From the European customs union to the internal market

European File

Many recent statements by Community Heads of State or Government, as well as the European Commission, have stressed the urgent need to reinforce the Community's internal market to boost the confidence of investors, to rekindle growth and to create new jobs:

The customs union between Community countries, embodied in the European Treaties, is the basis for a range of policies which seek to establish a common market. The customs union means that:

- ☐ In trade between member countries, all customs duties, taxes with an equivalent effect and quantitative restrictions are abolished. For the six founder members of the Community this aim was achieved between 1958 and 1968. Denmark, Ireland and the United Kingdom were brought into line between 1973 and 1977. In the case of Greece, which joined the Community in 1981, these trading barriers will be gradually eliminated by 1 January 1986. Note that the free movement of goods within the Community also applies to articles from other parts of the world, once imported into any Member State.

- ☐ In trade with the rest of the world, a common customs tariff is applied, as well as common principles of customs legislation on the valuation of goods for charging duty and the origin of goods. Many further measures, frequently very technical, are needed to complete the harmonization of customs law and prevent discrimination. But the Community is already seen as a cohesive unit with the negotiating powers of a single

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trading partner on the world commercial stage.[1] The volume of Community imports and exports make it the world's largest trading bloc. The Community has signed agreements with third countries on the level of its customs duties. A number of preferential concessions are made for developing countries. It has also negotiated export limitation agreements to protect sectors of the European economy sensitive to international competition.

The customs union, together with the free movement of people,[2] services and capital, forms the foundation of the European internal market. But this market has yet to be completed. To achieve this goal, trading conditions between Member States must become equivalent to those between different parts of a single country. Anyone who has queued at one of the Community's internal frontiers knows that this is still far from being the case.

And yet a fully established internal market is essential to the recovery of the Community's economy and the creation of a springboard to renewed growth:

- □ The successful operation of the internal market would encourage production on a scale beneficial to the consumer and industrial competitiveness. It would also foster the convergence of national economic policies and, by establishing a Community-wide economy, increase the degree of business and government confidence in the future. This would, in turn, encourage investment in the jobs of tomorrow.

- □ Opportunities for technical advance, financing and marketing on a continental scale (there are 270 million consumers in the Community) would allow European firms to compete on equal terms with US and Japanese companies, who enjoy the advantages of large domestic markets (230 million and 120 million consumers respectively).

- □ There is an active link between a healthy European internal market and the creation of Community policies to promote renewed economic growth. In Commission proposals for industry, research and development and innovation policies, the operation of a continent-wide market is regarded as a pre-condition for success.

The Community has already made significant strides towards the establishment of an internal market. In the years between the creation of the EC and its first enlargement in 1973, the growth in internal trade greatly surpassed the growth in trade with other countries. Between 1959 and 1970, exports to non-Community countries grew on average by 9%. Trade within the Community increased by 16%. Over this whole period, internal trade grew sixfold. Exports to the rest of the world increased two and a half times.

But these advances were made mainly in the first years of the Community. The impetus of the 1960s has now given way to a period of uncertainty. Exports and investments show a trend away from Community countries towards other parts of the world:

- □ The share of intra-Community trade in the total trade of Member States has begun to decline. It fell from 53.6% in 1979 to 52.8% in 1980 and 50.7% in 1981. This trend is

[1] See *European File* No 2/82: 'The European Community in the world'.
[2] See *European File* No 9/80 'The European Community and migrant workers' and No 20/80 'Mutual recognition of diplomas and professional qualifications'.

Intra-Community trade as a percentage of the total

	1958		1973		1981	
	I	E	I	E	I	E
Germany	34.3	35.8	53.0	48.2	48.2	46.9
France	26.7	28.6	55.8	57.0	48.2	48.2
Italy	29.5	33.1	49.4	51.8	40.7	43.2
Netherlands	50.1	57.1	61.3	73.2	52.4	71.3
Belgium + Luxembourg	54.7	53.6	70.9	73.8	59.3	70.0
United Kingdom	20.4	20.3	33.1	33.1	39.4	41.2
Ireland	68.2	81.5	71.8	76.3	74.7	69.9
Denmark	59.0	58.2	45.9	46.4	47.9	46.7
Greece	53.3	50.4	50.0	55.0	50.0	43.3
Community	33.8	35.3	52.1	53.7	47.6	50.7

I = imports; E = exports.

