

# INFORMATION PACK ON THE "LARGE MARKET"

## Part One: The general picture

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### Introduction

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**COMMISSION  
OF THE  
EUROPEAN COMMUNITIES**

**Directorate-General  
for Information,  
Communication and Culture**

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**INFORMATION PACK ON THE LARGE MARKET**

These two information packs start with a list of contents and directions for use followed by three chapters of background information, bringing together a collection of documents, many familiar, others specially picked or written.

The information pack on the large market is intended first for heads of Community information offices and suboffices and their staff and second for any of their clients who are planning, say, a major campaign on the subject and, of course, are capable of using this material. A limited number of copies of this pack are being sent to you for this purpose.

These information packs are written mostly in French. You can replace documents by the other language versions from your own documentation centre or give your clients the choice between English and French once you receive the missing English translations, i.e. from May onwards. There are no plans to translate the documents into any languages other than French and English.

We will be sending you any other documents you need over the next few months. You are asked to keep these information packs up to date for your own and your clients' use.

A limited number of copies have been sent to the President's cabinet, to Lord Cockfield and to Mr Ripa di Meana. A few are still available from the Documentation Division in the Directorate-General.







## DIRECTIONS FOR USE

This information pack on "the large market: the general picture" is intended to help you understand the mechanisms and implications of building a large internal Community market. In its White Paper on the subject, the Commission of the European Communities set a target date of 31 December 1992 for completing a genuine market without frontiers.

The "background documents" paint a detailed picture of the situation in the Community today, including not only past achievements but also the aspirations nurtured by the large market. The fresh impetus imparted by the Single Act should make it possible to keep to the schedule set out in the White Paper, despite the delays.

The "illustrations" explain the everyday impact of the measures affecting European citizens, financial circles or technology.

The "speeches" by the Commission President and Vice-President express the political will of the entire Commission to attain the objectives set.

"To convince you" sets out a detailed analysis of this will. It catalogues the advantages of the large market within the Twelve. But there are still a host of barriers for the Commission to remove, if need be with the help of the Court of Justice of the European Communities.



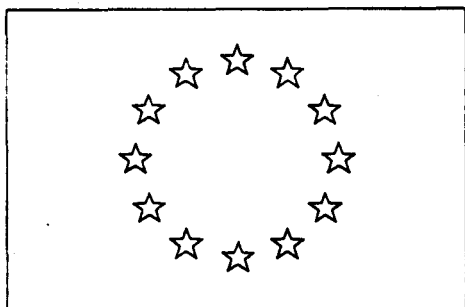






# EUROPE, OUR FUTURE

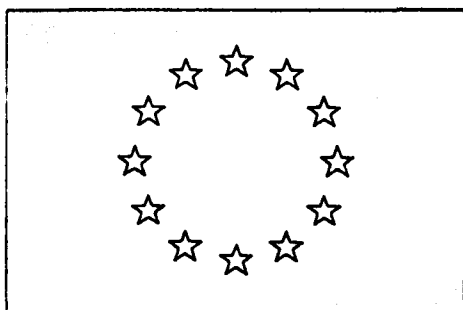
*30th ANNIVERSARY 1957-1987*





# **EUROPE, OUR FUTURE**

*30th ANNIVERSARY 1957-1987*





E U R O P E , O U R F U T U R E

1. EUROPE - A MOTIVE FORCE
2. HIGH-TECHNOLOGY EUROPE
3. EUROPE IN EVERYDAY LIFE
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## I. EUROPE - A MOTIVE FORCE

The European Community is thirty years old. What was the grand design when the Treaty of Rome was signed?

It was in fact a dual one: political and economic.

Europe was emerging from World War II. Erstwhile enemies had to be reconciled and made to realize that, despite events of the previous decades, what they had in common outweighed what could ever divide them; something had to be done to ensure that such a conflict could never happen again: "no more war between us". Today the idea of a war between the countries of the Community is surely as absurd as it is unlikely.

Europe had an ideal of peace. There was also a certain pragmatism: to take on board common interests, but also to strive relentlessly to strengthen them:

- by stimulating economic activity through the expansion of trade, thereby remaining true to its vocation of forum and marketplace, from the great fairs of the Middle Ages down through the centuries to the common market;
- by uniting its forces to forge a successful future.

- \* What in fact did Europe look like in 1957; and what does it look like today?

Let's recap a little:

- . The trade boom

Since the signing of the Treaty of Rome, trade between European countries has expanded at a prodigious rate. Between 1957 and 1986 it has increased sevenfold; at the same time trade with the rest of the world has trebled. This growth has led to a corresponding increase in wealth for the countries of the European Community; its citizens have seen their purchasing power surge spectacularly (per capita GDP has virtually doubled in thirty years; the increase in the United States over the same period was only 70%). Here we must remember the revolutionary abolition of customs duties between the Community countries and the parallel removal of many technical barriers: a refrigerator was subject to a 15% customs duty on entering France and 23% on entering Italy; these costs were naturally passed onto the consumer. And the technical barriers would sometimes give rise to complicated wrangling over, say, the rules for packaging margarine.

- . A stronger and more closely woven industrial fabric.



Besides the successes that everyone knows about, such as the European Airbus or Ariane, which show just what Europeans can do when they decide to pool their skills and resources, most industries have extended their links and cooperation. In the car industry, examples are legion: the joint development of the new Fire 1000 engine by Fiat and Peugeot, the joint development of a new type of automatic transmission by Renault and Volkswagen, the supply of Volkswagen transmissions to British Leyland and gearboxes to Renault, to quote but a few.

The productivity of European industry generally has tripled between 1957 and 1986; that of the United States over the same period has barely doubled.

. Green Europe: the world leader in agriculture

In 1957 Community agriculture was marked by underdevelopment and large-scale product deficits. Today, the Community is the world's leading agricultural power and more than self-sufficient. Its potential has doubled in thirty years, while its labour force has shrunk by half.

This thrust, boosted by technological advances, has resulted in excessive surpluses for some products, as world consumption has failed to keep pace.

True, we now have to regulate the surpluses but don't let's forget the original deficits and the strategic potential of a powerful agriculture capable of satisfying Europe's requirements.

