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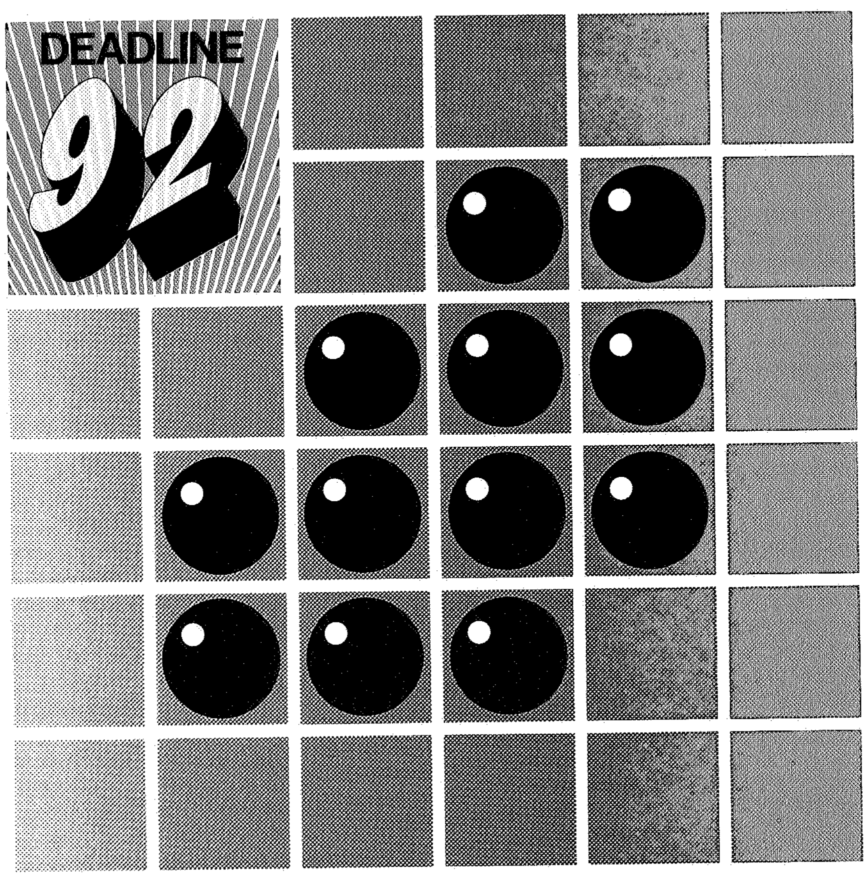
EUROPE WITHOUT FRONTIERS – COMPLETING THE INTERNAL MARKET



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EUROPEAN DOCUMENTATION

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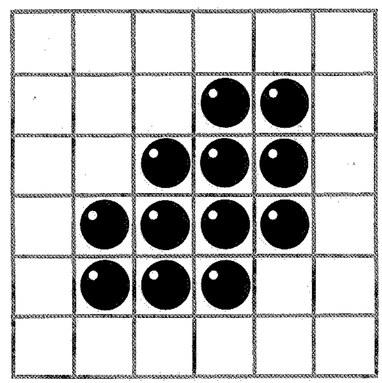
The Treaty of Rome establishing the European Economic Community assumes that economic and political unification of the Member States of the Community must be founded on a large, integrated single market. But 30 years after the Treaty of Rome was signed, and despite great progress in the Community, the 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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Europe without frontiers: Completing the internal market

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Lord Cockfield would particularly like to thank Mr Praveen MOMAN for his work on the preparation of this booklet.

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DA	ISBN 92-825-8306-6	Det europæiske hjemmemarked
DE	ISBN 92-825-8307-4	Die Gemeinschaft 1992: Ein Markt mit neuen Dimensionen
GR	ISBN 92-825-8308-2	Μια μεγάλη αγορά χωρίς σύνορα
FR	ISBN 92-825-8310-4	Un grand marché sans frontières
IT	ISBN 92-825-8311-2	Un grande mercato senza frontiere
NL	ISBN 92-825-8312-0	Eén grote markt zonder grenzen
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Contents

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-tariff' 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.

