

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 313 final

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL ON THE STATE OF THE INTERNAL MARKET

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I. The establishment of a complete common market, and hence the promotion of a harmonious development of economic activities, is a central feature of the Community.

The customs union, the implementation of which is intended to ensure the internal market, is proving to be increasingly inadequate for the achievement of this aim. The substance of what has been achieved is instead being jeopardized and undermined by the fact that old barriers have survived for too long and new barriers have been created.

Under the pressure of the economic crisis during the two recessions of the past seven years Member States have not completely withstood the temptation to yield to national protectionism. Among the measures which give rise to alarm, mainly because of their frequency, are non-tariff and administrative barriers of all types - in particular in the field of technical specifications and standards - the tax limits, the constant overbidding in granting direct and indirect subsidies, the gaps in foreign trade policy - which often has an adverse effect on the operation of the internal market and the unity of purpose of the Community - and the increasing influence of Member States on procurement and on the general functioning of the market. In addition, there is the anxiety about the protectionist effect of monetary policy measures and the lack of progress in the realisation of a complete common market for the free movement of services especially in the banking and insurance sector.

II. The mere existence of doubt about the rapid achievement of the internal market destroys a valuable capital of confidence. Just as in the sixties firms often anticipated foreseeable progress in integration in their investment decisions, the declining confidence in the success of the internal market will now paralyse initiative and investment.

III. However, the continental dimension of the European internal market is an indispensable condition for the success of the historic process of structural change which European industry must carry out in the eighties, to ensure the consolidation of the international competitiveness of European industry and to reaffirm the European Community as the most important partner in world trade. In the current difficult economic and social situation, a lasting stimulus to the revival of industrial activity and to the improvement of the labour market can be created by accelerating the process of making the internal market a reality.

IV. The observation - 23 years after the establishment of the European Community - that the elimination of frontier formalities is still lagging behind that achieved in the Nordic Union must raise doubts about the success of the internal market.

V. The decline in confidence which threatens the internal market must immediately be halted by convincing political action. If the situation is to be turned around, in view of the economic and social risks should the present stagnation continue, the European Council must consistently re-emphasize the priority given to a workable internal market, strengthen the determination to defend Community achievements, and give prominence to the urgency of comple-

ting the internal market. Such a policy statement could have the effect of strongly committing Community governments in political terms. In order to prove the Community's definite intention of revitalizing the internal market, a package of concrete measures should be put in hand immediately.

VI. These measures to restore confidence involve no expenditure for the budgets of the Member States of the Community.

VII. The European Council is therefore requested

- to confirm the basic importance of the internal market for the Community and emphasize the need for its rapid achievement;
- to instruct the Council of Ministers to achieve tangible progress in the second half of 1981.

A N N E X

The role of the internal market

1. It is precisely in this time of crisis that the economy requires - in the difficult process of adjustment and innovation - the opportunities which only an effective internal market of continental dimensions can provide, and the stimuli generated by competition in this market. The resulting increase in productivity and competitiveness will help the Community, once more, to face growing competition on all markets.

2. The way out of the crisis would be easier were the internal market already a fully-fledged entity. The fact that the internal market still leaves much to be desired is therefore an obstacle to overcoming the crisis.

The threat to the internal market

3. In order to overcome the crisis, firms must be ever more prepared to invest. They will be reluctant to take decisions if they cannot base them on a reliable assessment of the potential market. An increase in breaches of the Treaty's provisions banning internal protectionism, the reluctance of the Community institutions to take decisions and the constant overbidding in granting subsidies and protection measures which distort competition result not only in obsolete structures but also adversely affect

competitive firms. In addition, vital investment is being postponed as a result.

4. The administrative and technical obstacles are so numerous that it is not possible to list them in detail. Mention should also be made of the various market-insulating effects arising from the plethora of legislation which has not been harmonized at Community level, e.g. concerning protection in the consumer, environmental, labour and health fields. Similarly, the lacunae in the harmonization of taxation and economic law, and in the provisions on capital movements, freedom of establishment, the provision of services and forms of organization and cooperation are denying the 1 500 000 or so firms in the Community the benefits of a large internal market.

The State's influence on the operation of the market which extends beyond public contracts, has increased considerably since the sixties. To the extent that this influence is purely national in character, it distorts the conditions of competition and constitutes an obstacle to the optimum utilisation of natural locations as a prerequisite for a European economy based on the division of labour.

5. Citizens and firms in the Community have already derived considerable benefit from the establishment of the customs union. Half of the individual Member States' foreign trade is with other Member States; exports into the Community countries account for 13% of the gross domestic product. Endeavours so far will inevitably fail to reach fruition, however, as long as the Community institutions do not make consistent and rapid use of the means which the Treaty provides for removing the remaining - and the new - barriers to trade.