. Blue Europe: the Community fisheries policy

Here the Community has developed a highly-integrated policy, the only one of its kind which makes it one of the world's major fishing powers. The policy consists of the joint management and conservation of resources and the negotiation at European level of fishing rights in non-Community waters.

. Energy: joint response - joint success

In 1973, before the first oil shock, imported oil accounted for 62% of total Community energy consumption. It has now been reduced to 31% and the vulnerability of Europe's economies diminished accordingly.

How did the Community react?

In 1968, it prodded Member States into building up buffer stocks (today equal to 90 days consumption).

After 1973, it sustained the Member States' energy policies by setting objectives now attained:

- energy saving: energy efficiency increased by more than 25%;
- development of alternative energy sources, etc.

- The convergence of economic policies

It was not long before the growing degree of overlap between the economies made it necessary to coordinate economic and monetary policy, particularly in view of the collapse of the international monetary system, a collapse which eventually prompted the setting up of the European Monetary System. This has acted as a stabilizing influence in a monetary climate unsettled by the uncontrolled fluctuations of the dollar and has led the European governments to adopt and pursue anti-inflationist policies.

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These developments have been brought about by the European Community in collaboration with the Member States, businesses, and, of course, with the people of Europe. The Community has been the driving force, both through its own initiatives and through the knock-on effect created by the framework which it set up.

\* And now? The large European market without frontiers;  
a vast area allowing European citizens and businesses greater freedom and scope for development.

\* Why a large unified market?

Because there are still a number of obstacles to trade and cooperation within the European Community which hamper economic growth, employment and business competitiveness.

It will provide firms with access to a market of 320 million consumers, the largest in the world.

By 1992, the date set by President Delors and now enshrined in the Treaty of Rome, as amended by the Single European Act, the large market will be a reality.

The benefits to firms will be immediate. To quote a few examples:

- lifts: a European group specializing in this field has estimated that the costs generated as a result of the difference in technical standards from one country to another account for between 8% and 10% of manufacturing costs;
- telephone exchanges: the absence of European standards means that costs here are 8% higher than in the United States, simply because of the large number of cumbersome procedures for testing and type approval;
- cellulose: a major French firm has estimated that the abolition of frontier formalities and associated insurance costs alone would increase its turnover by almost 1%, more than its current profits;
- small businesses: a survey of 320 German small businesses confirms that costs arising from frontier formalities correspond to 1.3% of turnover, a figure roughly equivalent to profits.

\* Greater freedom and scope for development for European citizens and businesses through:

- . the opening-up of public procurement, which in some areas continues to be highly protected, resulting in differing technical standards for advanced technology equipment; these contracts represent 10% of Community GDP;
- . the alignment of VAT rates; all the European countries have now adopted the same system of indirect taxation - no mean achievement in this particularly sensitive field;
- . a European company law, making it easier to set up subsidiaries, and facilitating consolidation and mergers;
- . complete freedom of establishment for hairdressers, railway workers and lawyers as well as firms;
- . in addition, the complete liberalization of the capital market enabling us all to borrow, invest and enjoy a complete range of banking and financial services throughout the Community.

\* The Community is working towards the large market every day. The Commission has produced 300 draft measures to that end. In the space of one year, almost a quarter have been adopted. With five years to go, the countdown continues.

## II. HIGH-TECHNOLOGY EUROPE

- \* No single Community country has all the scientists, all the research workers, in all fields of science, nor all the financial resources necessary.

But together we have all the expertise and resources we need to put us in the forefront in most fields if we put our minds to it.

Nevertheless we are lagging behind in some sectors and will have to mobilize all our forces if we are to catch up. On the other hand we lead the field in some areas, and here we must maintain and improve our position even further.

That is where the key to prosperity and employment in tomorrow's world lies. It is vital for the success of the large internal market and essential if we are to be masters of our destiny in the future.

- \* The course set by the Community

From the very outset the Community recognized the importance of research and technology. But the rapidly gathering pace of technological advance forced us to embark on decisive action.

A choice had to be made: it was decided to concentrate efforts on the most critical aspects and to involve the people directly concerned by encouraging them to cooperate with one another, rather than to impose a bureaucratic management system.

Information technology, telecommunications, new materials, energy, biotechnology - these are all covered by Community programmes which have already produced some impressive results:

### Information Technology

The 201 current Esprit projects, which were launched relatively recently, have already produced impressive results, for example:

- in microelectronics: gallium arsenide components to be used in the development of the next generation of supercomputers and a novel method for designing complex and more reliable chips for compact disc players;
- in software: the PCTE project is providing an answer to the major problem of incompatibility affecting software tools; the PCTE provides a kind of "universal joint" for software engineers;
- in expert systems, where the USA enjoyed a monopoly until recently, two high-performance systems have been implemented under the OMEGA project;
- in integrated office systems, a new standard for the mixed voice-text-image electronic document of the future has been developed under the Herode project; this standard has been taken up as the starting point for ISO standards, while a number of major European companies are already implementing it.

### Optical Computer

In a project under the "stimulation action", eight laboratories from five Member States (Britain, Germany, France, Belgium and Italy) have developed digital devices and circuits for a future optical computer.

### Telecommunications

The Race programme, organized on the same lines as the Esprit programme, forms part of a strategy designed to help Europe maintain its lead in the field of telecommunications, defining the structure of the future European broadband network which will form the main artery of the new communications media.

### Industrial technology

Four industrial laboratories belonging to leading automobile and aerospace manufacturers from Britain, France, Germany and Italy have combined under the Brite programme to develop lasers for sheet welding.

### Materials

Under the "stimulation action" and the Euram programme (new materials), forty European laboratories have linked up to develop permanent supermagnets based on an iron-neodymium-boron alloy. These supermagnets will replace electromagnets in numerous applications.

### Controlled thermonuclear fusion

In the latest experiments on JET, the largest tokamak (fusion reactor) in the world, temperatures well in excess of 100 million degrees Centigrade have been achieved, representing a further step towards demonstrating the scientific feasibility of fusion.



### Geothermal energy

In a so far successful project in Cornwall under the non-nuclear energy R&D programme, tests are going on to exploit hot dry rocks. The technique used involves injecting cold water into the rocks from which it emerges at a high temperature.

