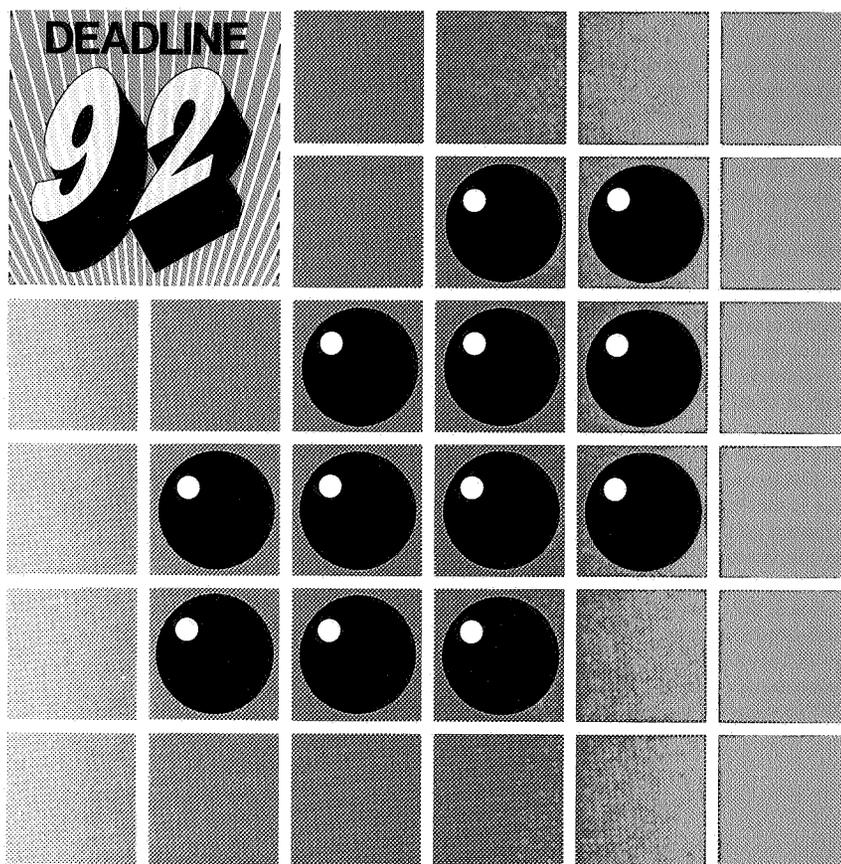


# EUROPE WITHOUT FRONTIERS – COMPLETING THE INTERNAL MARKET



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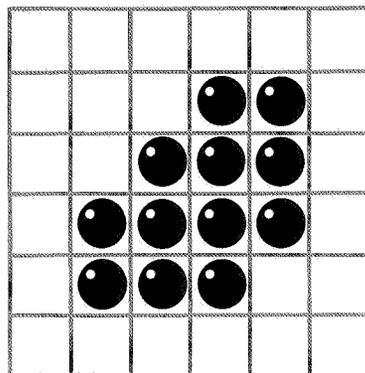
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The Treaty of Rome establishing the European Economic Community assumes that economic and political unification of the Member States of the Community must be founded on a large, integrated single market. But 30 years after the Treaty of Rome was signed, and despite great progress in the Community, the large single market without barriers inside the Community is still incomplete.

So the Heads of State or Government and the institutions of the Community have agreed to achieve an open market without barriers by 1992. In view of all the tasks to be accomplished and the obstacles of every kind to be surmounted, this is one of the most ambitious European projects to be conceived in recent years.

The aim is to overcome the numerous obstacles which still hinder the circulation of people, goods, capital and services within the Community.

This brochure gives an idea of both the importance and the magnitude of the task.



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## **A common objective**

In the world race against the clock, which the countries of Europe have to win to survive, what was needed was a common objective to enable us to look beyond the everyday difficulties and pool our strengths and energies. That is why, when I took over as President of the Commission of the European Communities, I proposed to the European Parliament and to the Heads of State or Government of the Community that we should create by 1992 an economic area where all barriers have been removed and the principles of solidarity are applied. The biggest of its kind in the world, this large market without frontiers is an invaluable asset which can help restore our firms to economic health and a strong competitive position. It is one of the main driving forces that will take us on to European Union. This objective was solemnly adopted by the Community.

The entry into force of the Single European Act provides us with the institutional means for making this plan reality. What is now required is a manifestation of political will by the Member States and a commitment by them commensurate with these new ambitions. The Commission, for its part, will be doing its bit.

Jacques DELORS  
President  
Commission of the European Communities

## Preface

We have just celebrated the 30th Anniversary of the signing of the Treaty of Rome, which established the European Community.

The Treaty of Rome embodied one of the greatest visions of all time. It started with these words:

'Determined to lay the foundations of an ever-closer union among the peoples of Europe,

Resolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe'.

That was the task the Community embarked upon 30 years ago. That is the task which it is our responsibility today to complete.

Not simply for idealistic motives, fundamentally important though they are, but for hard practical economic reasons.

Great progress was made in the early years. But with the recessions of the 1970s that progress slowed down and was halted. But our competitors — particularly the United States of America and Japan and the emerging industrial economies of the Far East — continued to forge ahead. In contrast with our competitors our record on productivity, on innovation and on employment has not been good. We have at the latest count 16.8 million of our people unemployed. We cannot continue that way.

Nor in fact do we need to do so. By taking the right decisions now we can create the conditions for reversing Europe's relative decline and enable it to become a leader in the world again.

An important precondition for continuing prosperity in all Member States of the Community is the creation of a completely integrated Community-wide economy. This is what the Commission's programme to complete the internal market by 1992 seeks to do.

Clearly the creation of the internal market will not solve all the Community's economic problems. But by removing the hundreds of physical, technical and fiscal

barriers that today divide the Community we shall be able to create a more favourable climate for economic revival and for the more effective deployment of our resources.

This publication spells out the compelling reasons for completing the internal market without delay and sets out the broad thrust of the Commission's programme for doing so. It also tries to convey how an integrated market would function in practice and to illustrate why the completion of the 'great market' is not some abstract concept but a development that will have far-reaching and tangible consequences for the daily lives of all Community citizens.

The completion of the internal market is probably the most ambitious task that the Community has tackled since it was first set up. It will require courage and determination to carry out, but the rewards will be well worthwhile.

Whether you work in industry, or whether you are a consumer, a traveller or somebody looking for a job and if you care about your own prosperity and that of the country you live in, this task affects you. It is therefore vitally important that you should understand how it will work and that you play your part in bringing it about. We are confident that, having looked at the reasons for undertaking this task, you will wish to give it your full support.

Lord COCKFIELD  
Vice-President of the  
Commission of the European Communities

## I. The challenge: Creating a single European economy

### *The vision of the Treaty*

The idea of creating a single European economy based on a common market is not a new one. The opening lines of the Treaty of Rome signed in 1957 spelled this goal out in specific terms:

‘The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.’

The Treaty clearly envisaged that the Community’s prosperity and, in turn, its political and economic unity would depend on a single, integrated market. And to bring that about it set out specific provisions for the free movement of goods, services, people and capital. It also foresaw that this would need to be backed up by action in other related spheres, such as establishing freedom of competition and developing common legislation where necessary.

### *Non-Europe*

In spite of this early vision a true common market does not yet exist. This is especially ironic as in the minds of most people that is supposed to be the Community’s central purpose. Indeed, the European Community is often referred to as ‘the Common Market’.

Despite the clear terms set out in the Treaty many of the original barriers to the internal market still remain and new ones have sprung up. They comprise the surviving — and very real — obstacles to the free movement of people; varying national technical specifications; health and safety standards; environmental regulations; quality controls; and differences in indirect taxation, to name but a few.

The job of removing these so-called 'non-tarif' barriers began to be tackled many years ago; unfortunately in many cases discussion simply got bogged down in technical details, as the Member States failed to agree on a common overall approach to overcome national differences in standards. Moreover, the economic recession of the 1970s tended to reinforce Member States' preoccupations with the protection of their national markets — not only against non-member States but also against one another. As a consequence, progress was for some time only made at the margins, with many fundamental issues left untackled. In the last few years, however, the mood has begun to change and there has been a growing realization that a fresh concerted attempt has to be made to create a single economic framework.

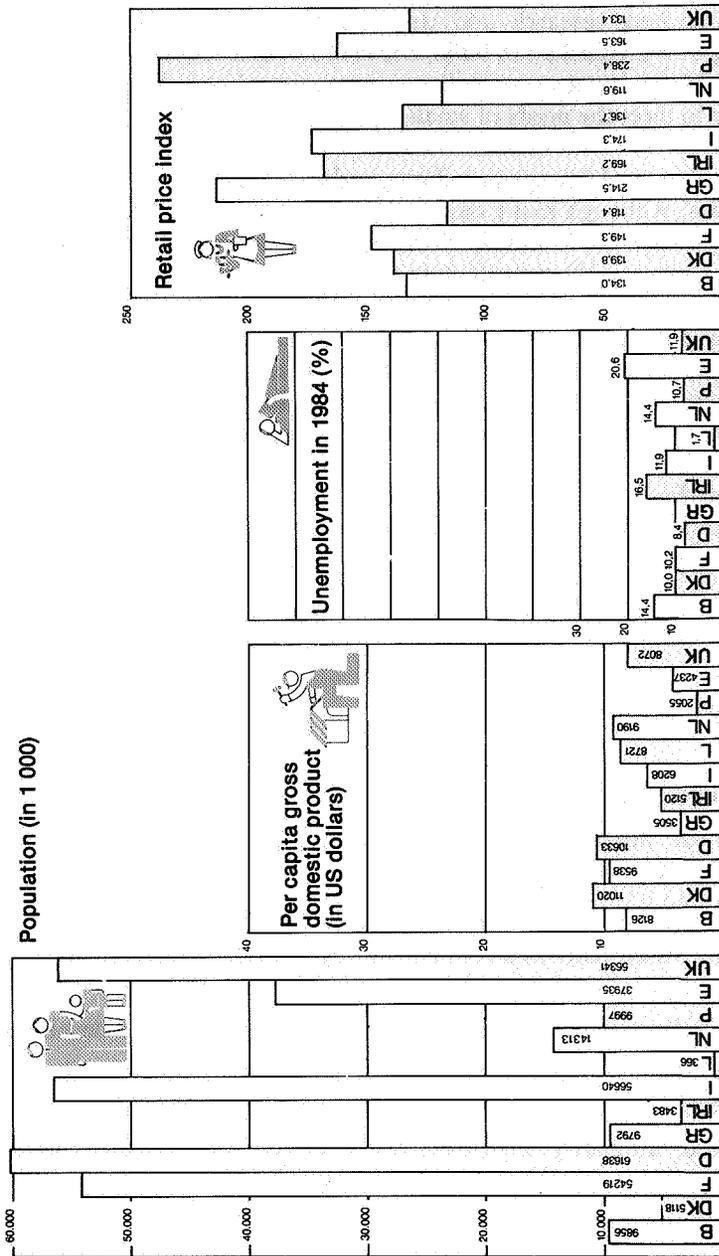
### *Fragmentation*

At the heart of this renewed impetus is the recognition that, unless it can make full use of the potentially vast single market that the 12 Member States constitute, the Community will continue to lose ground and markets to its main competitors, the USA and Japan.