Intra-Community trade as a percentage of gross national product

	1958		1973		1981	
	I	E	I	E	I	E
Germany	4.7	5.9	8.3	9.3	11.5	12.0
France	2.8	2.8	8.2	8.1	10.3	8.6
Italy	3.2	2.9	8.9	7.5	10.7	9.4
Netherlands	21.6	21.9	24.8	29.1	24.8	35.0
Belgium + Luxembourg	17.9	17.0	33.1	35.1	37.2	39.4
United Kingdom	3.7	3.2	7.2	5.7	8.4	8.1
Ireland	27.1	21.4	30.3	24.5	47.4	32.8
Denmark	17.2	15.8	12.5	10.1	14.8	13.2
Greece	10.4	4.0	10.6	4.9	12.1	5.0
Community	5.5	5.4	10.5	10.4	12.6	12.5

I = imports; E = exports.

partly explained by the increased cost of oil and the rise of exports to oil-producing countries. The demand of the latter for equipment and consumer goods has increased while the economic recession has dampened demand in industrialized countries. But the residual barriers to trade within the Community are also responsible.

□ At the same time, the investment boom of the 1960s has given way to a period of retrenchment. Community investment fell from 23% of gross domestic product in 1970 to 20% in 1982. The annual investment rate, which increased by about 3.4% from 1976-80, is now declining. European investment funds are being attracted away from the Community into other parts of the world, notably the United States. Causes include the strength of the dollar and the high level of US interest rates. But the blame partly lies with the inadequate liberalization of capital movements between Community countries.

Barriers to trade

As the figures for intra-Community trade show, the interdependence of Member States and the commercial impact of the creation of the Community constitute an economic fact of life of the greatest importance. The bulk of trade between Member States is carried out without significant interruptions but obstacles still exist to the complete establishment of an internal market. By hampering the development of trade and cross-frontier investment, these obstacles are limiting the potential for growth in the European economy. They include:

- ☐ Macro-economic problems: monetary fluctuations (which the European Monetary System is attempting to control), divergences in inflation rates, as well as the cost of loans, energy and transport.

- ☐ Micro-economic problems, such as:

  - State aids to industry, which, despite monitoring by the Community, exist in varying forms in all member countries and frequently give a trading edge to local producers.

  - The adoption of VAT throughout the Community has created the framework for a fiscal system allowing the elimination of frontier controls. But the existence of differing tax rates and, in many cases, unharmonized excise duties, has prevented the Community from reaching this ultimate goal.

  - Cross-frontier ventures are often discouraged by the absence of a common European legal and fiscal system to prevent the application of different, and sometimes cumulative, tax rates to firms operating in several Member States.

  - The inadequate liberalization of capital movements has already been mentioned. Similar problems exist in the services sector, especially for activities such as banking, insurance and transport. In the transport industry, Member States often operate different rules on tariffs, working conditions and the weight and dimension of vehicles. These gaps in the internal market are all the more serious because services are increasingly important to the European economy. Activities in this sector now account for more than half the gross domestic product of the Community.

In all these areas, the Community has made some progress. Hundreds of European directives have helped to approximate national regulations, laws or administrative procedures which influence the internal market. But many other Commission proposals have been held up by lengthy discussion in the Council of Ministers. The result is that the level of harmonization is quite inadequate. Numerous obstacles remain for firms and private individuals wishing to take full advantage of the Community market.

Even the free movement of goods – where the success of the common market has been the most complete and the most obvious – is increasingly threatened by new obstacles to trade. No Member State is guiltless:

- ☐ Dozens of regulations attempt justifiably to protect the consumer or the environment or to standardize or improve production methods. But the effect can be to impede or prevent the sale in some Member States of products popular in other ones. This applies to regulations controlling industrial pollution as well as technical standards adopted in different Member States, which, in the absence of common European standards or mutual recognition of national standards, seriously impede or completely block imports. The result is that European industry has to adapt its production lines to the varying demands of different countries. This causes acute problems for small and medium-sized businesses. In all cases it increases costs and robs firms of the economies of large-scale production. Although 200 European directives already exist to abolish these obstacles, new national standards and regulations are constantly emerging.

- ☐ National regulations establishing minimum or maximum prices or restricting trading margins prevent manufacturers in other Member States from selling their goods at a price which reflects the cost of production. Differing national measures of this kind have partitioned the pharmaceutical market, a potential source of economic growth.

- ☐ Other arrangements and procedures, often in breach of the European Treaties but disguised, give preferential treatment to national firms or products. This happens in a number of areas but notably in the field of public purchasing, which accounts for 15% of the Community's gross domestic product. Protectionism of this kind is preventing the industry of the future, telecommunications, from competing on equal terms with its American or Japanese rivals. It also means that many firms prefer national protection to the possible advantages of competition on a European scale.

- ☐ Some advertising campaigns encouraging people to 'buy national' are contrary to European law. The same applies to other neo-protectionist arrangements, such as restricting advertising of goods imported from other member countries or insisting on a label of origin.

- ☐ A whole range of visas, licences, forms, statistical documents, and origin certificates are demanded with imports and exports. They slow down trade, often in contravention of Community law. There are instances of limits on imports at certain times of the year; of the importing country insisting that traders must have representatives with qualifications which they recognize; and even imports controlled by committees which include representatives of national manufacturers.

