984.

19. Similarly, the strengthening of coordination of economic policies and the EMS will be essential factors in the integration of national markets. However, any action taken to ensure the free movement of factors of production must necessarily be accompanied by increased surveillance by the Commission in the field of competition rules to ensure that firms and Member States adhere to these rules. In particular, a strong and coherent competition policy must ensure that the partitioning of the internal market is not permitted to occur as a result of protectionist state aids or restrictive practices by firms. Moreover the commercial identity of the Community must be consolidated so that our trading partners will not be given the benefit of a wider market without themselves making similar concessions.
20. There are many other areas of Community policy that interact with the Internal market in that they both affect its workings and will benefit from the stimulus that will be provided by its completion. This is particularly true of transport, social, environment and consumer protection policy. As far as social aspects are concerned, the Commission will pursue the dialogue with governments and social partners to ensure that the opportunities afforded by completion of the Internal Market will be accompanied by appropriate measures aimed at fulfilling the Community's employment and social security objectives.
21. The Commission is firmly convinced that the completion of the Internal Market will provide an indispensable base for increasing the prosperity of the Community as a whole. The Commission is, however, conscious that there may be risks that, by increasing the possibilities for human, material and financial services to move without obstacle to the areas of greatest economic advantage, existing discrepancies between regions could be exacerbated and therefore the objective of convergence jeopardized. This means that full and imaginative use will need to be made of the resources available through the structural funds. The importance of the funds will therefore be enhanced.
22. Although this White Paper will touch on these matters where they have a direct bearing on the working of the Internal Market, it will not attempt to cover them in full and in detail as they represent considerable areas of study in their own right and merit separate and fuller consideration elsewhere. The existence of these problems does not mean that the frontiers and other frontier controls should not be abolished. On the contrary the task we face is to find solutions to the problems on the basis that the frontiers will have been abolished.
23. A detailed timetable for implementing the Commission's proposed programme of measures for the removal of physical, technical and fiscal barriers is to be found in the Annex to this Paper.

PART ONE : THE REMOVAL OF PHYSICAL BARRIERS

I. INTRODUCTION

24. It is the physical barriers at the customs posts, the immigration controls, the passports, the occasional search of personal baggage, which to the ordinary citizen are the obvious manifestation of the continued division of the Community - not the "broader and deeper Community" envisaged by the original Treaties but a Community still divided. These barriers are equally important to trade and industry, commerce and business. They impose an unnecessary burden on industry flowing from the delays, formalities, transport and handling charges, thus adding to costs and damaging competitiveness.
25. There is therefore a double reason for removing the physical barriers - an economic reason and a political reason. The setting up of the ad hoc Committee on a People's Europe at the Fontainebleau European Council (the Adonnino Committee) is ample testimony to the importance of the political concept. There is no area in which progress, where it can be made, would be more visible or more directly relevant to the aims, ambitions and vision of the Community.
26. Under the Treaty, customs duties and quantitative restrictions in intra-Community trade have been abolished. Customs posts at internal frontiers have, however, continued to exist as a convenient point at which to check compliance with national indirect taxation rules. Use has also been made of this continued official presence to enforce national protective measures relating to for example terrorism, drugs, other prohibited goods and immigration. Measures adopted by the Community itself have led Member States to use internal frontier posts for controlling aspects of common policies (agriculture and steel) and for applying safeguard clauses.
27. Our objective is not merely to simplify existing procedures, but to do away with internal frontier controls in their entirety. In some cases this will be achieved by removing the underlying causes which give rise to the controls. In others it will be a matter of finding ways and means other than controls at the internal frontiers to achieve comparable levels of protection and/or information.
28. Where the underlying causes consist partly of national policies and partly of common policies which are not yet fully developed, achieving our objective will require national policies either to be progressively relaxed and ultimately abandoned where they are no longer justified, or replaced by truly common policies applicable to the Community as a whole. Community policies which are not yet fully developed and at present give rise to internal frontier

controls will have to be amended so as to obviate the need for controls. It follows that once these barriers have been removed, the reasons for the existence of controls at internal frontiers will have been eliminated.