### Biotechnology

Under the biotechnology research programme, research workers from three laboratories in Ghent, Leyden and Cologne have achieved a world first in transferring foreign genetic information to a class of plants including cereals (monocotyledones).

Concerted action, cooperation, complementarity, cohesion are the four pillars on which European technological advance rests. There are 500 teams involved in Esprit, comprising over 2 000 research workers in all, while 1 400 national teams are collaborating in the Community coordination programme on medical research. All twelve Member States are involved, Ireland and Greece, as well as Germany and Italy.

The Community is the meeting point, it provides the stimulus, shows the way.

### III. EUROPE IN EVERYDAY LIFE

"You can't fall in love with the large market" (Jacques Delors).

A European area without frontiers; technological advance; these are essential objectives but they must be made to serve the people of Europe - that is, to respect their individual identity and values. Besides, the success of these objectives surely depends on the support they are able to muster.

\* A balanced environment in which to live

In thirty years, European agriculture has become highly efficient; with the aid of the Common Agricultural Policy this has been achieved without any alteration to the nature of rural life and the countryside; an agricultural structure based on the continuation of family farming has been preserved in a more efficient form. Eleven million farmers have stayed on the land, local life goes on, tourism has developed in the countryside and other activities have taken root there.

The preservation of our environment also involves a whole series of practical measures which can be meaningful and fully effective only if applied at Community level. The Community has adopted over a hundred instruments in such fields as pollution of water and the coastline, combating atmospheric pollution and noise, waste management, the protection of wildlife, research into ecological problems and public information.

\* Solidarity

- The principle of equal rights for men and women is embodied in the Treaty of Rome. The Member States have thus been obliged to bring their legislation into line with a number of Community directives. Equal rights are now guaranteed as regards pay, employment, vocational training, working conditions and social security.
- Rules on the protection of workers' rights are also laid down in Community directives on social and industrial relations (collective redundancies, guaranteed rights in the event of transfer, payment of salaries in the event of bankruptcy, etc.) and on health and safety: the use of asbestos, lead and benzene is controlled, noise levels at the place of work are subject to limits, etc.
- Every year the Community, through the European Social Fund, provides support for vocational training for two million people, most of them young.
- Solidarity also means reducing disparities in the level of development between the regions and providing aid for the redevelopment of declining industrial regions.

This is where the European Commission comes in with its structural funds; combining their action under the Integrated Mediterranean Programmes, it has introduced a form of direct dialogue with the regions to develop the infrastructure they need.

Universities are also involved in Europe.

- The ERASMUS programme will allow thousands of students to go and study for a time at a university in another European country belonging to the Community.

Over 600 higher education establishments are already cooperating in the development of this joint programme.

- The COMETT programme will enable thousands of students at the end of their studies to undertake training in industry in another Community country.

\* Consumer protection

One of the benefits of the common market has been to offer the consumer a wider choice of products; and this choice will become wider still once the single market has been completed.

But the Community also has rules governing free competition: competitiveness and rivalry within Europe is not the same thing as cut-throat competition at the expense of the consumer.

Sell-by dates for frozen and other food and the compulsory listing of ingredients: these are requirements imposed by Community legislation, as are rules on the composition, manufacture and designation of honey, fruit juices, chocolate, jam, mineral water, etc.

The Community was responsible for banning certain hormones, additives and colouring matters, prohibiting the sale of children's pyjamas containing flammable or carcinogenic fibres, and providing every citizen with the right to challenge misleading advertising.

So every day every one of us uses products bearing the seal of the Community. Yet how many of us are really aware of the fact?

How many of us are aware, for example, that 60% of national regulations on measuring instruments, cars and agri-foodstuffs, are imposed by Community law; or that all regulations on the labelling of chemical products and on electrical goods derive from Community legislation.

#### IV. EUROPE - A BALANCING FORCE IN THE WORLD

\*The European Community is now the world's leading trading power; its share of world trade is greater than that of the United States and twice that of Japan.

Far from being closed off to the outside, it applies one of the lowest customs tariffs in the world - less than 5% for industrial goods. Protectionism is not in its makeup.

In international trade negotiations it is the Community - represented by the European Commission - that speaks for and in the place of its Member States.

The Community lends extra weight to its Member States in a world dominated by major economic powers: it is impossible to imagine each individual European country negotiating with the same force and the same effectiveness; they would find themselves in a highly unfavourable position.

\*Not only is the Community a respected negotiator with the other major powers, it is also the Third World's closest and most important partner in terms of trade and development aid.

The percentage of GNP that the Community of Twelve devotes to this aid is twice that of the United States.

Cooperation extends to such areas as energy, trade promotion and training. While placing increasing emphasis on aid to rural development and the encouragement of self-sufficiency in food, the Community supplies countries

in difficulty with food aid in the form of cereals (nearly 1 400 000 tonnes in 1985), milk powder (nearly 109 000 tonnes) and other products.

When crisis, disaster or famine strikes, the Community is the first to come to the assistance to those affected. It was first on the scene to assist the victims of the famine in the Sahel, in Sudan and Ethiopia, and following the disasters in El Salvador, Colombia and Mexico. Its emergency aid team is available day and night, on weekdays and weekends.

At a time when the purse-strings of public spending have been tied ever tighter, the Community has increased by 60% its aid to the 66 African, Caribbean and Pacific countries with which it signed the Lomé Convention.

Under this Convention, these ACP countries are allowed to export their products to the Community free of customs duties; Lomé also provides a unique system for guaranteeing these countries' export earnings and offers technical and financial assistance for the development of infrastructure projects.

Generally speaking, the Community's aim is to act as a partner to the developing countries within a clearly defined contractual relationship: no missionary zeal, no attempt at paternalism or hegemony, but instead the desire to act as a centre of balance in North-South relations.

It benefits the Third World countries and ourselves as well; our exports to these countries represent three million jobs in Europe.

