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# **THE SINGLE MARKET IN 1995**

**- A report to the European Council -**

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## ***Introduction***

The completion of the Single Market is of central importance for the Union given its potential to contribute to European growth and job creation. In 1995 a growing awareness has emerged of the Single Market's centrality in paving the way for Economic and Monetary Union, strengthening European industry's competitiveness and stimulating economic growth on the basis of sustainable development. Indeed, the Competitiveness Advisory Group, chaired by Mr. Ciampi, emphasised the urgency of accelerating the Single Market process. The prosperity of our citizens and the improvement in their quality of life depends on its full realisation.

Even if, taken as a whole, the Single Market is working, there are still problems in specific areas. In 1995 we have seen steady progress towards the achievement of the Single Market. Evidence from many quarters clearly shows that most companies believe that the Single Market is bringing them benefits. Concerns remain, however: they include continuing technical barriers to trade; incomplete legislation on key issues such as taxation and company law; uneven or over-bureaucratic enforcement of legislation; the need to continue to reinforce competition policy, in particular in the area of state aids and the liberalisation of public utilities; and demands for compensatory measures arising from monetary disturbances. Even more important, the Single Market has not yet been sufficiently focused on the needs of the citizens, who often are not fully aware of the opportunities it offers to them.

The policy of the Commission in 1995 has been organised along six lines of action, designed to give a fresh impetus to the Single Market:

- (i) completing and streamlining the legislative framework of the Single Market;
- (ii) making the Single Market work;
- (iii) confirming the Single Market as the cornerstone of Economic and Monetary Union;
- (iv) securing a Single Market for the citizen;
- (v) adapting the Single Market to technological and other change; and
- (vi) preparing the Single Market for enlargement.

This report reviews the progress made under each of these headings during 1995. It focuses on the main developments or problems. A more complete analysis will be presented to the European Parliament and the Council in the Annual Report on the Single Market in 1995, to be formally adopted shortly by the Commission.

### ***I. Completing and streamlining the legislative framework of the Single Market***

Our first priority must be the completion of the legislative framework for the Single Market, including the hard core of proposals from the 1985 White Paper and liberalisation in sectors not covered by that programme. A number of examples may be cited. European business cannot yet benefit from the European Company Statute the absence of which the Ciampi Report estimated to cost business ECU 30 Billion a year. Similarly, companies and cross-frontier workers increasingly complain about the problems of double taxation. Yet, the Commission's proposals on these issues remain blocked despite the European Council's repeated insistence on the importance of improving the fiscal and legal environment for business, in particular SMEs. Furthermore, financial services across frontiers are inhibited by widely different fiscal regimes depriving our citizens of new products at competitive rates.

The rejection earlier this year by the Parliament of the draft directive on the protection of biotechnological inventions means that our industry is at a significant competitive disadvantage (The Commission is now preparing a new initiative in this key area).

Although the interim regime has proved its value, the remaining problems reported by traders with the implementation of Value Added Tax can only be resolved with the introduction of a definitive regime. This will require fundamental changes to allow intra-Community sales to be treated in the same way as domestic sales, while ensuring that Member States' VAT revenues remain at current levels.

1995 saw continuing problems with regard to controls on people crossing our internal borders. However, significant steps towards achieving the free movement of people have been taken. In July, the Commission presented three proposals to eliminate such controls, on the clearly stated condition that they would enter into force only when the essential security measures have been implemented. The Council also adopted two regulations relating to free movement of people: the first established a model type of visa, the second agreed a list of third countries whose nationals must have a visa to enter Community territory.

Competition policy is particularly important in certain key areas if the full advantages of the Single Market are to be realised. In the telecommunications sector, the deadline of 1998 remains as the date by which full liberalisation will have been achieved, while the use of alternative infrastructures for liberalised services will be allowed two years earlier. In 1995, there has been a welcome acceleration in the pace of liberalisation and competition in the telecommunications sector, enabling it to play its pivotal role in the creation of a European Information Society. Further progress in the gas and electricity sectors is needed. And, although the basic framework of the single transport market is in place, further measures are needed, especially for airport ground-handling facilities, railways and inland waterways. The Commission has tabled proposals to this effect during 1995.