29. The Commission recognises, however, that certain national protective measures do not in all their aspects fall within the scope of the Treaty. Two very important examples are measures against terrorism and the illicit trade in drugs. The Commission shares the legitimate concerns of the Member States about the need to control drugs and terrorism and is well aware of the role of internal frontier posts in this respect. It needs to be stressed, however, that frontier controls are by no means the only or indeed the most effective measures in this regard. If the objective of abolishing all internal frontier controls is to be met, alternative means of protection will need to be found or, where they exist, strengthened. Obvious examples are improving controls at the external frontiers of the Community ; using spot-checks at the internal frontiers and inland ; and further enhancing cooperation between the national authorities concerned.
30. Internal frontier controls are made on both goods and individuals and are motivated by fiscal, commercial, economic, health, statistical and police considerations. Individuals and their personal property are usually checked by customs and police or immigration officials, and goods by customs and sometimes more specialised authorities.
31. The customs authorities' primary role at internal frontier posts - or within the Member State where formalities and checks take place inland - is to ensure that the indirect taxation system of the Member State in question (VAT, excise duties) continues to operate. It therefore follows that, from the customs viewpoint, the problem of removing physical controls is largely related to that of removing fiscal barriers. This latter problem is dealt with in detail in Part Three of this Paper.
32. The considerations which apply to goods and individuals are very different. We therefore examine them separately.

II. CONTROL OF GOODS

33. To date Community action has concentrated on alleviating internal frontier formalities and facilitating the movement of goods. To this end and in accordance with Articles 12, 30 and 95 of the EEC-Treaty, the Commission has ensured and will continue to ensure that the customs authorities observe the principles of non-discrimination and proportionality. The Community transit procedure and the single administrative document are concrete examples of the achievements reached by means of Community legislation ; they can and should be improved further in the medium term (for example by renouncing the Community transit guarantee). Where appropriate, there should be increased use of electronic data transmission

systems, on the basis of common standards. In addition, the implementation of the fourteenth VAT directive would greatly simplify internal frontier formalities by shifting the collection of VAT to inland tax offices ; but it will not in itself eliminate the need for customs checks at frontiers either on entry into the importing country or, with greater reason, from the exporting country in order to provide proof of actual export.

34. In order to provide a suitable foundation for further progress, the Commission will at an early stage seek a commitment from the Member States that no new or more stringent controls or formalities relating to goods are introduced. With cooperation between Member States, further simplification at internal frontiers might be achieved by avoiding duplication of controls on both sides of the frontier (so-called "banalisation"). For example, it might be possible for the exporting Member State to obtain proof of actual export of goods or statistical data on exports from the customs office of entry in the importing Member State importation. But the fact remains that to shift from the alleviation to the elimination of internal frontier controls requires a major and qualitatively different approach. To do this we need to find ways of abolishing the barriers which give rise to the need for the different controls imposed on goods.

Commercial and economic policy

35. Commercial policy measures affecting Member States individually (residual import quotas maintained by some Member States ; import measures taken by the Community but limited to one or several Member States only ; individual import quotas for Member States as part of a Community-wide measure or of an agreement coordinated by the Community) may lead the Commission on the basis of Article 115 of the EEC Treaty to authorise a Member State to exclude the product under protection from free movement within the territory of the Community. National measures stemming from authorisation by the Commission necessarily involve formalities at internal frontiers. It is worth noting that it is the absence of or failure to apply a common policy which give rise to such action. It follows that, until the powers transferred by the Treaty to the Community are fully exercised and the common commercial policy has been strengthened in such a way that all national protection measures and all regional quotas set up by the Community can be abolished, there will be a continuing need for some form of control. The Commission takes the view that it is not an unreasonable aim to achieve this abolition of national and regional quotas by 1992. Nevertheless we recognise that there may well be considerable problems to be overcome.
36. If Article 115 were no longer to be applicable, any import restrictions would have to be applied on a Community-wide basis. The enforcement of such quotas, which relies to a large extent on the administrations of Member States, would require intensive cooperation between national administrations and the Commission. Should it prove impossible to eliminate all individual quotas for

Member States by 1992, internal frontier controls could no longer be the instrument of their application. Alternative ways of applying quotas would need to be found.