V. WITH EUROPE, THINGS ARE SIMPLER AND MORE EFFICIENT

Is it better:

- \* to have, as we had in 1957, twelve different indirect taxation systems  
or, as now, a single VAT system in all twelve countries?
- \* to have, as we had in 1957, a multiplicity of different customs tariffs  
or, as today, no customs tariffs between Member States and a  
common tariff on imports from outside the Community?
- \* to have 70 different customs forms  
or, as will be the case from next year, a single document for  
intra-Community trade?
- \* to have to fill in police forms and queue up at ports and airports  
when entering a Community country  
or, as a Community citizen, to be exempt from such formalities?

Is it better:

- \* to have to take out special car insurance to travel to another  
European country, as we had to in 1957,  
or, as is the case today, to have the green card insurance system  
which provides automatic cover throughout the Community?
- \* to have to pay for health care if we fall sick or have to go into  
hospital in another Community country  
or to be reimbursed as happens today?



- \* to be refused the right to live or work in a neighbouring European country

or to have this right recognized by Community law, albeit to a limited extent in the case of some professions but for all shortly (1992)?

- \* to be subject as an exporting company to massive and unpredictable exchange rate fluctuations

or to enjoy the stability offered by the European Monetary system and to have the opportunity of borrowing in ECU (now the third most widely used denominator of loans)?

Is it better:

- \* for research into cancer and AIDS to be carried out independently in a number of widely dispersed centres

or for research to be coordinated under Community programmes pooling human and financial resources?

- \* to wait for change offices to open when you are short of money in another Community country

or, as will be the case in 1992, to be able to use a magnetic card to obtain cash from automatic dispensers throughout the Community?

- \* to have twelve different sets of rules and technical standards for television

or to have a European-level organization which will shortly enable us to receive other countries' television signals by satellite, thereby ensuring broader diffusion of the cultures of the Community?

\* to have, as we do today, five different and mutually incompatible radio-telephone systems

or to have, as we shall do in 1992, a single harmonized Community-wide system enabling calls to be made from one country to another.

\* \* \*

Do we want Europe or not?

Is it simpler to have one set of rules or twelve contradictory sets?

Is it more efficient to combine to invest 12 ECU in a joint project or for each country to invest 1 ECU in one of twelve competing projects?

\* \* \*

Is the European bureaucracy inefficient?

Do you know that:

- the Community employs fewer staff than the city of Birmingham, half the number employed by the city of Paris and no more than work in the Belgian Ministry of Finance?

- there are 24 Community officials investigating 60 cases of infringement of the competition rules a year as compared with 550 civil servants working on the same number of cases in the United States?

- the budget for technological research programmes handled by a single Community official is four times that handled by a national civil servant working on equivalent programmes.

With Europe things are simpler and more efficient.







## THE SINGLE ACT

### Reforms which lay down new objectives for the Community

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The Single European Act is evidence of the Community's capacity to adapt. It introduces a major reform of the Treaty of Rome, and at the same time brings cooperation on foreign policy, which had evolved independently, within the scope of the Treaties.

#### A SYMBOL OF RENEWAL

The title 'Single Act' may seem rather obscure to the layman. However, it symbolizes the wish of the Member States to lay down in a single legal instrument the conditions for greater interaction between economic, social and monetary affairs on the one hand and external policy on the other. The fact that the economic Community, the European Monetary System and political cooperation, which are to form the cornerstones of a future European Union, have been kept within one institutional system should be seen in retrospect in terms of the major setback which would have been suffered had, as was once feared, the legislative basis for European integration been dispersed among separate treaties and institutions.

#### - Foreign policy and security

The Single Act's provisions on foreign policy are based on the principle of consultation between the Member States. We may hope that the legal expression thus given to their resolve to implement a European foreign policy will be reflected in a new trend towards adopting joint positions - perhaps even taking joint action - on the main international issues. At the same time provision is made for the first time in an instrument which has treaty status for closer cooperation between the Member States on security. In particular, the Member States undertake to "maintain the technological and industrial conditions necessary for their security".

#### - A more effective Community

The provisions of the Single Act which amend and supplement the Treaty of Rome in order to make the Community more effective are also an innovation. They will enable the Community to take on a new dimension and the decision-making powers needed to match its aspirations. The reforms are principally designed to ensure that a close link is maintained between more effective decision-making and the setting of well-defined goals.

- The cornerstone of revival

The main aim is to enable measures to be adopted more easily in the areas which, as Jacques Delors has put it, constitute the "cornerstone of revival": the completion of the large internal market by 1992, the development of research and technology, the implementation of a social policy and the strengthening of cohesion between the Member States. A breath of new life has been given to one section of the Treaty of Rome in the hope that it will have a knock-on effect. The Community has acquired the means of stepping up the pace of its activities in several spheres without upsetting the fundamental balance between the institutions or the balance of power between the Community and the Member States.

WHY THE SINGLE ACT ?

In response to numerous initiatives, particularly from the European Parliament, the Milan European Council in June 1985 decided to convene an intergovernmental conference to revise the Treaty of Rome. Following the conference, agreement was reached at the Luxembourg European Council in December 1985 and finalised in the form of the Single Act.

The Commission, anxious to avoid futile quarrels during the institutional debate on the respective jurisdictions of the Community and the Member States, was guided in its proposals to the Intergovernmental Conference granting powers in new areas not by a desire for hegemony but rather by the principle of subsidiarity. The only tasks devolved to the Community are those that are better tackled by the Community than by the individual Member States. The Single Act endorses this approach by giving the Community concurrent rather than exclusive powers.

Also on the basis of the Commission's proposals, the Single Act opens the door to gradual integration, allowing some Member States to advance more rapidly than others towards the goals set by the Treaty, within a framework accepted by all. There is express provision for such differentiation in the articles on research and technology

Defining precise goals

The provisions of the Single Act reflect the desire to create by 1992 the large internal market which alone will enable the Twelve to keep pace with their two main competitors, the United States and Japan. This is the centrepiece of the strategy to revive the European integration process, proposed by the new Commission when it took office in January 1985.



In conjunction with the revision of the Treaty of Rome so as to meet this target date of 1992, a number of policies were evolved which are either necessary for the creation of the large market (social policy, economic and social cohesion) or depend upon the large market for their own success (technological research and development, monetary policy).

#### Completing the large internal market by 1992

The aim is to create, between now and the end of 1992, "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured".