At the moment the Member States remain largely 12 separate markets, ranging in size from 366 000 people in Luxembourg to over 60 million in Germany. Even the German market, the largest European national market for industrial goods, is less than half the size of the Japanese market or a quarter of that of the USA. On its own each European country simply cannot compete effectively with the giant resources of Japan and the United States. Only a single European market of 320 million people, which allows business to flourish on a large scale, both in terms of manufacturing, research and innovation, can provide the base and the environment to meet the challenge.

The development of new processes and products offer an example of the damaging effect of this fragmentation. Taken as a whole the countries of the Community spend as much on research as Japan. But because this effort is fragmented it means that it cannot be used effectively. By spending on a national basis, a lot of the research is unnecessarily duplicated and valuable resources are lost as the wheel gets re-invented several times over. The splitting up of research budgets also means that many large projects simply cannot be undertaken by any single Member State. Then, once a new product is to be launched, it has to be adapted to meet the requirements of a host of different national standards. This adds further to the cost that the consumer has to pay for the final product.

## European Community Member States: Basic statistics



In the end all these obstacles mean that even in those sectors where individual national industries are efficient, the added costs make many of their products uncompetitive on the world market. This indirectly serves the interest of the Japanese manufacturer, who from the base of the large Japanese home market, can do the equivalent research and development work much more economically and produce for all markets in bulk. The creation of a single European market will make it possible and necessary for European companies to do the same and not produce simply to meet the needs of small separate markets.

The structure of European industry today reflects the divided market and national attitudes. Although many companies, both big and small, operate in several Community countries, it is difficult for them to rationalize their production activities. This perpetuates the manufacture of separate products for separate markets, despite the advantages of the collective scientific, technical and industrial capacity of the Community. Even in situations where rationalization on a European scale would be possible, psychological attitudes often get in the way. This is simply because governments in many cases still prefer to protect their individual national markets at the price of jeopardizing their competitive potential.

In short Europe simply does not make effective use of its collective resources. This leads to all manner of costs being imposed on all forms of economic activity which ultimately are borne by the consumer and the taxpayer.

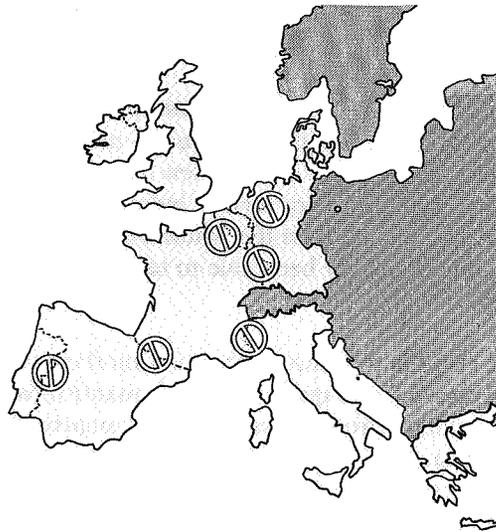
### *The cost of non-Europe*

The major costs that result from non-Europe can be summed up as follows:

- (i) high administrative costs incurred in dealing with different national bureaucratic requirements;
- (ii) higher transport costs because of formalities at borders;
- (iii) increased costs as a result of having to apply different national standards and so having smaller product runs;
- (iv) duplication of costs involved in separate research and development;
- (v) the high costs of non-competitive and heavily regulated State activities, as exemplified by national public procurement policies;
- (vi) and, ultimately, high costs and reduced choice for the consumer confined to his national market; combined with
- (vii) the opportunity cost which prevents or at best discourages economic activity from spreading across frontiers to enjoy the full market potential.

## The cost of non-Europe

It is difficult to quantify how much all these barriers cost to governments, consumers and industry. Some recent studies have produced the following estimates which, while making no claim to be exhaustive, give some indication of the possible scale of the missed opportunities:



## The cost of a non-united Europe

Customs formalities	12 000 million ECU (estimate by the Commission of the European Communities)
Restrictions on public contracts	40 000 million ECU (Albert/Ball report)
Failure to develop information technology on the Community scale	4 million jobs by around 1990 (McKinsey study)
Failure to double scale of production of manufactured goods	20-30% of unit costs (study by industrial economists)

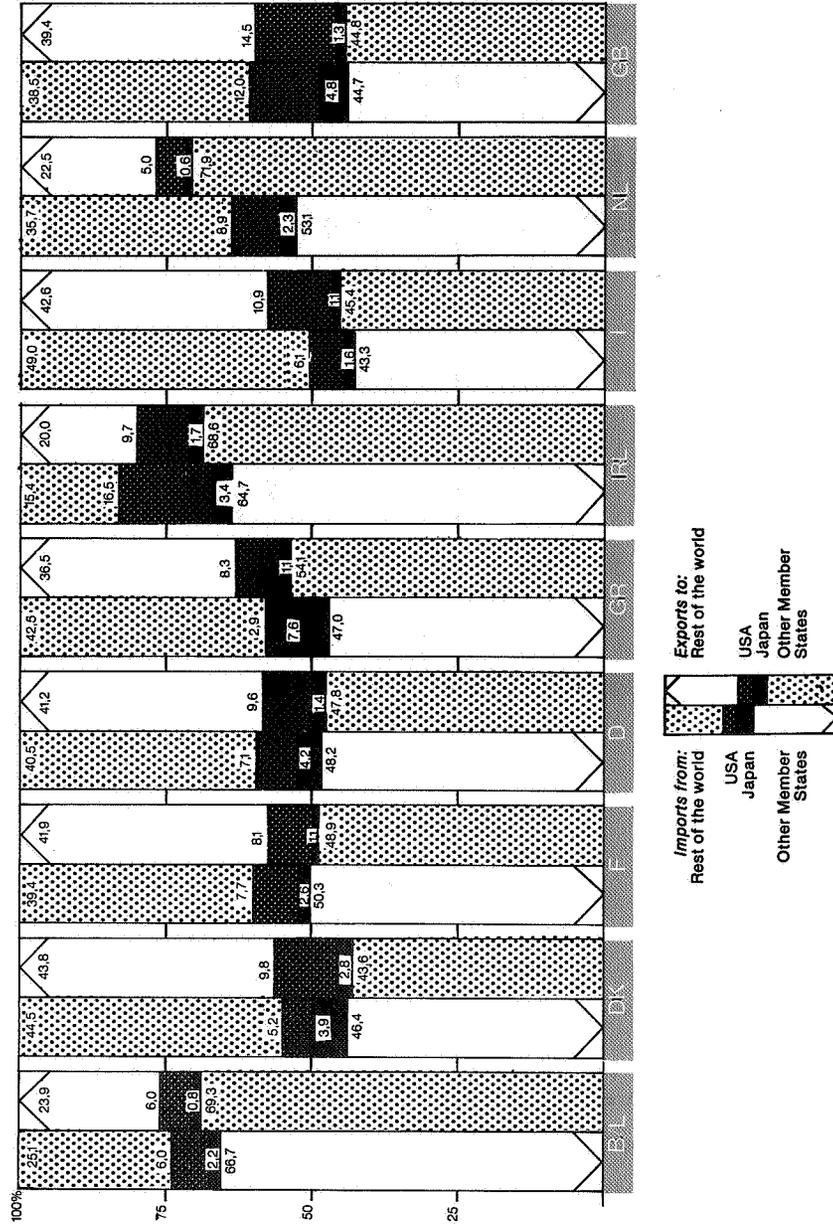
### *Summary: The uncommon market*

This chapter has tried to show that, despite having made some progress in developing an integrated economy, the Community is still a long way short of its goal. In many respects, the Member States do cooperate and coordinate their economic activities effectively through discussion and action taken in Brussels. In other respects they continue to go their separate ways and operate as separate economic units. Whether in the case of goods, services, capital or people, the Community is not yet a single integrated market.

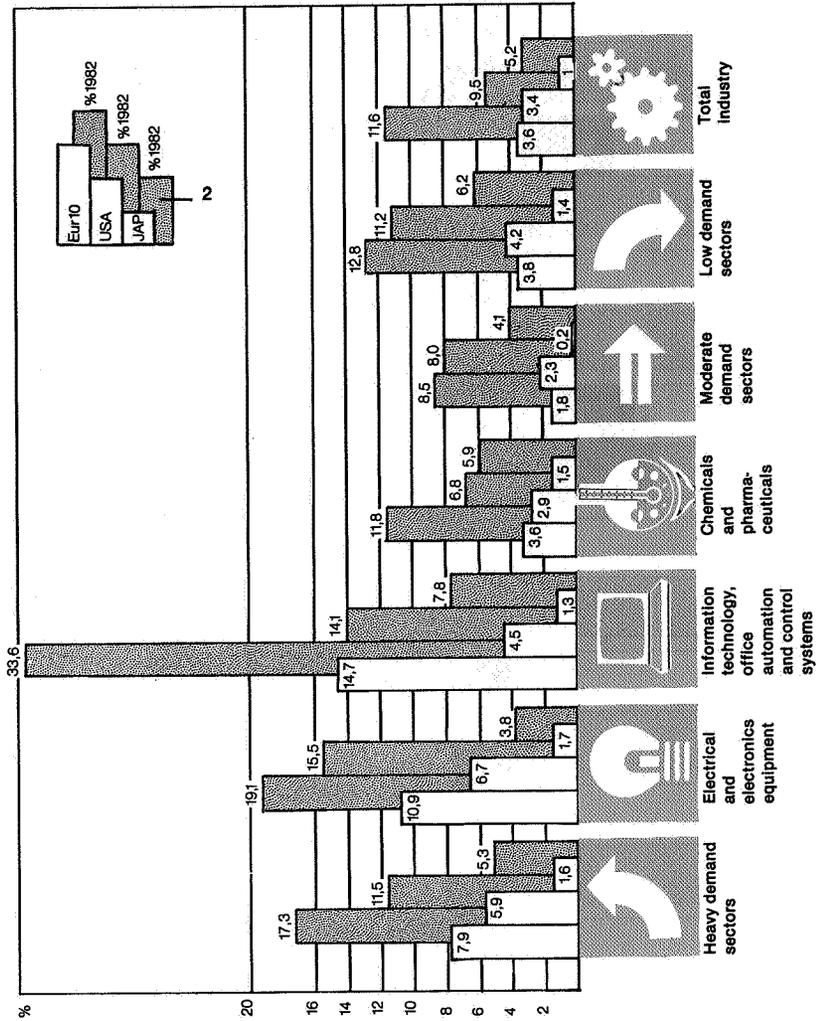
Without a common economic framework many of the Community's fundamental weaknesses have remained untackled — uncompetitive industries; low productivity; poor innovation — to name a few examples. Of course certain manufacturing sectors and a good many service industries have flourished over the last two decades; but that has not on the whole been due to the existence of the real common market, nor have they been able to take full advantage of the vast market on their doorstep.

The net result is that this uncommon market, this 'non-Europe', is burdened with heavy costs, in both qualitative and quantitative terms. This is one of the major factors making European business less competitive than its Japanese and American counterparts. Nor can individuals yet move freely to the parts of the Community where their skills and opportunities best lie. That is a cost both to them and to the enterprises that need them.