However, completing the legislative framework is not the whole story. There is a growing awareness that regulators at national and Community level must also ensure better and simpler regulation. The Commission has prepared a report for the European Council on better law-making. Codification proposals involving the repeal of about 350 instruments will be before the Council and Parliament by the end of the year. The Molitor Group has also reported on legislative and administrative simplification. The application of these principles in the Single Market area is of key importance, given that the whole objective of Single Market legislation is to eliminate regulatory barriers to free movement. The considerable efforts now being made at Community level must be mirrored at national level. It is a cause for concern, for example, that 442 proposals for technical legislation at national level have been notified to the Commission this year.

## ***II. Making the Single Market work***

Our citizens and business must be able to make full and effective use of the rights that have been created under Single Market law. The Commission is therefore committing major resources to monitor implementation of agreed legislation and ensure its full and effective enforcement.

One of the main tools to achieve an effective and speedy resolution of problems as they arise is through increased co-operation between national administrations. A network of contact points in all national administrations covering priority sectors is now largely in place and it

should increasingly help in resolving administrative and other problems across the Single Market.

Among the developments in 1995 was the proposal by the Commission of the Customs 2000 action programme to modernise customs administrations and support cooperation between them. The Council responded positively to the Commission's request that appropriate sanctions are set to penalise infringement of Single Market rules. Furthermore, the Council recently agreed a new notification system for national measures, to come into effect in 1997, thereby strengthening the means available for tackling illegal restrictions on the free movement of goods across frontiers and ensuring that the principle of mutual recognition is respected. The need for such an instrument is clear: the number of complaints about such measures received in the whole of 1994 (202) had already been passed by 15 October this year. The free movement of goods has also been facilitated by progress on European standardisation and, in the pharmaceuticals sector, by the opening of the European Agency for the Evaluation of Medicines.

Transposing Community directives into national legislation in all 15 Member States proceeded steadily in 1995. Taken overall, by December 1995 the Member States had adopted 93.2% of the national measures required in order to implement the Community's Single Market legislation. Member States levels of transposition of Single Market legislation vary considerably: Denmark, Luxembourg, the Netherlands, Portugal and Sweden are substantially above the Community average of 93.2%; Greece, Germany and Austria are substantially below. Regrettably, implementation of agreed Community law remains seriously flawed in some key sectors as it was last year (notably public procurement, intellectual property and insurance). Failure by Member States to honour their commitments is all the greater cause for concern the longer they persist.

During 1995, the Commission increasingly concentrated its attention on the quality of transposition. To that end, while the Commission remains committed to seeking to resolve problems in full co-operation with Member States, it has shown that it will not hesitate to initiate infringement proceedings for incorrect or incomplete transposition, and indeed in 1995 there has been a significant increase in the number of proceedings concerning the 1985 White Paper measures.

The Commission also intends to react quickly to complaints by individuals and businesses and to take prompt action to ensure that their rights under Community law are respected.

### ***III. Confirming the Single Market as the cornerstone of Economic and Monetary Union***

Economic and Monetary Union means a Single Market working with a single currency, and until this is achieved the full benefits of a Single Market will not be realised. The Commission's Green Paper on the single currency has given considerable impetus to the debate on the scenario for its introduction.

Financial institutions and markets have responded with comments and suggestions on all aspects of the draft reference scenario for the changeover to a single currency outlined in the Green Paper. All interested parties, including consumers, were invited to discuss the issues in detail during the autumn, providing valuable suggestions for the Commission.

In the period before EMU is achieved, significant currency fluctuations, such as those that have occurred in recent years, could impair the proper functioning of the Single Market. In

October 1995, the Commission firmly rejected demands for compensatory measures that would imply new barriers to trade, and considered that increased budgetary discipline and convergence of economies - that is, exactly those guidelines that are needed to achieve the conditions for the single currency - are the only appropriate response.

#### ***IV. Securing a Single Market for the citizen***

The Single Market has often been perceived as benefiting the citizens of the Union only indirectly, mainly through lower prices and wider choice of goods and services. More should be done, if the citizen is to perceive that he or she is central to the Single Market. The creation of a Single Market which benefits the citizen to the full is a key objective of this Commission. Besides the removal of frontier controls and the remaining obstacles to free movement, this includes heightened consumer protection, improved access to justice and the settlement of consumer disputes in the single market, as well as an improvement to the social and environmental dimension of the Single Market.