The reforms highlight the crucial importance of completing quickly (in less than seven years) a single market of 320 million consumers. Today there is no longer, as it was in 1958, simply a means of achieving gradual interpenetration of the economies of the Member States: it represents above all an opportunity for Europe's industries to regain their place on the world market in the face of American and Japanese competition.

The European dimension, which is vitally important to firms, has taken on a new meaning: it is no longer simply a question of enabling the traditional economies of scale to be made in order to increase demand, but also of ensuring that the supply matches that demand in terms of innovation, financing and cooperation between firms.

#### - An area without frontiers

The aim of creating a unified market is not merely to offer firms a bigger market on which to operate, but also to engender a feeling among Europeans of being part of a larger unit, within which they enjoy freedom of movement without formalities, freedom to study or work wherever they choose. This concern for the needs of the individual, the European citizen, explains the reference in the Single Act to an "area without frontiers", which goes beyond the concept of a common market.

The fact that a precise date (1992) was set fits in with the programme and schedule set out by the Commission in its White Paper on completing the internal market. Voting by a qualified majority will apply only to about two thirds of the measures contained in the White Paper. Unanimity will still be required for measures relating to the free movement of persons and tax harmonization - especially bringing VAT rates closer together, which at present make numerous border controls necessary.

The most important contribution of the reforms towards completing the internal market by 1992 is the changeover to voting by a qualified majority in relation to Article 100, one of the key provisions of the Treaty of Rome, which concerns the approximation of laws. To prevent standards being lowered, provision is made for a Member State, subject to checks by the Commission and the Court of Justice, to continue to apply more stringent national provisions relating to health and the protection of the environment or the working environment, even after the adoption of a Community harmonization measure.

#### Strengthening economic cohesion

##### - Preventing the widening of regional disparities

The completion of the internal market may pose problems for countries whose economies are unable to withstand the impact of the total removal of trade barriers between now and 1992. The creation of a large market will not benefit all parts of Europe unless it is accompanied by policies designed to ensure that the disparities within the Community, which are already considerable, do not widen further.

##### - Reform of the structural Funds

Cohesion, according to the Single Act, implies that any Member State which has endeavoured to conduct its economic policies with a view to convergence with its partners can count on the support of the Community. The spirit of solidarity which underlies the notion of cohesion is reflected primarily in the assistance given by the structural Funds, in particular the Social Fund and the Regional Fund. But the way in which the Funds operate at present is far from satisfactory, as their ability to correct imbalances has been gradually eroded and they instead redistribute budget resources on the basis of the pernicious logic of the "fair return". At the Commission's instigation, therefore, the Single Act embodies the principle of a comprehensive review of the structure and operation of the structural Funds with a view to concentrating their activities. The aim is to set up a system along the lines used for the integrated Mediterranean programmes, making for greater coordination between the various forms of assistance being given to the least-developed regions on the basis of Community criteria rather than national priorities. This should ensure that the Community contribution is not merely an afterthought added on to national programmes.

## Developing social policy

### - Harmonization of working conditions

The Single Act fills a large gap in the Treaty of Rome by making it possible for the Community to introduce social legislation to improve working conditions. This is the reason for the powers devolved upon the Council to take decisions by a qualified majority to harmonize minimum requirements relating to the working environment.

### - The social dialogue

The aim of creating an economic area without frontiers calls for parallel action to harmonize legislation in the social sphere. It is essential that any distortions in this sphere which are liable to impede the completion of the internal market be eliminated. The Single Act contains a specific provision relating to the dialogue between management and labour at European level. This could lead to the establishment of contractual relations which would act as a base for Community legislation.

## A change of pace on research and technological development

A unified internal market will not ensure economic revival unless it enables Europe to keep pace with the current technological revolution, particularly in the field of telecommunications. There are a number of reasons why Europe is currently lagging behind: the shortage of financial and manpower resources, duplication of effort, the lack of an overall plan and the very abstract role of the European market as an element in business strategy and a force for bringing firms closer together.

### - A framework for cooperation between countries

The Single Act provides the Community with a framework within which it can promote cooperation between the Member States, firms, research institutes, international organizations and non-member countries. The aim is to give firms the go-ahead to undertake research in the areas to which the Community wishes to give priority in terms of financing, cooperation agreements, dissemination of knowhow, common standards and opening up public procurement.

The Community policy is designed not to replace national measures but rather to supplement them. The aim is not to dictate the course of research in Europe, particularly in view of the proximity of resources made available to the Community (2% of the total of national public expenditure), but to contribute an increment to national activities, pinpoint priorities and ensure as high a degree of coordination as possible.

To attain these objectives the Single Act makes provision for flexible decision-making procedures which revolve around three interconnecting types of programme:

- Three types of programme

- a multiannual framework programme to be adopted unanimously, which defines the scope of Community activities (e.g. biotechnology or telecommunications), laying down the general objectives, the financial contribution from the Community and how it is to be shared out among the various activities;
- specific programmes adopted by a qualified majority, defining specific objectives for each activity (e.g. along the lines of the Esprit programme), technical content, timescale resources and details of implementation;
- supplementary programmes which involve only certain Member States, which provide financing subject to participation in the programme.

- Agencies

The implementation of the various programmes should be all the more effective since the Community possesses a whole series of appropriate instruments, ranging from shared-cost actions to joint enterprises and the provision made in the Single Act for other structures to be set up, possibly in the form of agencies. The idea of supplementary programmes paves the way for a technological Community "à la carte" based on guidelines accepted by all. This will provide a framework for certain intergovernmental projects such as those connected with Eureka, and enable the problem of the shortage of Community own resources to be overcome.

### Monetary cooperation

The fact that the Single Act contains provisions on monetary cooperation is indicative of the changes going on within the Community. The advisability of giving the emergence of a European currency formal status in the Treaty of Rome was the subject of some controversy at the Intergovernmental Conference, with a compromise being reached at the last moment by the Heads of State or of Government. The issue was whether the currency depended upon the convergence of economic policies or vice versa. In the view of most of the Member States, the creation of a large market went hand in hand with monetary union, which would be the vehicle for greater cohesion, since it would impose stricter discipline particularly in relation to exchange rates, and for genuine solidarity through the creation of a European Monetary Fund and the development of the ECU into a reserve currency. But Germany, supported by the United Kingdom, insisted that any extension of monetary cooperation, or even maintenance of the status quo, should be made subject to complete freedom of capital movements and the adoption of more stringent economic policies by the other Member States.