Basic import and export statistics for 1984 (in %)



# Penetration of the home market for industrial products in 1982<sup>1</sup>

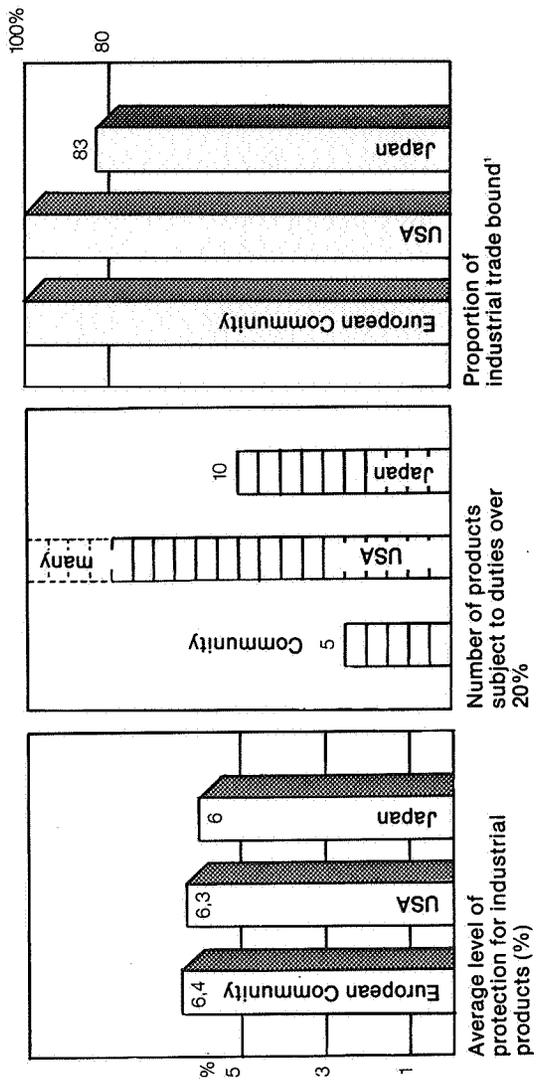


<sup>1</sup> Penetration =  $\frac{\text{imports}}{\text{demand on the home market}}$

<sup>2</sup> Change = difference between market share in 1973 and in 1982.

Source: Eurostat and Commission of the European Communities.

### Tariff protection on the major markets under GATT rules



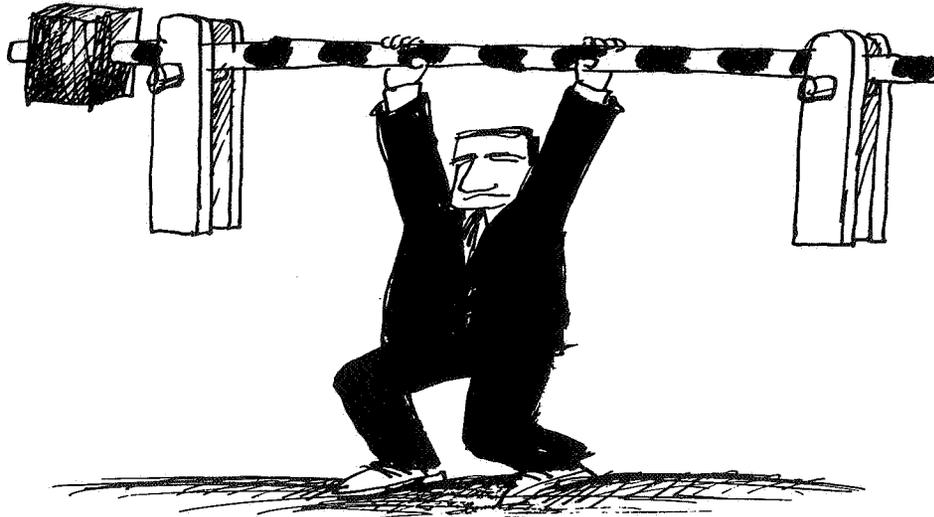
<sup>1</sup> 'Bound' products are subject to a protective tariff which has been notified to GATT and, therefore, cannot be changed until negotiations have been held and, if necessary, compensation arranged.

## II. Completing the internal market: The Commission's White Paper of June 1985

As we have seen in Chapter I, the idea of creating a common market has been under discussion since the original Treaties. Some progress has been made; but the fact is that much of the work still remains to be done.

In recent years there has been increasing pressure on governments to take bold action to deal with Europe's economic decline. There has also been a greater realization that the economic problems of all the Member States have much in common and would benefit from being tackled on a joint basis. Increasingly businessmen, economists, national politicians and Members of the European Parliament have begun to realize that Europe's revival is dependent on the creation of a continental market. In fact, many have come to regard this as an essential pre-condition of the Community's future prosperity. Ordinary citizens too have increasingly questioned the value of the Community when so many obstacles to free movement remain.

Against this background the Heads of State and Government of all the Member States have repeatedly made declarations committing themselves to the completion of a fully unified internal market and in 1985 they specifically asked the Commission to put forward concrete proposals to achieve that objective by 1992.



## *Europe without frontiers*

Taking up the challenge, the Commission published a White Paper in June 1985 setting out the necessary programme together with a clear timetable for action.

Unlike previous initiatives, the White Paper aims to be completely comprehensive. It seeks to create, step by step, an integrated and coherent economic framework. It does not tackle only one economic sector or an area which favours only one particular Member State. Nor does it simply concentrate on minimal proposals that would be easily acceptable to the Member States. It attempts to identify all the existing physical, technical and fiscal barriers which justify the continuing existence of frontier controls and which prevent the free functioning of the market, and it puts forward over 300 legislative proposals required for their removal.

It is this comprehensive approach that is the key to this bold and ambitious set of proposals. Only by tackling all the genuine and relevant barriers that exist is it possible to create a real common market in all aspects, a real 'Europe without frontiers'. Every single one of those barriers has got to go. The continued presence of one single reason for the maintenance of frontier controls could be enough to require controls at internal frontiers and defeat the whole exercise.

The Commission believes that this single market will only work efficiently if it is expanding and flexible so that resources, both of people and materials, capital and investment, flow to areas of greatest economic advantage. This is essential if the integrated economy is to cope with changing circumstances.

The White Paper recognizes that some of the remaining barriers are more important than others. Thus, whilst some proposals seek to eliminate essentially technical differences, such as those created by national standards, others are more far-reaching and tackle whole sectors of economic activity. It also covers the complementary action that will need to be taken in other Community policy areas if the programme is not to be jeopardized by barriers elsewhere — such as in differing environmental standards.

## *Removing the barriers: the philosophy*

The White Paper traces the consequences of the removal of each barrier and sets out the follow-up action that would be necessary to ensure that the removal of the different barriers works in a coordinated way.

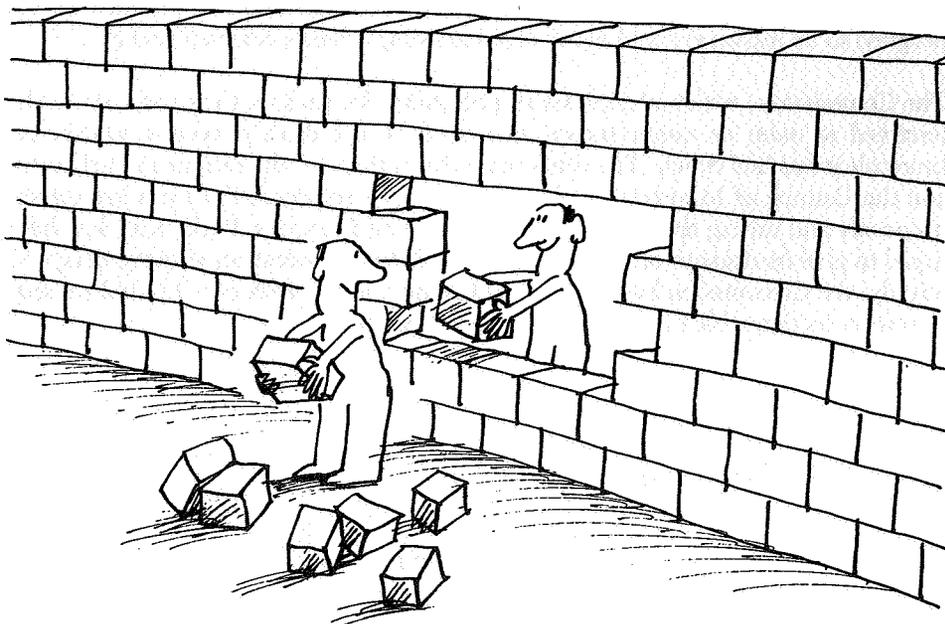
Let us look at how the different barriers interact.

Take, for example, controls at the internal frontiers themselves. At the moment they serve a number of purposes. They are important for maintaining public security and controlling entry and exit of travellers, but more especially illegal immigrants, criminals and terrorists; for collecting VAT and excises on goods that are being traded between Member States; for ensuring that movements of plants and animals are in accordance with national health requirements; for collecting statistics on the entry and exit of goods.

In order to be able to remove frontier controls the underlying and sometimes deeply-rooted reasons why Member States think these controls continue to be justified have to be examined.

The approach to the abolition of frontier controls is discussed in detail in Chapter III.

It would not, however, be enough to deal with the physical barriers and leave in place all the technical and fiscal obstacles. In the case of technical barriers, specific measures have to be devised which allow products to circulate freely while at the same time providing acceptable minimum levels of protection for the consumer and the environment. Similarly, in the case of fiscal barriers, steps have to be taken so



that travellers and goods are not subjected to time-consuming checks at frontiers. The approaches to be followed for technical and fiscal barriers are discussed in Chapters IV and V.

The importance of ensuring freedom to provide services should not be overlooked, particularly since this is now one of the central issues involved in the new round of international trade negotiations — the 'Uruguay Round'. Until now services have been regarded as an activity separate from the manufacturing industry and moves to liberalize trade in services have made less progress than in the case for goods. This has been a great mistake both because services form an increasingly important part of the economy and because they are an essential support for maintaining a strong manufacturing base. The White Paper treats goods and services equally and seeks to eliminate barriers to both.

### *The timetable*

The White Paper envisages that the various proposals which are required to complete the internal market should be discussed, adopted and implemented according to a timetable between 1985 and 1992. The purpose is deliberately front-loaded with most of the legislation proposed in the early years, leaving at least two years for Member States to implement and enact national legislation. This will enable progress to be monitored and avoid decisions simply being deferred *sine die*.

The Commission, which carries the responsibility for making the proposals, is determined to meet its commitments and produce the draft proposals within the timescale it has laid down. The other main institutions — the European Parliament and the Council of Ministers — also carry a heavy responsibility for adopting the proposals and taking the necessary decisions. The European Parliament has been urged to give its opinion on proposals sent to it for consultation without delay. Similarly, the Commission has pressed the Council, albeit with only limited success, to respect its timetable for the adoption of the proposals.