Consolidating the internal market

6. The task for the present is to give fresh impetus to the internal market. The key is to strengthen the confidence of business circles in the future of the common market.

7. Measures to restore confidence could take the form of a firm statement by the European Council against national protectionism and a request to the Council of Ministers to adopt in the immediate future a certain number of the outstanding decisions to expand the internal market.

Preventing unilateral action

8. Non-harmonized legal and administrative measures taken unilaterally often have an adverse effect on the unity of the internal market. This was the reason for the Member States reaching the Gentlemen's Agreement on technical barriers (in 1969) and environmental protection (in 1974), with regard to standstill and reciprocal information. While these agreements often operate adequately in connection with the environment, in the case of technical barriers they do not meet the demands of the 1980s in content or scope. Their shortcomings lie chiefly in the weakness of the obligations under the information-exchange procedure; over-short time-limits; the product categories concerned; and the fact that the work of standards institutions operating under private law is not yet included. Commission proposals for an improved information-exchange procedure in respect of standards and technical regulations have been submitted to the Council.

the Gentlemen's Agreement on environmental protection and to complete as soon as possible its examination of the Commission's proposal on an information-exchange procedure for standards and technical regulations.

Elimination of internal frontiers

10. The common market will not be complete as long as frontier checks persist within the Community. Even if they can be entirely removed only in the long term, frontier checks and formalities could still be simplified right now. At present the completion of formalities at the Community's internal frontiers is still more complicated and time-consuming than, for example, is the case with trade between Scandinavian countries.

Twenty-three years after the founding of the EEC and thirteen years after the Customs Union was set up, the public is justifiably annoyed that customs clearance procedures within the Community are scarcely any different from customs procedures with non-member countries. In commercial terms, these procedures increase the cost of goods by around 5 - 10%.

11. Considering that the objective of a Common Market is integration, the application of customs procedures to goods crossing internal frontiers would seem to be an anachronism dating back to the days before the Community. The argument that customs formalities can only be simplified after the remaining barriers to trade have been dismantled and in particular after indirect taxes have been fully harmonized is no longer tenable.

12. At least, as far as the goods which are subject to VAT are concerned - by far the largest proportion - the

Commission considers that it is already possible to organize both the levying of these taxes and the compilation of statistical information in such a way as to bring them very closely into line with the rules which govern countries' domestic goods traffic. At the same time, customs documents could be replaced by invoices, as is the practice in commerce. These three improvements have already proved beneficial in trade between the Benelux countries.

13. The Commission will be presenting the requisite proposals in the very near future. It draws attention to the fact that the European Parliament feels this matter is of great importance.

The legal environment of companies

14. In order to take proper advantage of the Community's extended economy, undertakings need a uniform legal environment within which they can develop their Community-directed activities freely. This framework can be set up by approximating legislation and by introducing Community legislation. Particular attention should be paid in this connection to the economically important features of company, commercial and economic law and the legislation on industrial property.

15. One of the areas where a decision should be taken as a matter of priority is the adoption of the proposal for a Directive on consolidated annual accounts. The accounting system it provides for substantially improves the preventive protection of the companies included, their shareholders and persons lending to the firm, it approximates accounts from country to country and encourages investment between different countries.

Identity at external frontiers

16. Reinforcement of the internal market must go hand in hand with reinforcement of commercial policy. Without a common external policy, the internal market will be undermined, in particular through the deflection of trade and protective measures referred to in Article 115 of the EEC Treaty. Without a genuine internal market the Community's negotiating position vis-à-vis third countries will be weakened.

17. Owing to disagreement on the treatment of third country goods, there are at present 21 proposals for Directives on technical barriers awaiting adoption in the competent Council departments. It is vital that the Council deal with this matter at ministerial level.

Decision-making process

18. Although internal market questions are usually highly technical, this should not prevent barriers and their proposed solutions from being discussed in the wider economic context. The Council should therefore examine the situation in this area regularly at ministerial level.

19. In particular the Council and Parliament should concentrate on the politically relevant framework Regulations and Directives and leave problems of detail to the Commission. Article 155 of the EEC Treaty makes express provision for this and permits a simplified legislation process through the administrative and decision-making committees without depriving the Member States of their influence on Community activities. This procedure has already proved that it works for customs legislation and

adaptation of existing Directives to technical progress. The Commission has proposed that it also be extended to construction materials, measuring instruments and cosmetics.

20. The Council is called upon to examine these proposals as quickly as possible. The Heads of State and Government of the Community already agreed at their summit on 9 and 10 December 1974 that it would be expedient to make use of the provisions of the Rome Treaty which allow powers of implementation and administration to be delegated to the Commission.