#### - Incorporation of the European Monetary system

The compromise which was reached confirms the status quo, i.e. the European Monetary System, with the exchange rate discipline which it imposes, and the ECU. The latter, in theory at least, is still merely a reference instrument although in practice it has come close to being a medium of payment owing its success on the private markets. Finally, the Single Act makes provision for institutional changes in the field of monetary cooperation, including setting up a European Monetary Fund, but makes this subject to a further revision of the Treaty.

### IMPROVED DECISION-MAKING

#### - Voting in the Council

The strengthening of the Council's decision-making capacity is based entirely on the replacement of the unanimity requirement by qualified majority voting in relation to the internal market, cohesion, social policy and research. However, some exceptions are made to the qualified majority rule for the internal market (in particular taxation), and it is confined to implementing decisions in the areas of research (adoption of the specific programmes) and cohesion (operation of the structural Funds).

But it is not enough to lay down the principle of qualified majority voting, which already applied to some 30 decisions under the Treaty of Rome, including decisions on agricultural policy. Voting by qualified majority still has to be put into practice; in other words, the Council must actually proceed to a vote and break away from the practice of seeking consensus even on the details of a decision. The Treaty of Rome, even as amended by the Single Act, does not impose voting deadlines on the Council. The Milan European Council proposed that the Council should proceed to a vote when called upon to do so by several Member States or by the Commission. This is an essential procedural change, if only to ensure that the aim of creating an area without frontiers by 1992 retains its credibility. However, a reform of the Council's Rules of Procedure - which can be passed by a simple majority - would appear at present to be fraught with more difficulties than the revision of the Treaty of Rome itself.

Moreover, the "Luxembourg compromise" remains intact: it is still open to a Member State at any time to invoke its vital interests in order to oppose the adoption of a decision by a qualified majority. Paradoxically, the hotly disputed provision made by the Single Act for derogations allowing Member States to maintain higher standards reduces the risk of their invoking vital interests in areas such as health or the environment, which continue to be sensitive.

If qualified majority voting is actually introduced, its implication must be seen in the light of the weighting applied to the votes of the Member States, calculated approximately on the basis of their size and population. The weightings laid down in the Act of Accession of Spain and Portugal are as follows: 10 votes for the largest countries (Germany, France, Italy and the United Kingdom), 8 votes for Spain, 5 votes for the medium-sized countries (Belgium, Greece, the Netherlands and Portugal), 3 votes for the smaller countries (Denmark and Ireland) and 2 votes for Luxembourg. Adoption by a qualified majority requires 54 votes, while the minimum needed to block a decision is 23 votes.

#### - Parliament

While Parliament's democratic legitimacy had been beyond dispute since its election by universal suffrage, its powers, except in relation to the budget, remained very limited, with the result that it had become something of a talking-shop where Community issues and wider global problems alike were debated. The Single Act takes Parliament out of this purely consultative role in order to bring it back fully into the Community system, though it does not grant Parliament what it was seeking, i.e. the power to take decisions jointly with the Council.

Parliament has been accorded amending powers of a kind in the new spheres to which qualified majority voting now applies. These take the form of a very sophisticated procedure known as the "cooperation procedure", which in broad terms means that Parliament's assent is required before the Council may adopt a Commission proposal by a qualified majority on the first reading. If Parliament proposes any amendments, the Council has to proceed to a second reading. Where the Commission incorporates Parliament's amendments into its proposal, unanimity is required for the Council to reject it.

- The Commission

The Single Act extends the Commission's executive powers in relation to instruments adopted by the Council. It provides for a rationalization of the plethora of different kinds of committee which the Council had imposed on the Commission for the adoption of implementing decisions. In particular, the advisory committee is to play a leading role in the adoption of the countless implementing and administrative measures required if the large market without frontiers is to be completed by 1992.

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A DYNAMIC COMPROMISE

The Single Act represents the most comprehensive review of the Treaty of Rome in thirty years. It lends the Community a new dimension and increases its decision-making capacity.

Its main effect should be to pave the way for the rapid adoption of the measures essential to implementation of the Community's new strategy on the internal market, cohesion, research and technology, social policy and monetary integration.

Opinion is divided on these reforms. For some, they are too modest, while others feel that they represent the maximum which the twelve Member States can currently concede.

The Single Act in fact represents a compromise of what was possible which now has to be made into something dynamic.



## MONETARY CAPACITY

Paradoxically, it took disorder on world money markets first to bring to light the monetary dimension of the European Community.

It will be recalled that establishment of the European Monetary System (EMS) in 1978 was a direct response to the instability created on world money markets, even then, by the sharp slump in the dollar. From the moment the USA decided to abandon the fixed exchange rate system in the early '70s, it became increasingly apparent that the US dollar could no longer serve the distinct objectives of US internal policy and of orderly growth in international trade in goods and financial services both at the same time. The long-term aim of the European Monetary System looks far beyond stabilization of exchange rates: it includes establishment of a European Monetary Fund to offer greater stability both inside and outside the Community.

After seven years in operation, the EMS has proved highly resilient, despite mounting disorder on world money markets since the early 1980s. In practice, it has created an area of genuine monetary stability in Europe. It has made it easier for each Member State to carry through the adjustments now, by and large, complete. It has made healthy, vigorous, lasting economic growth possible in Europe today.

In the process, even without explicit support from the Community, the EMS has triggered a vigorous boom in use of the "private ECU", which has climbed to fifth-placed currency denomination on the international financial markets, from being unplaced altogether at the start of the '80s.