### *The Single European Act*

In this respect the Commission's task should in future be made easier by the recent adoption by the Member States of the Single European Act. The formal product of negotiations on the Commission White Paper, this Act, *inter alia*, replaces the

unanimity requirement provided for in the original Treaties with decisions by qualified majority as regards certain measures which have as their object the establishment and functioning of the internal market. The unanimity requirement has, in the past, made any decision a complex and lengthy process and meant the rate of progress was dictated by the most reluctant Member State.

The Single Act is wide-ranging, setting out a number of amendments to the original Treaties covering such diverse subjects as economic and social cohesion, environment, cooperation between the institutions and political cooperation. The importance of the Act for the achievement of the internal market lies in the fact that once ratified by all the Member States it should provide the necessary political impetus and legal framework to achieve a truly unified market by 1992. Above all the adoption of the Single Act reflects the renewed political will of the Community to halt the economic fragmentation of the Community and to complete, within a given timeframe, the aims of the original Treaties.

### *The internal market and other policies*

The White Paper stresses that the creation of a single market affects many different policies, including employment, transport, environment, agriculture and competition. Although all these policy areas are not treated in any detail in this publication, their importance for the success of the internal market programme must not be ignored.

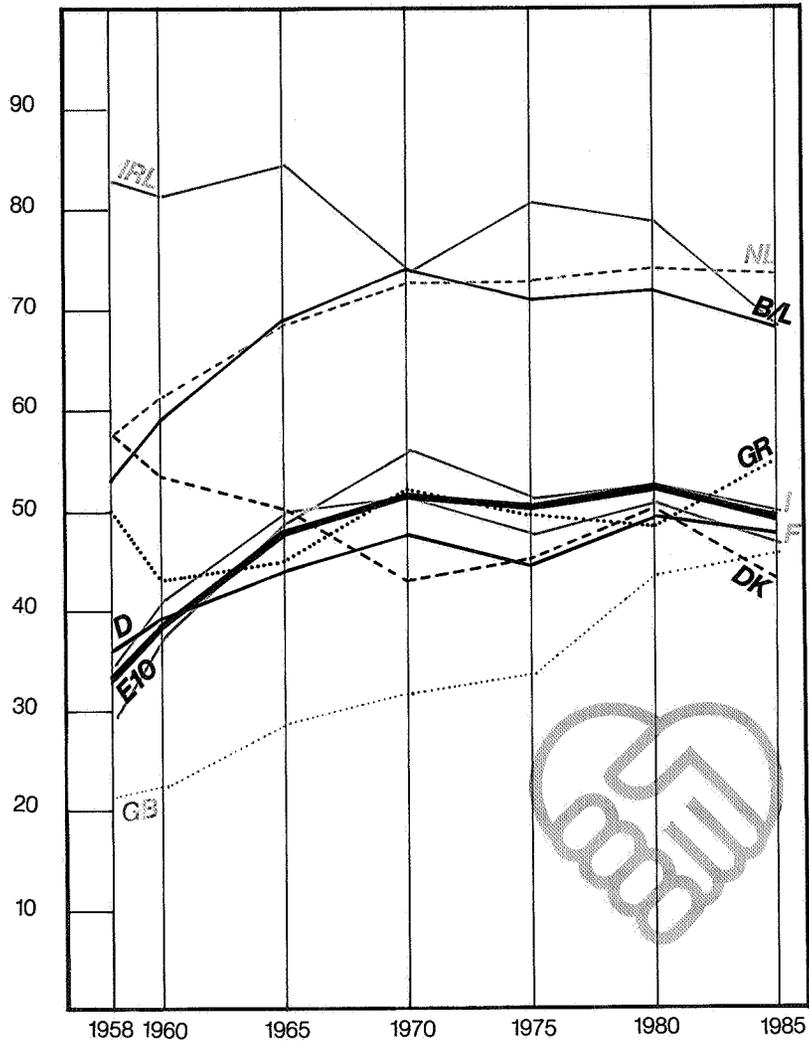
It is perhaps worth looking briefly at three particular policy areas in more detail: maintaining economic cohesion; competition policy and the application of Community law by the Member States.

#### **Cohesion: working for rich and poor regions**

In proposing its strategy for completing the internal market the Commission has carefully examined its possible effects on all regions of the Community.

The completion of the internal market may make certain regions more attractive than others. As a result, resources — whether human, material or financial — may and, in pure economic terms, should move to the areas of greatest economic advantage. Existing differences in levels of prosperity between regions could therefore be exacerbated as the transition takes place. The Benelux, northern France, the south-east of Great Britain and the Ruhr may well be better placed, for example, to

**Intra-Community trade as a percentage of the Member States' foreign trade**



Source: Eurostat.

benefit from economic expansion through their central position, good infrastructure and their existing strength in industry and services.

Other regions, especially those situated at the periphery of the Community, that do not have such a developed infrastructure or immediate economic potential may not gain to a similar extent in the short term. The Commission firmly believes that Community policies must work towards narrowing the gap between poor and rich regions, in order not to threaten the unity and common purpose — the economic cohesion — of the Community.

To this effect, in those less-advantaged areas, further funds will have to be made available to help improve their infrastructure and provide the basis of further development. The creation of an internal market ought not therefore to be seen as a threat but as an opportunity to develop the Community's poorer regions. Although economic development may progress at different rates in different regions, the locomotive of a single market will help give the whole Community a new impetus in the longer term.

### **Competition**

The EEC Treaty provides for the establishment of a Community-wide system to see to it that competition in the common market is not distorted. The competition rules are aimed at ensuring that a healthy competitive environment exists throughout a unified European market, for the benefit of all — producers, traders, consumers and the economy in general. The rules seek to prevent enterprises from distorting trade rules or abusing their power in the market place, for instance by price-fixing between what ought to be competitors, by agreements on market shares or by production quotas or tie-in clauses. They also provide for action to be taken in cases where national governments take measures which favour particular firms by granting them aids such as outright grants or special tax advantages.

The Commission believes that a strong competition policy will be necessary to ensure that the freedom for trade promised by the creation of an internal market is not thwarted by anti-competitive practices, whether by government or by enterprises. To this end the Commission will continue to apply the competition rules rigorously and to take action against those who break them.

### **Member States and Community law**

Correct application of legislation and respect for Community law is crucial to the success of the White Paper programme. It is not enough to devise clever blueprints

for a single internal market. For the plan to be implemented Member States must be seriously committed at all stages of its development.

To begin with, there has to be a clear willingness to work towards a consensus on the different national approaches from which many of the barriers originate. The interests of each Member State have to be weighed in the balance of the interests of the Community as a whole and at the end of the day every Member State will have to give a little in order to arrive at a common position.

However, even after a consensus has emerged and the legislation has been agreed — all 300 different pieces of it — the process will still not be complete. Each Community law will have to be painstakingly translated into national law in the Member States. This can be a slow process and some countries have a better record than others in actually putting into practice legislation already adopted. And finally Member States will have to tighten up the enforcement of the law.

It would be a fundamental mistake to see the achievement of a single market purely in terms of simply enacting a mass of Community Directives or Regulations. The vigorous enforcement of the existing 'common law' of the Treaty is no less important — indeed in the long term it is far more so.

As it is, the internal market — embracing the free movement of goods, persons and services, as well as customs and taxation questions — generates well over half of all the present infringement proceedings pursued by the Commission under the Treaty. It is of course to be expected that complaints of failure to respect Community law should be most abundant in those areas where companies and individuals are most closely affected by the existence — or non-existence — of the common market. It is these companies and individuals who are the first to suffer from infringement of Community law and it is essential that their trade is not held up by long, protracted legal battles.

The Commission can not alone ensure respect for Community law. The physical capacity, both of the Commission and, increasingly, of the Court, to process infringement proceedings is already overstretched. It is therefore vital that individuals, firms, lawyers and national courts should play their part in securing the enforcement of directly applicable Community rules at national level. This was, in any event, very much the system envisaged in the Treaties, with the Community's Court playing a residual yet guiding role under Article 177 of the Treaty of Rome.

Above all, the essentially deregulatory approach adopted in the White Paper makes it more important than ever that firms and their advisers be aware of their rights under Community law and of the means which are available for enforcing them. Too often firms become resigned to finding pragmatic ways of coming to terms with existing barriers in potential export markets. Sometimes firms have simply been

forced to take their business elsewhere, reluctantly resigning themselves to the permanent nature of some obstacles, unaware even that they are illegal or that the means exist to combat them.

An important part of the deregulation proposed in the White Paper is in the area of technical standards. Here, mutual recognition will in general replace systematic harmonization. This will place a premium on Member States' implementation of the Court's case-law derived from the famous *Cassis de Dijon* ruling, which laid down that products legally made and marketed in any one Member State must be allowed to circulate freely in the rest of the Community. We will return to this in greater detail in Chapter IV.

And, of course, it is essential that the Member States respect their obligation to notify draft standards to the Commission in advance of their enactment in order that any potential new barriers they may raise can be detected and eliminated. MEPs, ordinary citizens, the private sector too have an important role in the monitoring of Community law, by drawing the Commission's attention to any apparent breaches which they may come up against.

The Commission has consistently sought to eliminate potential breaches of Community law before they cause damage to trade. The vast majority of cases brought to the Commission are settled well before Court proceedings are engaged. Two specific examples where success was achieved in this way concerned the 'buy national' allegations against the United Kingdom in respect of oil production licences for the North Sea on the one hand, and the pricing of pharmaceuticals on the Greek market on the other. But there are many other cases where similarly satisfactory results have been achieved in fields as diverse as technical regulations, minimum/maximum price regulations, public tendering, restrictions on credit and payment, border formalities, origin marking, disproportionate customs fines and double taxation.

In recent years more and more complaints have reached the Commission against conduct incompatible with Community law. The Commission has already strengthened its internal procedures to deal with such infringements and it is looking at further ways in which the private sector could get swift and effective remedies to remove unjustified obstacles. In the end though, the Community's common market will only work if Member States, companies and individuals themselves uphold Community law and do not attempt to circumvent it to meet their own ends.

### *Summary: Implementing the plan*

This chapter has tried to sketch out the broad approach by which the internal market can be completed by 1992. It has also shown that for the great market to work in practice the whole jigsaw must fall into place. Without the removal of all barriers and a coherent approach to all cross-frontier activity — whether by individuals or companies — there can be no true internal market. Failure to take the right steps to create a single market may mean that the Community misses a crucial opportunity to regain its economic strength in the world.

The Commission firmly believes that the great market should be made to work to the benefit of all regions and not simply those which might see immediate gain.

But for the great market to become a reality the full support of the Member States and the different Community institutions will be required. In addition, Community law will have to be implemented, respected and enforced.

### III. The removal of physical barriers

For the sake of convenience and following the classification used in the White Paper, the measures thought necessary to achieve a single internal market will be examined under three headings:

- (i) the removal of physical barriers;
- (ii) the removal of technical barriers (Chapter IV);
- (iii) the removal of fiscal barriers (Chapter V).

It is at Europe's internal frontiers that its people are most strikingly reminded of how divided the Community still is. The immigration controls and the 'customs' checks are a constant reminder that the Community remains divided into separate States. The removal of these barriers will constitute one of the most direct and visible benefits of the Community to its citizens. It will be the first step in the creation of a 'people's Europe' — a positive Europe which can be seen to help people in their daily lives rather than a Europe that appears to obstruct people through rules and regulations.