37. The case is different for the use of clauses to cope with imbalances giving rise to serious threat of balance-of-payments difficulties. It is not possible realistically to set out a precise timetable for progressive restriction of the use of Article 108, in view of the direct link between this Article and economic situations of individual Member States. But if the aim of eliminating internal frontier controls by 1992 is to be achieved, measures applicable at internal frontiers will need to be renounced by then.
38. Certain mechanisms applying to trade in agricultural products also require controls at internal frontiers. For example, monetary compensatory amounts are applied to trade in certain commodities on export and import ; countervailing charges under Article 46 can be applied to trade in commodities where no common organisation has yet been agreed ; certain taxes and other mechanisms can be needed in other commodity sectors. Clearly these requirements must be abolished through the development of the relevant parts of the Common Agricultural Policy. It would further require the automatic adjustment of agricultural prices in the case of monetary realignment, preferably within the EMS ; the setting-up of common organisations for agricultural products not so far covered, with the aim of removing the possibility of recourse to Article 46 ; and adaptation of other market organisations. Trade in steel too is subject to additional controls stemming from the Common Steel Policy and environmental policy (control of transport of dangerous and toxic wastes). Steps will also have to be taken to cope with the consequences for these policies of the elimination of internal frontier formalities.

Health

39. As regards health protection, the internal frontier posts are often used for making veterinary and plant health checks. These controls stem from differences in national public health standards, which give national authorities grounds for checking that imported products conform to national requirements. The Community has, therefore, set out to implement a programme for the harmonisation of essential health requirements, a technically complex and procedurally slow process. But even where there is harmonisation, internal frontier controls have not always been eliminated because Member States still insist on carrying out their own checks. Some steps have been taken to transfer inland the checks on veterinary and plant health certificates. But there are gaps in these measures: their general adoption will depend upon mutual acceptance by Member States that the checks on goods have been properly applied by the exporting State.
40. As a further early step towards the objective of abolishing internal frontier controls by 1992, all veterinary controls (live

animals and animal products) and plant health controls will have to be limited to the places of departure, and controls of veterinary and plant health certificates made at the places of destination (together with control of products if there are reasons to assume fraudulent or negligent practices).

41. To facilitate this, more common standards will have to be established for trade between Member States and for imports from third countries for those live animals and animal products where they are still lacking. Animal products conforming to these standards would receive a Community mark. In addition supervising authorities in the country of origin would have to check goods for consumption in other Community countries, in accordance with coordinated procedures. Mutual trust would be enhanced by the appointment of Community inspectors to check that controls were being correctly carried out. Furthermore, Member States should cooperate in fighting fraudulent practices in the Community framework, and rules of liability in cases of damage resulting from fraudulent or negligent practices would need to be established.
42. Certain import restrictions and quarantine measures would still be justified on grounds of protection of plant and animal health, in line with common standards. In order to harmonise as far as possible such restrictions, common policies designed to fight disease would have to be strengthened.
43. In order to meet the objective of 1992, a major effort at Community and at Member States level will be needed to achieve common levels and policies for veterinary and plant health and to align national standards to common standards as much as possible. To the extent that this can be achieved, the role of the veterinary and phytosanitary certificate could be drastically reduced and specific restrictions only needed for disease emergencies. For animal products, use of the health mark would be sufficient.

Transport

44. Other internal frontier controls are aimed at the carriage of goods and have to do either with the administration of transport policy or with safety requirements. Most intra-Community transport operations are subject to quotas, for which vehicles must carry transport authorisations. The authorisations and the books of record sheets are mostly checked at the frontier. If these controls are to be abolished, the transport quotas themselves must be progressively relaxed and abolished. Goods - particularly dangerous products - may also be checked for safety reasons. Moreover, vehicles are increasingly being checked at the frontier for compliance with national requirements; this is particularly true in the case of motor coaches. Systematic safety controls at internal frontiers will need to be eliminated. Road vehicles which enter a Member State would however remain liable to check under the same conditions as apply nationally to road vehicles. The adoption and proper enforcement of common safety standards would greatly facilitate this process.