These are the facts behind the "monetary capacity" of the European Community, to borrow the phrase coined by Jacques Delors in September 1985 when he proposed adding a new chapter on the subject to the EEC Treaty. After two months' ground work by an intergovernmental conference, the Heads of State adopted this chapter to mark the primordial importance of monetary cooperation as a means of coordinating the policies of the Member States:

- (i) first, by assigning it the general role of serving the twin objectives of economic balance and rising employment throughout the Community (a reference to Article 104 of the EEC Treaty); the original Treaty linked monetary cooperation to management of the balance of payments;

- (ii) by setting the ambitious long-term objective of achieving economic and monetary union; although this objective featured in the Werner report in the early '70s, no mention of it was made in the Treaty; the newly added reference to it links progress on monetary cooperation with "further development of the Community" with a view to European integration;
- (iii) finally, by laying down rules for expanding monetary cooperation, in the form of a step-by-step approach based on "the experience acquired in cooperation within the framework of the European Monetary System (EMS) and in developing the ECU" (Article 102 A(1)). But before this progress threatens to impinge on national sovereignty - for example, if a European issuing bank were planned to assume some of the prerogatives of the national central banks - the prior approval of all the national parliaments would be needed following the procedure set out in Article 236 of the Treaty of Rome (Article 102 A(2) of the Single Act).

## RESEARCH AND TECHNOLOGICAL DEVELOPMENT

Mastery of new technologies is one of the fundamental preconditions for boosting industrial competitiveness and, hence, economic growth and employment.

The economic crisis has necessitated far-reaching, often painful, restructuring. Against a background of mounting unemployment and industrial decline, Europeans discovered that they were lagging behind their leading rivals - the USA and Japan - in several key fields. We know all too well that Europe was late to react in the electronics and computer fields. But there are also many other branches of industry where Europe must score points urgently.

For example, Europe's dependence on foreign suppliers is reaching alarming proportions in the case of information technology, which will provide some 4 million jobs by the end of the decade and affect between 30 and 50% of all other jobs in the medium term. More specifically, the Community imports half of the microprocessors it needs, 70% of its video tape recorders and 80% of its microcomputers. The time has come to make stimulation of new technologies at the heart of the EC's industrial strategy.

It is not a question of "Europeanizing" research for its own sake. It is a matter of facing the facts: the existence of the Community and of its common policies, particularly to complete the large market by 1992, the experience gained and, above all, the size of the Twelve, provide a Community framework conducive to the closer scientific and technical cooperation which Europe badly needs if it is to remain master of its fate.

This is the purpose of the subsection of the Single Act entitled "Research and technological development". It adds eleven new articles to the Treaty of Rome calling for the adoption of a multiannual framework programme to be implemented by the appropriate combination of Member States, undertakings and research centres. Cooperation with third countries and international organizations is also provided for.

This new European policy will lay the foundation for developing a joint research strategy far surpassing the efforts which the Member States can make on their own or even with the aid of ad hoc bilateral cooperation. An alarming gap has been opening up between the research potential of the Member States and the results attained. Fragmentation and dissipation of effort bear much of the blame for this state of affairs: all too often the human and financial resources available across Europe are squandered on duplication of effort or lack of resources severely hampers achievement of the set objectives.

What is more, the flexible procedure for conducting the research programmes at the appropriate level will ensure that the Community research policy acts as a catalyst encouraging undertakings, laboratories and universities throughout Europe to develop new products and techniques in response to existing or potential market demand. Consequently, it is not basic research which the programme has in mind but joint action on the precompetitive phase of technological development. Thereafter, it will be up to the undertakings to take charge of production and marketing in the more competitive, more dynamic environment created once the internal market is completed.

Finally, the Community is well aware of the other parallel technological cooperation schemes (Eureka, CERN, European Space Agency, etc.). The Community's policy must have a place, nothing more nothing less, in this quest for more efficient allocation of financial and human resources in a bid to build up the requisite critical mass.

#### TELECOMMUNICATIONS AND THE FUTURE OF EUROPE

New telecommunications technologies will change the face of the world by the year 2000. This vigorously expanding industry will determine Europe's economic future.

By the year 2000, telecommunications' share of gross domestic product formation in the Community is expected to advance from 2% to 7%. This is an enormous leap, particularly knowing the strong multiplier effect of the investments forecast in this field. One million invested in telecommunications infrastructure produces an overall increase in activity of 1.5 million, it has been estimated. This ratio is every bit as favourable as the ratio for the building industry.

However, technological innovation inevitably brings upheaval to the markets. And there is a danger that this could work to the disadvantage of Europe if Europe reacts too late. Fragmentation of the Community market is Europe's greatest weakness in this respect. The Community has almost as many systems as it has Member States. It is no coincidence that it has to import over 80% of the electronics components for its new terminals.

Modernization of telecommunications systems is essential to keep European undertakings competitive enough to rise to the twin challenges of the mass invasion of their home market by foreign (particularly US) suppliers and of capturing new markets for themselves. Rising to these challenges is one of the surest routes to fresh industrial growth. But first, Europe must seize its chance. The European Community can play a key role in this process by breaking down the barriers between the national markets and supporting cooperation between industrialists hesitant to invest in research in products which need to be extremely widely marketed in order to repay the cost of the research.

#### THE TECHNOLOGY COMMUNITY AND EUREKA

Building a technology Europe requires closer coordination of national and Community policies, followed by coordination of all those policies with the Eureka programme.

Eureka brings together 19 countries, including the Community Member States, with a view to extending their cooperation to new partners, new forms of finance and new methods of management. This programme can provide a useful addition to the Community's programme, notably by encouraging industrial cooperation on the development of new high-technology products.

## ECONOMIC AND SOCIAL COHESION

The structural differences within the twelve-member Community are far wider than those between the Six thirty years ago. In the absence of effective structural measures to counter these imbalances, there is a danger that they might increase.

In practice, establishment of a genuine large market between the Twelve will have greater repercussions for some regions, sectors of activity and income groups in the Community than for others.

Against this background, the objective of an integrated economy without frontiers is inconceivable without, at the same time, a degree of "redistribution" to allow more harmonious development of the Community as a whole.

Consequently, stronger economic and social cohesion is a "sine qua non" for the other policies mapped out in the Single Act. For this reason, the Single Act adds a new Title V to the Treaty of Rome.

Economic and social cohesion will have to be based on:

- (i) economic integration stemming from implementation of Community policies and coordination of national economic policies;
- (ii) Community solidarity exercised through the Structural Funds.