Frontier controls are not merely a physical constraint but also a significant economic constraint and their maintenance perpetuates the costs and disadvantages of a divided market. They impose an unnecessary burden on industry flowing from the formalities, transport and handling charges that goods are subjected to whenever they are taken across a frontier, thus adding to costs and reducing competitiveness.

The Commission has already proposed ways in which the present checks and controls on people and goods can be rationalized and relaxed in the short term. But it has gone further and has suggested what needs to be done is to remove them altogether so that by 1992 we have a real 'Europe without frontiers'. Some of the necessary steps towards that will be controversial, especially at a time when the terrorist threat and abuse of drugs is on the increase. But systematic frontier controls are not the only or even the best way in which to stop such traffic and, with better and more appropriate safeguards, a frontierless Europe can be achieved without creating a haven for drug smugglers and terrorists. Internal frontier controls are made on both goods and individuals and are motivated by fiscal, commercial, economic, health, statistical and police considerations. The considerations which apply to goods and individuals are very different and will therefore be examined separately.

## *People*

Ernest Bevin, when he was British Foreign Secretary in 1951, eloquently expressed his vision of a Europe without frontiers:

'To be able to take a ticket at Victoria Station and go anywhere I damn well please.'



*The system which already applies within Benelux is a good example. Private vehicles with nothing to declare cross the border slowly; the customs officer decides on spot checks if need be.*

Thirty-five years later that ambition still eludes us. Travellers do, it is true, experience less difficulty and delays than they used to, but the frontier controls remain; removing them will help to persuade people that Bevin's vision can become reality.

There are two reasons why travellers who are Community nationals are stopped at frontiers: immigration and tax. Police or immigration officials screen travellers to check that their passports or ID cards are in order for immigration and security purposes. The so-called customs staff are there to check whether travellers owe money to the taxman for the goods they are carrying with them. (The 'customs controls' are actually a misnomer. Since the abolition of national customs duties in 1967, there are no duties to be collected at internal frontiers. The Member States

have, indeed, decided to remove the misleading 'customs' signs from the borders between them by 1 January 1988.)

### **Police controls**

At the moment the checks made on individual travellers at internal crossing points vary considerably from place to place and also depend on how they are travelling. A German traveller, for example, who arrives at the Belgian border by road from France or Luxembourg will seldom find that his identity is checked at all; indeed, he will rarely even be stopped. If the same traveller takes the train at Strasbourg for Brussels his identity and personal effects may be checked by as many as three sets of customs and police officials, from each of the three countries crossed — France, Luxembourg and Belgium. Were he to arrive at Brussels airport, he would find that not only are all passengers systematically checked on arrival, but that their personal details are entered into a computer.

### **Removal of controls for travellers by 1992**

Our objective is to remove all controls at internal frontiers by 1992. That means new and synchronized arrangements in all Member States.

The approach would work as follows.

Whether Community travellers arrived by road, boat or train from another Member State they would be subject to the same controls. In principle they would not be systematically stopped on entry or exit but only when there was an exceptional reason to do so. In addition, the Commission has already proposed that by 1988 such spot-checking should only be carried out on exit from Member States and not at both exit and entry, as is the case at present. That alone would halve the number of controls. While differences in the level of indirect taxation in Member States remain, the traveller would continue to have to stop and pay any taxes due on goods that he was importing, but even that would cease to be necessary after 1992, as we shall see in Chapter V.

At major airports and ports, to make the checks as smooth and rapid as possible, fast-entry channels would be set up for Community citizens for both immigration and taxation purposes. Those would only be subject to spot-checks, so that the majority of Community travellers would not be detained at all. Non-Community travellers or Community travellers whose documents were not in order would, of course, have to pass through the ordinary channels, with closer scrutiny.

Major road crossing points would be organized on the same lines.

The Commission wants to see these principles applied at all major internal crossing points where circumstances make it possible. The Benelux countries, France and Germany, for instance, have already agreed that Community citizens travelling between them by road can exhibit an 'E' symbol on the car if they have no taxes to pay. They will then only be required to stop at the frontier for spot-checks.

### **The European passport**

The increased use of the European-model passport will also help in speeding up travel across frontiers by providing instant identification of Community citizens at a glance.

Even all that, however, will not be enough to achieve the abolition of all frontier controls. For that, a number of further things will have to be done:

- (i) first, as controls at internal borders are reduced and eventually eliminated, the controls at the Community's external borders will need to be tightened up;
- (ii) secondly, we need to develop a common approach to problems that affect national security, such as crime, drugs, terrorism and carrying of firearms. There also has to be close sharing of information between the police and security forces of the different Member States, and to some extent with other neighbouring countries;
- (iii) thirdly, common policies will be needed for the movement of third-country citizens between Member States. As a first step we need to coordinate the rules of entry, of residence, and of access to employment, as well as such areas as the right of asylum, refugees, extradition, and a common visa policy.

Once all these measures are in place, controls at frontiers will become unnecessary and travellers will be able to move freely and safely from one Member State to another.

### *Goods*

Just as travellers going from one Member State to another are subjected to checks and controls at frontiers, so too are goods. Again, if frontier controls are to be abolished, we need to find alternative ways of meeting the administrative, fiscal, health and other needs which they are designed to serve.



*The European passport came into force on 1 January 1985. It is being phased in by the Member States as national passports are replaced.*

The welter of papers which at present have to be processed at frontiers is a lorry-driver's nightmare. But each form, each rubber stamp has a reason behind it — collecting taxes, collecting statistics, controlling plant and animal diseases, licensing restricted exports and imports, enforcing trade quotas, keeping out banned products, and many others.

To check all goods vehicles systematically for all these purposes requires considerable time which inevitably means long delays, especially at the busiest crossing points — Dover, Calais, Aosta and the Mont-Blanc Tunnel.

In principle many of these delays ought to have disappeared long ago, when the Community of the Six laid the foundations of the customs union in 1967, and the common customs tariff replaced the national tariffs. But in practice the common customs tariff and the Community transit system have only helped to a limited extent because of all the other checks that also have to be carried out.

As mentioned above removing the barriers to the free movement of goods means finding new ways of doing the job which the frontier controls do now. The Commission sees this happening in two stages. By 1988 the administrative checks will be simplified and whenever possible moved away from the internal frontiers. The second stage will coordinate policies and develop common legislation so that the internal frontiers and controls are completely eliminated by 1992.

One significant improvement to procedures at the frontiers has already been agreed.

At present each Member State requires separate data to be provided on its own separate forms for goods that cross its frontiers. This means that as many as 70 different forms are currently in use in the Community.

From 1988 the majority of these separate forms will be replaced by a single form called the Single Administrative Document. The new form marks a great step forward in rationalizing the paperwork involved in transporting goods. This will help save time and money for companies and transporters and make the procedures easier to understand, as well as making computerized statistics easy to collect.

Other important checks result from different national policies on taxation (dealt with in Chapter V), agriculture, health and transport, and in each case the basic underlying reasons will have to be tackled.

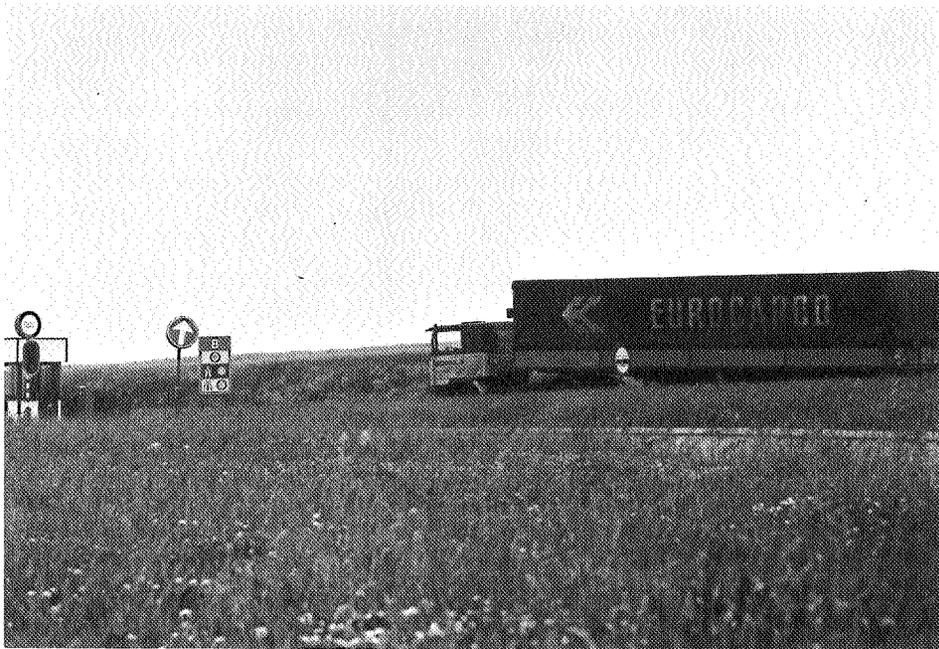
#### **Agriculture and health checks**

Although the common agricultural policy has ensured that the obstacles to the circulation of agricultural products are far less than for most industrial products, there are still national differences which need to be compensated for at frontiers.

One such mechanism is the system of monetary compensatory amounts (MCAs). These are charges paid at frontiers to compensate traders for the fact that support prices vary between Member States depending on the rate of exchange used to convert Community prices into national currencies. If MCAs were not applied, goods would flood into the country with the highest intervention prices and there would be serious distortions of trade. So MCAs will either have to be phased out, or, failing that, administered away from the frontiers.

Barriers to free trade also result from enforcing the different health standards for animals and plants in force in the Member States.

These controls are difficult to abandon as long as health standards vary significantly. The long-term objective is to raise the health standards of all Member States to the highest levels so there is no need for any restrictions on trade. This must be done by developing common policies to combat disease. In the shorter term, ways of controlling animal and plant movement which do not require controls at the frontiers have to be found. These procedures must be based mainly on mutual recognition of checks by Member States, controlling health certificates at points of departure and destination, as well as adequate control and inspection.



*'Eurocargo' — A bet on the future, if ever there was one. As so often happens, Europeans are already ahead of their governments' decisions.*

## *Transport*

Frontier controls are also needed to enforce separate national requirements for hauliers and the safety of the vehicles they use.

Most intra-Community transport is subject to 'quotas' in that most countries limit the number of journeys that foreign — and often national — hauliers can undertake. This means that authorizations for such journeys are stringently checked at frontiers. For these controls to be abolished, the transport quotas themselves will have to be progressively relaxed until they can be abolished altogether. That is why the Commission is working towards a common transport policy, as provided for in the Treaty of Rome. This would, in principle, allow hauliers to operate freely throughout all the Member States and so remove the need for any controls at frontiers. In addition safety checks on lorries could be eliminated by adopting common safety standards and consistent enforcement methods.

## IV. The removal of technical barriers

The elimination of frontier controls, important as it is, does not itself create a genuine common market. It would be a nonsense to abolish the obstacles found at present at frontiers and simply continue with the obstacles within the Member States. Those hidden obstacles are created by a host of technical barriers — not immediately visible — that are especially important for trade in goods and services, though many also hamper the free movement of people.