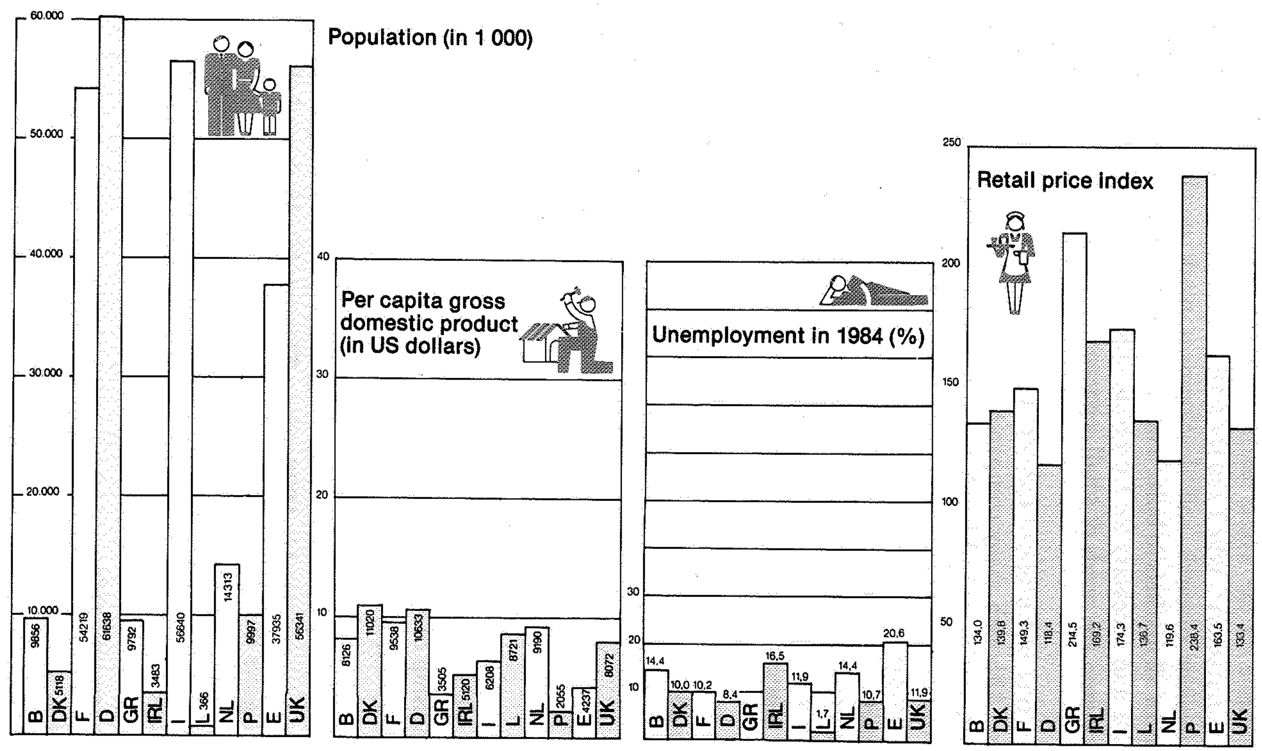
Fragmentation

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 offers 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

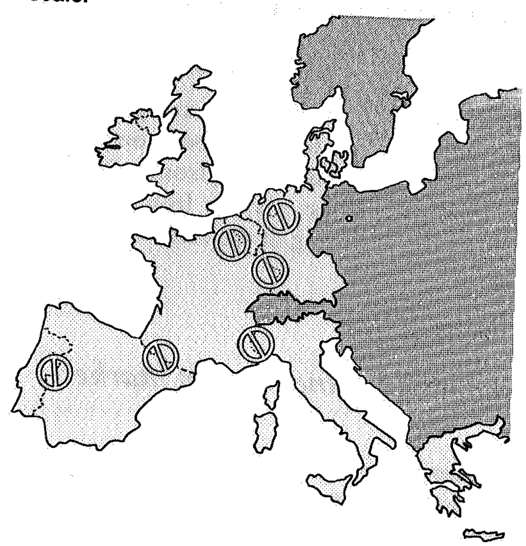
A study has been carried out recently at the request of the Commission by a large number of independent economic experts, consultants and research institutes under the leadership of Paolo Cecchini.
The study has produced the following conclusions:

(i) The total potential economic gain to the Community as a whole from the completion of the internal market is estimated to be in the region of ECU 200 billion or more, expressed in 1988 prices. This would add about 5 % to the Community's gross domestic product.
This calculation includes not only savings due to the removal of the barriers which directly affect intra-EC trade (essentially frontier formalities and related delays) but also the benefits to be gained from removing the obstacles which hinder entry to different national markets and the free play of competition Community-wide.

(ii) The study further shows that the predicted effects of EC market integration will in the medium-term:
deflate consumer prices by an average of 6 % while also boosting output, employment and living standards,

The cost of non-Europe

Although it is difficult to obtain exact figures for the costs to governments, consumers and industry of all these barriers, the best available and most recent findings indicate that the lack of a single market in Europe has been costing industry billions. These findings confirm that the removal, finally, of the barriers which still fragment the Community's economy will provide major opportunities for economic growth, for job creation and for economies of scale.



Potential gains from removing barriers

Total savings from the abolition of administrative formalities and border controls	13 to 24 billion ECU
Potential savings from opening up public procurement markets	+/− 17.5 billion ECU
Labour market	2 to 5 million new jobs (depending on the macro-economic policies accompanying the 1992 programme)
Savings from increasing the scale of production of manufactured goods	2% of GDP

produce economies in public sector costs equivalent to 2.2 % of GDP and boost the EC's trade with other countries by around 1 % of GDP.

(iii) The direct costs of frontier formalities, including associated administrative costs for both the private and public sectors are estimated to be of the order of 1.8 % of the value of goods traded within the Community. To this must be added the costs to industry of other identifiable barriers to a complete internal market, such as differing national technical regulations governing the manufacture and marketing of products, which are estimated to average a little under 2 % of companies' total costs. The combined total of all these savings then represents about 3.5 % of industrial value added.

(iv) There are substantial unexploited potential economies of scale in European industry. It is estimated that about one third of European industry could profit from cost reductions ranging from 1 % to 7 %, depending on the sector concerned. Aggregate cost savings from improved economies of scale would thus amount to something in the order of 2 % of GDP.

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.