Several developments in 1995 contributed to this objective. New rules on cross-border credit transfers will ensure a more efficient service to the citizen and small and medium businesses and provide for compensation where losses occur. The EURES network is facilitating the free movement of workers by ensuring co-operation between public employment services. Rulings by the Court of Justice confirmed that individuals who live in one Member State but earn most of their income in another must be granted the same tax treatment as residents. However, the recognition of qualifications is of equally fundamental importance for citizens wishing to take full advantage of Single Market employment opportunities. While thousands of individuals gain recognition of their diplomas under Community directives each year, 1995 saw an increase in the number of complaints to the Commission. The Commission will shortly propose a major simplification of the relevant legislation.

The Union must also communicate more effectively with the individual citizen to make clear what Europe has to offer. Substantial preparatory work was carried out in 1995 to prepare the launch next year of a new initiative designed to inform citizens about the advantages and opportunities they enjoy in the Single Market. The Commission is collaborating closely with the Member States and the European Parliament in preparing ten guides for the general public. Each will provide useful general information on a particular theme, such as the citizen's right to live and work in another Member State and to enjoy health provision and equal opportunities, travelling in the European Union and buying goods and services across frontiers. Information sheets are now being prepared which will provide much more detail to help citizens know and exercise their rights.

#### ***V. Adapting the Single Market to technological and other change***

The Single Market is not static - it will develop and our regulatory approach and administrative procedures must develop with it. A particular challenge is to ensure that this regulatory environment can keep pace with technological progress: new services and new ways of providing them are confronting the Community with new challenges.

For the Information Society an appropriate regulatory framework is essential; it will give the market the confidence it needs to allow the necessary investments in the networks to be made, whilst enabling the services using the networks (such as teleshopping, home banking

and distance education) to benefit fully from the opportunities offered by the Single Market. During 1995 major elements of legislation were agreed. In July the Council and the European Parliament adopted a directive on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The Council also reached a common position on the proposal for a directive on the legal protection of databases. However, there are many other issues arising in this field which need to be tackled, and the Commission has this year produced Green Papers and carried out consultations on issues such as copyright and related rights in the Information Society as well as the protection of pluralism in the media.

The successful realisation of trans European Networks, with greater participation of private investment where possible, is also necessary to achieve the full potential of the Single Market. The Commission has submitted a separate report to the European Council on this subject. These Networks will, however, only achieve their full potential if the services offered over them are open to competition and do not remain in the hands of monopoly suppliers.

## ***VI. Preparing the Single Market for enlargement***

A major challenge is to prepare for the successful integration of the associated countries of Central and Eastern Europe into the Single Market. A key element of the Community's pre-accession strategy is the Commission's White Paper on the Single Market which was presented to the Cannes European Council. It provides guidelines for the associated countries to help them align their legislation and administrative structures with those of the Union. A Technical Assistance Exchange Information Office is currently being established in Brussels to provide practical help and advice.

In addition, the Union continues to help Malta and Cyprus to assimilate the *acquis communautaire* in anticipation of the opening of accession negotiations.

The European Union is also working towards affirming beyond its present and future borders the principle of open access on which its Single Market is founded. In the field of financial services important progress was achieved in July 1995, at the initiative of the Union, with the WTO interim agreement for the liberalisation of financial services.

## ***Conclusion***

In 1995 the Commission has identified six major lines of action on the Single Market. Progress has been made towards each of the objectives, but there is much unfinished business ahead.

The Commission will in 1996 present a more complete analysis of the impact and effectiveness of the Single Market since its inception, which should provide the basis for fine-tuning and developing tomorrow's agenda.

However, the priorities for action are clear. They centre on the completion of the Single Market for the citizens, promoting a more effective Single Market for business, especially small and medium-sized enterprises, achieving the liberalisation of gas and electricity markets and of telecommunications, preparing for the information society, accelerating work

on Trans-European Networks, assisting Central and Eastern Europe to adapt to Single Market requirements and ensuring equivalent enforcement.

To this list must now be added the challenge of streamlining the regulatory requirements imposed on businesses and individuals, in order to establish an effective, single economic and civic area without internal frontiers. There must be less but better regulation at all levels: local, regional and national as well as the Community level.

We must all step up our efforts. The Commission has done so in 1995, and now looks to the Council and the Parliament for decisions on the proposals already before them, to Member States for effective application of Single Market law, and to all interested parties for continued support for and commitment to the goal of a Single Market.