### *Free movement of goods*

As far as goods are concerned barriers are caused by the fact that different product regulations and standards — safety standards, health or environmental standards, standards for consumer protection — operate from one Member State to another. The welter of apparently petty restrictions which this causes is endless: for example, cars or televisions have to be altered in innumerable ways to meet all sorts of different national standards. British chocolate simply cannot be sold in some Member States because they use a different definition of chocolate. German law for years prohibited the sale on its territory of beers brewed in other Member States because the additives they contain contravened German national 'purity laws'. Such regulations not only add extra costs, because of separate research, development and marketing costs, but they also distort production patterns. They increase unit costs and stockpiling costs and discourage business cooperation. Where they do not actually forbid it, they at least discourage and penalize attempts to operate on a European scale.

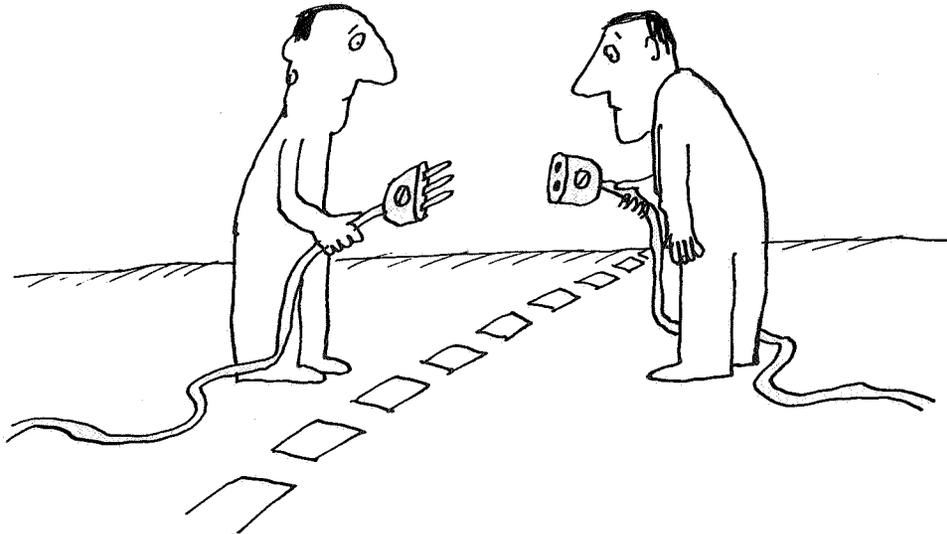
Different national production standards and regulations mean that many products are separately manufactured to separate standards for each separate country. In itself the development of national standards and regulations has been constructive and helpful in guaranteeing that products provide a minimum level of safety for the consumer and that they protect the environment. The fact is, however, that they can often act as a disguised form of national protection against similar goods imported from other Member States where different standards are in force.

Thus for example a fork-lift truck manufactured in the UK to British standards and regulations may not meet those applied in Germany. So if a British manufacturer wants to sell his fork-lift truck in Germany, he may have to alter it to meet German requirements.

It is ironic that such standards and regulations should do such damage when they have the same entirely desirable purpose: the protection of human life and health and of the environment. Ironic, and it must be said, unnecessary.

### **Harmonization: good or bad?**

For many years the Community has attempted to eliminate these barriers through harmonization — the adjustment of national regulations to conform to an agreed Community standard. Unfortunately the proposals drawn up by the Commission were often unnecessarily over-ambitious and correspondingly slow. The process of elaborating and adopting harmonization directives proved difficult and complex and years were spent trying to reach agreement on the technical minutiae of a single product or group of products. In the interim, traders were unsure what standards they ought to comply with and, all too often, by the time agreement was reached, either the product or the standard had become obsolete, a monument to bygone technology or, worse still, a barrier to innovation. Administrative difficulties were exacerbated by the misunderstandings which have plagued harmonization efforts



since their inception. Nothing has had a more adverse effect on harmonization than the notorious 'Euroscandal'. The public see efforts at harmonization as bureaucratic interference from Brussels and the myth has developed that the Community is trying willy-nilly to create 'Europroducts' — identical products with identical ingredients required to be sold throughout the Community. Nothing could be further from the truth.

Fortunately, successive judgments of the European Court of Justice have done much to facilitate the removal of technical obstacles to trade which harmonization seemed incapable of eliminating alone. In its landmark ruling in the *Cassis de Dijon* case in 1979, concerning the sale in Germany of cassis manufactured in France, the Court confirmed the basic right of free movement of goods and held that, in principle, any good legally manufactured and marketed in one Member State should be able to be sold in another. A ban can only be applied if, in the particular circumstances of the case, it is necessary to satisfy a limited range of public interest objectives — such as consumer protection — to be determined by Community law. No longer will Member States be able to keep out competing products from another Member State simply because they are slightly different from their own.

#### **The new approach to technical harmonization**

These principles have been taken up by the Commission and are reflected in its new approach to technical harmonization outlined in the White Paper. In elaborating its new approach the Commission attempts to reconcile a number of conflicting considerations.

On the one hand, the consumer has a right to the maximum possible choice: it is he or she who ultimately decides whether to buy a product or not. On the other hand, the product in question has to guarantee acceptable levels of safety for the user and the environment and the consumer needs to be sure that, whatever choice he makes, it will be a safe one. The balance between the two requirements is crucial. But in those respects in which safety and environmental protection are not in question, there is no valid reason why a product lawfully manufactured and marketed in one Member State should have to be altered before it can be sold in another.

The sensible solution is to adopt Community-wide standards for health and safety which will afford all European citizens an equally high level of protection, leaving manufacturers whose products meet such standards the freedom to use their own manufacturing and design traditions and skills. It is in everybody's interests to have maximum variety and choice.

This has now become the basis of Community policy for eliminating technical barriers to trade. Future legislation will distinguish clearly between those areas where harmonization is necessary and those which can be left to mutual recognition

of national standards and regulations. Any harmonization legislation will be restricted to laying down essential health and safety levels.

This new approach provides a better balance between Community harmonization and mutual recognition, between the role of the legislator and the standards bodies, and between consumer and environmental protection and consumer choice. In a nutshell, if a product is fit to trade, it should be free to trade.

### Food law

Food law provides an example of the obstacles which can arise in a particular sector. Everyone wants the foods they eat to be safe, to be healthy and to be properly labelled. Adulteration and misleading labelling are understandably a cause of serious concern to consumers. At the same time, it is in our interests that anything which can be marketed in one Member State should be free to be marketed in another Member State — as long as consumer safety is not jeopardized.

The Commission's approach is to try to reduce the enormous volume of food legislation which has burdened the industry in the past and which has hampered the free flow of goods. Instead the Commission wants legislation to guarantee that a foodstuff can be safely eaten and that the consumer will be fully informed by the label of what it contains. Once those requirements have been met, then a foodstuff should be freely available throughout the Community.

But things are not quite as simple as that. What is chocolate? The British and the Danes say chocolate can contain considerable quantities of vegetable fats. The Belgian chocolatier throws up his hands in horror at the idea and insists that there can be no vegetable fats though he is quite happy to add more sugar or ground nuts to his chocolate than others do. The French Government has objected to the sale of yoghurt drink containing fruit juice and other non-dairy ingredients, arguing that the name of the drink should not imply that it has any relationship with yoghurt. The Italian Government believes that pasta should not be called pasta unless it is made entirely from durum wheat, whereas in Germany you can make perfectly acceptable pasta with common soft wheat.

These examples show that people's different views about the food they eat have to be respected. But it also shows that many of these apparent traditions are, in reality, a hidden form of protectionism. In Germany, no beer made with additives could be sold on the domestic market. Yet German beer manufacturers use additives in the beer they sell in other Member States. The Italian pasta manufacturers use common wheat in the pasta they sell outside Italy. The UK stopped UHT milk coming into Britain for years although it was difficult to demonstrate a genuine risk to health.

Under the Commission's approach, such bogus barriers will become impossible. If a product is accepted as safe and healthy in one Member State, it can be bought confidently by people in all Member States.

### *Free movement of people*

People too are inhibited by technical barriers. Even with the removal of physical border controls, a Community citizen may be restricted in exercising his rights of free movement throughout the Community. Even after he has crossed the frontier into another Member State, the Community citizen is still restricted in what he can do there.

#### **Education**

A major set of problems arises from differences in educational approach, whether to academic diplomas, to vocational training or to professional qualifications. Education of course remains primarily a matter of national policy, but first steps have been taken to tackle common problems and to see how mobility can be improved by a coordinated approach. At the moment different approaches to education and standards mean that the qualifications of students are not always recognized in other Member States.

The Commission has put forward specific proposals on the mutual recognition of academic diplomas. These would allow free interchange, provided that the student had attained certain basic qualifications.

The Commission is also working on the mutual acceptance of vocational training qualifications for apprentices. This would involve the introduction of a European 'vocational training card', providing proof that the holder had reached a generally accepted standard.

#### **Professional people**

In the field of rights of establishment for the self-employed little progress has been made and professional people who want to practise in a Member State other than the one in which they qualified, can find obstacles in their path. Each Member State has specific requirements for the training, qualifications and experience of most

professionals and these are all too often not recognized outside the Member State where they were obtained.

Since the 1960s the Community has been working at removing these obstacles by establishing mutual recognition for a number of specific professions. The greatest progress has been achieved in the health sector. Doctors, nurses, dentists, veterinarians and midwives have had their basic training harmonized and have thus got real access to the 'right of establishment', the right to practise in all Community countries. Freedom of movement has also been made easier in the agricultural, forestry and horticultural sectors and in the mining, electricity, gas, oil and water industries. These opportunities are helping to increase the exchange of ideas and experience and to raise the standards of professionalism throughout Europe.

For many professions, however, common requirements have still not been agreed, often despite long years of negotiation. Even where progress has been made it has been slow and difficult. A natural pride in national traditions and institutions can often produce a less justifiable inability to recognize the equal claims and merits of other countries' systems. For each profession long and laborious negotiations on the exact qualifications and training necessary have had to be agreed in minute detail. Community directives enabling architects to practise throughout the Community, for instance, took 17 years; for pharmacists it took 16.

As with trade in goods the Commission has taken a fresh look at how this stalemate can be broken. In doing so the Commission has applied the 'Cassis de Dijon' principle: if a person is fit to practise in one Member State, he should, as a principle, be fit to practise in another.

With this principle in mind, the Commission — with the full support of the Heads of Government — has launched the idea of a single system of mutual recognition that could be applied to all professions. This would mean that, provided professional people met certain minimum requirements for qualifications, experience and supervised training, their qualifications would be recognized in all Member States and they would be allowed to practise without restriction.

### *A common market for services*

The importance of ensuring freedom to provide services should not be overlooked. Covering a great variety of economic activities ranging from management consultancy, banking and insurance to transportation, information technology, bingo parlours or launderettes, services are playing an increasingly important role in the economy and have become as important as manufacturing industry in their contribution to employment. Certainly, in the Commission's view, it is no exaggeration

to see the establishment of a common market in services as one of the main pre-conditions for a return to economic prosperity. The White Paper treats goods and services equally and seeks to eliminate barriers to both. Yet much less progress has been made in liberalizing the provision of services. The Treaty explicitly provided that services should operate throughout the Community without restrictions; in practice Member States have erected barriers wherever it suited them to do so.