- ☐ Frontier checks and customs controls often go beyond their legitimate purpose and impose difficulties, delays and unjustified costs on importers. Sometimes limits are introduced on the number of importation points in order to impede or slow down traditional trade flows. Such difficulties increase transport costs and place the Community at a disadvantage, in comparison with other continental blocs such as the United States.

The vast majority of these obstacles are caused, not by deliberate protectionism, but by bureaucratic negligence. But the effect is similar or even identical. Over the years State intervention in the economy, industry, public health and the environment has increased. Insufficient attention has been given to the European dimension of these problems and differences between national regulations have, consequently, increased at the same speed. At the same time, respect for and the extension of Community law often conflict with the varying methods and arrangements which flow from different administrative and legislative traditions, with different conceptions of the relative rôles of the State and private enterprise, with the degree of centralization or regional control and with overall or detailed economic policies. In a number of cases, it has been decided that there is no urgent need to remove anomalies which indirectly protect such and such a national producer. In a period of recession governments are finding it increasingly difficult to reconcile short-term problems with the more intangible benefits of an open market. Since all countries have this same reflex, the prospects for expansion of many businesses are compromised by the artificial preservation of others in a protected national market.

It is therefore easy to see why barriers to trade between Community countries are tending to multiply. An indication is the number of infraction procedures launched by the European Commission, as a prelude to action in the European Court. The number has increased from 20 in 1960 to 50 in 1970, 100 in 1978 and 332 in 1982. This trend is not entirely due to tighter control by the Commission and the expansion of Community law through the adoption of a number of directives harmonizing national regulations. In 1982, 180 complaints were lodged by Member States or private concerns, double the average number of previous years. It should also be remembered that, in many other cases, complaints are not possible because the offending action is unofficial or makes use of a loophole in Community law.

Relaunching the internal market

Such problems threaten to undermine the basis of the Community. To tackle them, the European Commission is calling for a programme of prevention, rather than suppresssion. It has suggested that the internal market should be developed in new ways to reverse the trend of recent years, restore the confidence of business leaders and encourage them to make the Community a priority for investment once again.

Following a communication from the Commission on 12 November 1982, the European Council called for rapid progress towards Community decisions and the avoidance of endless discussions at expert level. At summit meetings in Copenhagen in December 1982 and in Brussels in March 1983, the Council laid down priorities for action:

- ☐ The creation of machinery for exchanging information on new technical regulations and industrial standards. The system agreed in March 1983 aims to increase reciprocal exchanges of information and prevent new obstacles to trade from emerging. Cases will be dealt with either by the normal Community institutions or the European Standards Committee, which groups specialized bodies in the Member States. They will have the power to seek information and impose a standstill on proposed new regulations to enable them to introduce, where necessary, alternative rules or standards at European level.

- ☐ The application of common certificates arising from European directives on technical harmonization to goods originating in third countries. Agreements on this point will unblock a whole series of draft directives on the harmonization of technical regulations, which should benefit goods of European origin. In addition, new Community protective measures against dishonest trading practices in third countries were also proposed. The intention is to arm Europe with procedures as rapid and effective as those possessed by other countries, notably the United States. This will be achieved by giving the European Commission the power to deal with complaints from European producers and to introduce speedy counter-measures, within the terms of the Community's international obligations.

- ☐ Simplifying tax procedures and frontier checks. In March 1983, the Council agreed to abolish from 1984 all import taxes on vehicles temporarily brought into another Member State. This is designed especially to assist frontier workers and foreign students. Taxes were also abolished on permanent imports of personal belongings, whether through change of home, inheritance, marriage or to furnish a second home. In May 1983, discussions continued on measures to relax personal frontier checks, increase travellers' tax allowances, mainly for tourists, introduce a single customs document for traders and transport firms and to delay VAT payments on imports, so that the tax is no longer demanded at the frontier.

Clearly, the completion of the internal market requires many further measures in areas such as company law and taxation, the liabilities of purveyors of defective goods, public purchasing and the free movement of services and capital. Action is also needed to abolish more rapidly technical barriers to trade. Community ministers will doubtless need to agree framework directives which will delegate, as the European Treaties allow, more enforcement powers to the European Commission. At the same time, the Commission will need increased power to suppress infringements of Community law.

The completion of the European internal market is a continuous process which requires willingness to adapt administrative procedures to new conditions and demands. It also presupposes confidence in the institutions of the Community. Establishing the internal market is a long-term project which will need to go through many stages. But the results achieved will be of the greatest importance. The internal market answers two urgent priorities: the consolidation of the achievements of the Community and the revival of the European economy. In the future, as in the past, European integration and social and economic progress will go hand in hand ■

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

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