Here again, therefore, a renewed drive is needed to open up the whole market for services and ensure free circulation. This, too, must be done on the basis of mutual recognition, underpinned where necessary by common rules. Where the service concerned is generally government-regulated, as banks or insurance companies for instance are, the primary task of supervision will be carried out by the government where the service company is based, with the role of the authorities of the country where the service is being provided being limited to ensuring respect of certain basic rules of commercial behaviour.

This system will apply both to the new service areas such as information technology, marketing and audiovisual services; and the more traditional services such as transport, banking and insurance.

#### **Financial services**

Financial services are at present undergoing enormous change throughout the world. Rapid developments in technology have made the old distinctions between different financial services disappear fast, and national legislation itself is finding it difficult to keep pace with the changes. Once financial services are liberalized, the consumer in one area will have access to the full range of insurance, unit trusts, banking, mortgage and securities options available in all Member States. He would be able to choose the best deal to meet his specific needs or requirements. A Spanish householder could, for example, take out a mortgage from a German finance house, buy shares on the London stock market and take out an insurance policy underwritten by an Italian company if those were the most competitive and secure options available to him.

The Community has also embarked on the creation of an integrated European securities market with a network of different stock exchanges trading in securities on an international basis. Stock exchanges would be linked electronically, so that their members could execute orders instantly on all markets according to compatible rules.

In parallel with these measures the Commission is proposing extensive liberalization of the movement of capital for stocks, shares and bonds and for financial transfers and commercial credits.

## **Transport**

Transport represents more than 7% of the Community GDP and although it is by its nature a very widely traded service, it remains paradoxically one of the most highly regulated and protected markets in the Community. Although the Treaty envisaged specific action to replace national transport policies with a common transport policy, this has not been implemented by the Council.

The Commission has, however, put forward comprehensive proposals to deregulate all modes of transport — road, rail, inland waterways, marine transport and air. In the case of air travel, a cartel operates in most of the world that ensures the least possible competition among the airlines: this applies equally to Europe where almost all the larger airlines are owned by their national governments. Air fares in Europe are fixed by agreements between governments which effectively prevent services being provided at competitive prices. This means that fares are much higher than they need to be and, for example, a traveller is obliged to pay almost the same fare when he travels from London to Athens as he has to pay when he travels from London to New York! For the same journeys between the Netherlands and Germany, for example, fares are cheaper if the tickets are bought in the Netherlands because of the control of prices in Germany.

Such cartels work against the interests of the consumer and lead to inefficient use of resources. The Commission has put forward proposals to increase competition gradually and to allow greater flexibility in setting fares and allocating flights. The Member States have refused to accept these proposals in their entirety.

Similar protectionist policies apply to road, rail and marine transport and in each case the Commission has put forward proposals to open up the market and remove protective restrictions.

## **New technologies and services**

New technologies, such as audiovisual services, information and data processing as well as computers and micro-processors have led to the creation and development of new cross-border services which are playing an increasingly important role in the economy.

The information market is undergoing far-reaching changes brought about by the possibilities offered by new technology. These changes have led to an exponential growth in the amount of information generally available. Information itself and information services are being more and more widely traded and are becoming primary resources for industry and commerce. The technological developments have been impressive but to safeguard future progress, it is important that there

should be a coherent Community framework which helps and does not hinder expansion and variety. New research and development requires considerable sums of money and, if it is to be affordable, it often has to be done at a Community level. Similarly, successful exploitation of new developments requires a large unobstructed market; national markets are not in themselves big enough to provide the potential for full success. This in turn means that agreement has to be reached on standards, otherwise different Member States end up using different standards, which complicates and inhibits further development and use.

### **Broadcasting**

These opportunities and difficulties are well illustrated in the field of broadcasting. At the end of 1986 the whole European television scene was transformed by the appearance of Europe's first direct television satellites. There has already been a rapid spread of cable networks and increasing use of communication satellites: transmission from the new satellites can be received by aerials and will be available to all European countries.

As a result people will have access to an unprecedented volume of television programmes: culture, entertainment, fiction, news, etc. These rapid developments mean that the day of purely national audiences, markets and channels is gone. The new satellites are available to all.

No single Member State, confined within its national market, will be able to provide at competitive rates the amount of equipment and programmes required by these technological advances and by the multiplying number of stations that can be received. The Community, therefore, faces a clear choice:

- (i) either it strengthens exchanges within Europe which will help to ensure that the producer participates and gains from this technological revolution;
- (ii) or, by not taking joint action, it surrenders to powerful outside competitors in Japan, the United States and elsewhere who will be able to meet the entire needs of our national markets without difficulty.

In response to these developments the Commission has proposed a series of measures to Member States to ensure the free circulation of programmes throughout the Community and to reinforce Europe's production and transmission capacity.

To create a Europe-wide audiovisual area means removing legal as well as technical barriers. To allow broadcasts to be available in all Community countries, the Commission has proposed that national laws on advertising, sponsorship and the protection of young people should be coordinated, though exclusively national broadcasting could remain subject to separate rules if necessary.

In order that manufacturers can take best advantage of the new opportunities presented by an open market, common European standards for transmission and reception are essential, and the Commission has put forward a number of specific recommendations including the idea of a single package of standards for satellite broadcasting. The Commission believes that only the immediate and exclusive use of one standard — the 'MAC packet family' of standards — will meet the needs of the market.

### *Legal and administrative barriers*

Other legal, fiscal and administrative barriers can also be important obstacles in the operation of business across frontiers. The absence of a Community legal framework for cross-border activities by enterprises and for cooperation between enterprises of different Member States has led — if only for psychological reasons — to potential joint projects failing to get off the ground. As more and more economic activity takes place across frontiers the legal framework for companies to operate in all Member States will become a necessity. The 'European economic interest grouping' will make cooperation for enterprises from different Member States easier.

Similarly differences in intellectual and industrial property law do have a direct negative impact on intra-Community trade and on the ability of enterprises to trust the common market as a single environment for their service activities. To this end the White Paper contains proposals for creating a Community framework for trademarks, patents and copyright law.

## V. The removal of fiscal barriers

The taxman has perhaps the biggest stake in frontier controls. Whenever goods are moved from one country to another, they are elaborately documented at the border so that the fiscal authorities can collect the taxes — the VAT and the excise duties — to which they are entitled. A Europe without frontiers will have to find other ways of ensuring that taxes on goods are paid when and where they are due.

That has, of course, always been the Community's intention in harmonizing indirect taxes. For a true common market to operate properly, all the factors which cause distortions of competition and artificial price differences between Member States need to be tackled. One such factor is the diversity of indirect taxation in the Community.

We are not starting from scratch. There have already been considerable achievements in the fiscal field — most notably the introduction of the VAT as the common turnover tax for the Community. But the rates and coverage of VAT, and even more the whole structure of the main excise duties, still differ widely as between Member States. It is to defend and enforce those differences that they maintain fiscal frontier controls.

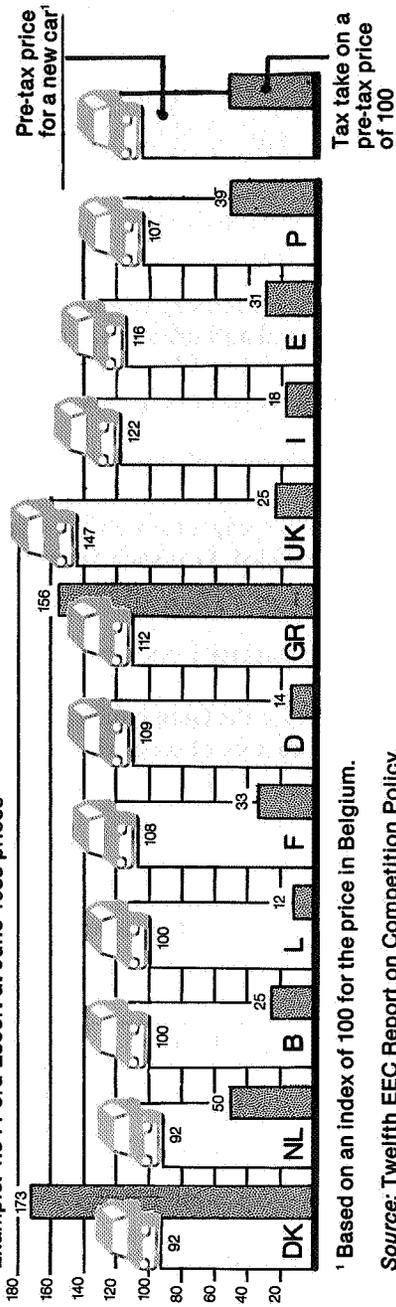
**Rates of VAT in the Community Member States**  
(situation as of January 1986)<sup>1</sup>

	lower	standard	higher
Belgium	6 & 17	19	25 & 33
Denmark	—	22	—
FR of Germany	7	14	—
Spain	6	12	33
France	5.5 & 7	18.6	33.3
Ireland	0 & 10	23	—
Italy	2 & 9	18	38
Luxembourg	3 & 6	12	—
The Netherlands	5	19	—
Portugal	8	16	30
United Kingdom	0	15	—

<sup>1</sup> Greece has not yet introduced VAT.

### TAX SPREAD AND PRE-TAX PRICES IN THE COMMUNITY

Example: 1.3 l Ford Escort at June 1985 prices



<sup>1</sup> Based on an index of 100 for the price in Belgium.

Source: Twelfth EEC Report on Competition Policy.

What we have to ask ourselves, therefore, is precisely what purpose these fiscal frontiers serve; how many such purposes need to survive; and how those that do have to survive can otherwise be met when the frontiers are no longer there to divide us.

The fiscal frontiers serve two main purposes. First they ensure that, when goods are traded across frontiers, the right tax revenue accrues to the right Member State. Secondly they have an important part to play in the fight against fraud and evasion.

At present we ensure that the tax accrues to the country where goods are finally consumed; and we do that by the system of remission of tax on export and imposition of tax on import. To give a concrete example, suppose goods are manufactured in Germany and exported to France, it is the French consumer who ultimately should bear the tax, not the German manufacturer. Equally, it is the French Exchequer that should receive the tax, not the German. The correct result is achieved under the present system in the example given above by the German Government refunding the tax to the exporter in Germany and the French customs collecting tax from the importer in France — who in turn of course passes the tax down the VAT chain until it reaches the final consumer. The crucial aspect of this approach to the problems of collecting and allocating revenue is that it is critically dependent on the operation of frontier controls.

The protection of this system against fraud and evasion also depends on these frontier controls. Without a check at the frontier that goods on which a refund of tax is claimed have actually been exported, it would be all too easy for dishonest traders to invoice goods as zero-rated for export and then to sell them at home either tax-free, which would undercut their competitors, or include the tax element in the price but then pocket it. Either way the revenue authorities would lose out.

Without frontier controls, there would also be a great temptation for private individuals and traders alike simply to go to low-taxed countries, buy goods there and take them home for their own use or for onward sale off the record. Not only would that lead to loss of tax revenue to the authorities; it would also cause serious distortions of trade to the detriment of honest traders everywhere and especially in border areas.

So under the present system frontiers are an integral and indispensable part of fiscal administration; the system could not function properly without them. That does not of course mean that no fiscal system can function without frontiers. But it does mean that, for the frontiers to go, the system as a whole needs to be radically rethought.

### *The Commission's alternative*

That taxes on exports are treated differently from taxes on domestic trade is in itself an obstacle inhibiting manufacturers and traders from treating sales to other Member States as being as natural a way of doing business as selling in the next street or the next town. If the purpose of abolishing frontier controls is to create a single European market, then it makes sense for the fiscal system governing that market to work in just the same way as the system of a single Member State.

Sales and purchases across national borders would be treated in exactly the same way as sales and purchases within a single Member State. In the case of VAT, exporters would charge the usual positive rate on sales, for exports as for domestic transactions; and importers would reclaim that as input tax, just as they would for domestic purchases. There is nothing radical or revolutionary about this proposal. It is exactly and precisely what was set out in Article 4 of the very first of the VAT directives adopted on 11 April 1967.

This would have several immense advantages. First, it would help establish trade across borders as a natural way of conducting and expanding one's business. Secondly, it would simplify fiscal administration for traders and for national authorities alike. And thirdly it would eliminate the major incentive for fraud and evasion which the zero-rating of exports presents.

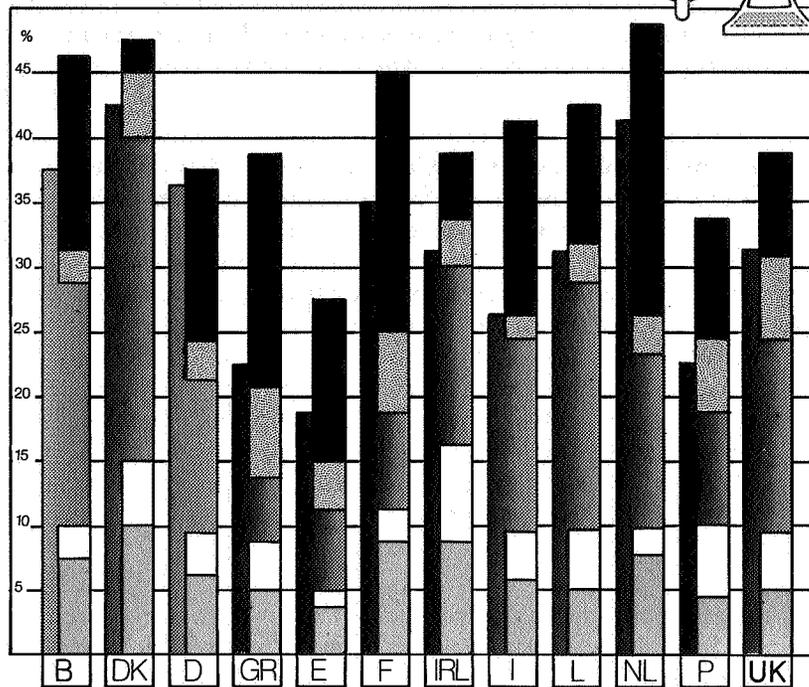
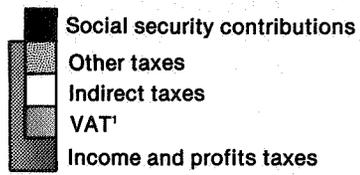
But it could not be the whole story, for three good reasons:

- (i) it would not of itself allocate revenue correctly between Member States;
- (ii) it would not deter other forms of fraud, evasion or trade diversion — that is other than frauds connected with zero-rating; and
- (iii) it would not deal with the unregistered trader or the individual traveller.

To meet the first of these problems, the Commission has proposed the use of a clearing mechanism. The notion of a clearing system is not a new or a mysterious one. The banks, the railways and the airlines are three obvious examples of how money can be collected on behalf of others, with balances settled up daily, monthly or at whatever intervals necessity demands and modern technology can provide. There is no reason to believe that similar arrangements cannot be set up between the revenue authorities of 12 Member States, which already collaborate over an immense range of other activities.

Turning now to the second problem — that of fraud and evasion — one important and significant area of fraud, namely in the field of zero-rating, would disappear altogether. That in itself would be a significant gain. But two other important avenues of fraud would still be open. The first is the claiming of input tax on

### Tax revenue in the Community Member State (as a percentage of gross domestic product)



<sup>1</sup> Tax on consumption in Greece, Spain and Portugal.

Source: OECD, 1985.

imports which have never taken place. Effective mutual information and enforcement arrangements should be capable of dealing with that. Secondly, there is the opposite and much more common type of evasion: the cross-border transaction which does take place but is not recorded, and on which, therefore, no tax is paid.

In the absence of any frontier controls, significant price differences resulting from differences between indirect tax levels on each side of any border would provide an irresistible incentive for those in highly taxed countries to provision themselves in the low-tax country next door.

The only way to remove such artificial fiscal incentive to diversion of trade and distortion of competition is to reduce the disparities between Member States' tax levels to the point where they no longer provide that incentive. That does not mean to the point of uniformity, but to the point at which the game is no longer worth the candle.

The example of the United States of America demonstrates that you can have different tax rates from state to state without frontier controls between them. All that is necessary is for the differences between neighbouring taxes and the price differences they may cause to be narrow enough to make smuggling pointless. In the United States there are no fiscal frontiers as such, nor is there complete harmonization of retail taxation between individual states. American evidence suggests that some variations can be accommodated provided they are limited in scale. Differences of up to 5% or more, even between neighbouring states, do not appear to distort trade significantly. The Commission believes that a similar system could be applied without difficulty in the Community, with a comparable margin of flexibility on either side of target rates for VAT and the major excise duties. This would still allow a significant degree of flexibility for governments when setting their national rates while at the same time removing fiscal barriers to trade.

Nobody is suggesting that major changes should happen from one day to the next. Member States have six years within which to move towards the common goal. They have often demonstrated in the past that, if they want to do so for their own domestic reasons, they can and have made far greater changes than we are likely to suggest, and in a much shorter time. Even after 1992, moreover, the whole concept of approximation rather than total harmonization will leave them free to adjust to particular national needs and changing circumstances.

Indeed the Commission's White Paper recognizes that the process of adjustment will be more difficult in some Member States than in others. That is why, in addition to the flexibility which will be built into the basic system itself and the considerable transitional time available for setting it up, it is acknowledged that there may be a need for derogations to meet particular cases of political and economic

sensitivity. But derogations have a price. And that price is not only paid by the Community as a whole in terms of continued fragmentation; it is also paid by the Member State concerned, which to that extent would cut itself off from the development of a great market in Europe and from the full benefits of economic integration.

Let us not forget that ultimately there is no greater threat to the real value of governments' revenues and to their ability to meet the needs of society and the economy than stagnation and competitive decline. It is to prevent and reverse the erosion of the wealth from which all revenues must derive that we need to complete the internal market as a solid and unified base for expansion and growth.

## VI. Towards the Europe of 1992



*Although the word 'customs' already has, or should have, been replaced by 'taxes' at all borders within the Community, lorry drivers dread frontier crossings. This should be a thing of the past by 1992.*

This booklet has tried to explain why the creation of a unified European economy by 1992 is vital to us all. It has also outlined the legislative measures that have to be enacted to create the basic framework. The Commission's plan has been endorsed by the Council at the highest level. The Member States have also introduced new Treaty arrangements in the form of the Single European Act to get decisions taken more rapidly on the 300 legislative proposals contained in the White Paper programme. The Parliament too has voiced its support and pledged itself to campaign actively for it. Business organizations, consumer groups, trade unions, European pressure groups have all welcomed it.

These are important first steps.

But this is very much the beginning of the story. This blueprint — which seeks to take European integration significantly further — will need more than a chorus of approval if it is to become a reality. Nor can the task be left to the Community institutions alone. It is going to need the active support and participation of governments, national administrations, businesses and, most important, of the Community's citizens themselves. Governments will respond far more energetically and constructively to the challenge of creating a European market if they know that that is what their citizens want. For this reason it is vital that Community citizens, not only individually but through their trade unions, their business organizations, their professional organizations, and their political parties, should make clear their impatience with the unnecessary barriers that impede their freedom, limit their opportunities and reduce their standard of living.

Effect of scale of production on costs

Product	Reduction in unit costs if scale of production doubled
Electronics and microcomputer components	30
Industrial plastics	25
Aerospace	20

Source: Commission of the European Communities.

Business has a particular role to play in making the great market a reality. The first task for industry and commerce in each Member State is to think systematically on a European basis. In many cases efficient collaboration across internal frontiers is less dependent on Community legislation than on the simple will to work together in a competitive environment rather than in protected national enclaves. If national businesses are to compete effectively in the world's market-place they need to redirect their manufacturing and trading practices. To take on the external challenge requires the development of efficient world-class European companies that can produce the most up-to-date products in large quantities at competitive prices. The creation of the common market will be the biggest single contribution to the re-orientation of Europe's industrial competitiveness. Companies that treat Europe as their own single home market and which gear their organization, their production, their research and development and their marketing strategy towards that will find that their efforts will be rewarded.

The second task for business is to campaign for the changes that are needed for the great market to be created. Without business itself participating in this process, it is

all too easy for narrow nationalistic and protectionist considerations to prevail and for the barriers that reinforce them to remain. National markets may be familiar and comfortable for businesses but they cannot offer the stimulus to production, growth and wealth that access to an integrated market of 320 million people will provide. Business leaders have an important interest in solving their own business problems through promoting the economic recovery of Europe. They need to tell governments, politicians and national administrations in clear and loud terms that these decisions are urgently needed.

At the end of the day the successful implementation of this programme depends on the political will of governments. They will be in a stronger position to persevere in making the repeated act of will that is needed if they know, and are repeatedly told, that that is what the voters want. A clear commitment is needed in each of the Member States to accept all the elements of the programme and not only the proposals that are important for each Member State. This requires more than repeated elaborate declarations; it requires that governments ensure that their administrations follow a constructive and positive line in the detailed negotiations on each technical proposal. Haphazard progress in one area but not in another will not create a barrier-free Europe; nor will it be worthwhile if present barriers are replaced by new but equivalent ones. At Community level the new arrangements for decision-making provided for in the Single European Act should enable rapid and effective decisions to be made; it is essential that all the Community institutions use them to the full. The European Parliament has an important role in continuing to put pressure on the Council and Commission to keep to the plan. Parliament is also best placed to mobilize public opinion in the Member States.

The White Paper for the first time provides a detailed and comprehensive plan to complete the internal market. The particular role that each citizen, each business and each government must play in this process is also clear. It is now a matter of working to make the plan a reality.

The great market will provide Europe's citizens with enormous new opportunities. It offers not only opportunities for big companies or State corporations, but for all Community citizens. It will mean that there will be new opportunities for employment; that law-abiding travellers will be able to travel freely to other parts of the Community with no fuss at borders; that there will be a wide range of the best products of each Member State for sale throughout the Community; that television and radio broadcasts will be available freely across frontiers; that goods will be transported across frontiers with minimum delay and cost; that students will be able to study in different countries and professionals will be able to practise freely in all countries. The list is endless.

The path to this Europe without frontiers is clear. It will require determination and perseverance but the rewards will be well worthwhile.

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**This booklet spells out the grand design of creating a vast open market without barriers within the European Community by 1992.**