In the specific case of the Structural Funds (particularly the European Regional Development Fund and the European Social Fund) the Single Act calls on the Commission to review the operational rules of the existing Funds and propose to the Council any amendments necessary to make the Funds more efficient and coordinate their activities with the operations of other Community financial instruments.

With budget resources so extremely limited, it is essential to review operation of the Community's Structural Funds, both in letter and in spirit, and to mould them into instruments up to the demands of a genuine European structural policy providing the cohesion needed by a twelve-member Community with the added dimension of a single market.

## SOCIAL POLICY

To boost the competitiveness of European industry, to transform the common market into a genuine area without frontiers and to spread new technologies: in order to attain these three objectives, and reap the potential benefits, a dynamic social policy, formulated by the dialogue between management and labour, is clearly needed in order to gain a firmer grip on these changes.

At a time when existing industrial relations are being tested by the economic crisis and by the need to adapt European economies to the changing international scene as fast as possible, it is no easy task to promote dialogue between the two sides of industry at European level. But everything possible must be done to overcome the obstacles and to rise to the twin challenges facing Europe: the industrial challenge and the social challenge.

The quality and efficacy of industrial relations is one of the factors determining international competitiveness. The objective of building an economic area without frontiers also implies actively seeking to stimulate dialogue between the two sides of industry at European level.

The Single Act explicitly acknowledges the need for such a dialogue and entrusts the Commission with the job of promoting it.

The Single Act adds to the Treaty of Rome the objective of improving the working environment and of doing more to protect the health and safety of workers. To achieve this, the Single Act empowers the Community to adopt Directives to harmonize "conditions in this area, while maintaining the improvements made."

Such directives will lay down the "minimum requirements" and may be adopted by a qualified majority within the Council, the sole condition being that they must in no way hold back the creation and development of small and medium-sized undertakings.

### AN AREA WITHOUT INTERNAL FRONTIERS

**1992 target:** free movement of goods, services and capital throughout an area of 2 250 000 square kilometres with a population of 320 million European citizens.

Articles 13 to 19 of the Single Act deal with completion of this large market. They amend and supplement the provisions of the Treaty of Rome concerning the establishment of the common market.

But surely the Treaty of Rome made provision for free movement of goods ...

Judge for yourself:

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

**Example: 1.3l Ford Escort at June 1985 prices**

	F	FRG	B	DK	S	GR	IT	LUX	NL	P	UK
Pre-tax price for a new car (French price = 100)	100	101	93	85	107	104	113	93	85	99	136
Tax take (as % of pre-tax price)	33	14	25	173	31	156	18	14	50	39	25
After-tax price (pre-tax price in France = 100)	133	115	116	232	140	266	133	106	127	138	170

So much for the tax barriers obstructing the free movement of goods.

Then there are the technical barriers to trade, i.e. all sorts of national public health and product safety and quality standards. In the absence of harmonized (or at least mutually recognized compatible) rules, these standards prevent free movement within the Community.

Not to mention the "physical barriers", i.e. frontier checks which cost far more than just the administrative expense. It is more than just red tape when a French trade representative has to haggle for two hours with the Belgian authorities because his demonstration leaflets were printed in Germany and should, therefore, have been declared on a separate form. It has been estimated that the administrative costs and hours wasted at frontier check points swallow up almost 4% of the Community's GDP. This is without counting the growth opportunities lost by thousands of small industrial firms which are deterred by the jungle of legislation in the Community and prefer the security of their own national market.

And then there is the segregation of public contracts in each country. Purchases by the public sector, public undertakings and public authorities account for almost 20% of the Community's GDP. Yet only a tiny fraction of this amount is put out to tender to producers from all over Europe. This has curbed the development of European industry capable of competing on world markets in high-technology products requiring heavy initial investment. The economies of scale allowed by a large market are a decisive factor in the telecommunications, modern transport, energy or medical equipment industries.

Services: the Treaty of Rome gives far firmer guarantees of the establishment of a common market in agricultural produce and in industrial goods than of free movement of services. Yet for the last thirty years the services sector's contribution to the European economies has been growing vigorously.

This trend has led to a gradual shift of economic activity in the Member States from the sphere where freedom of movement is guaranteed (even if not fully implemented) to the sphere where freedom of movement has, in essence, yet to be introduced.

At a time that steps are being taken towards a world capital market, financial integration within Europe is lagging well behind.

#### The contribution made by the Single Act

As regards completion of the large market, the key provision of the Single Act is Article 18, which amplifies Article 100 of the Treaty of Rome, laying down the provisions concerning harmonization of legislation.

In future, a qualified majority will be enough for most Council decisions to approximate national provisions as a move towards establishing and operating the internal market.

However, a number of areas have been exempted, notably taxation.

In a twelve-member Community, there will always be someone somewhere who would prefer not to change his own rules, even if only out of force of habit.

One of the great merits of the Single Act is that it acknowledges that the objective of establishing a large market is unattainable without greater recourse to majority voting.







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**Bulletin**  
OF THE EUROPEAN  
COMMUNITIES



**Supplement 2/86**

**Single  
European Act**

Commission  
of the European Communities

## Supplements 1986

1/86 Programme of the Commission for 1986

2/86 *Single European Act*

Bulletin  
of the European Communities

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EUROPEAN COMMUNITIES

Commission

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*His Majesty the King of the Belgians,*  
*Her Majesty the Queen of Denmark,*  
*The President of the Federal Republic of Germany,*  
*The President of the Hellenic Republic,*  
*His Majesty the King of Spain,*  
*The President of the French Republic,*  
*The President of Ireland,*  
*The President of the Italian Republic,*  
*His Royal Highness the Grand Duke of Luxembourg,*  
*Her Majesty the Queen of the Netherlands,*  
*The President of the Portuguese Republic,*  
*Her Majesty the Queen of the United Kingdom of Great Britain and Northern Ireland,*

Moved by the will to continue the work undertaken on the basis of the Treaties establishing the European Communities and to transform relations as a whole among their States into a European Union, in accordance with the Solemn Declaration of Stuttgart of 19 June 1893.

Resolved to implement this European Union on the basis, firstly, of the Communities operating in accordance with their own rules and, secondly, of European Cooperation among the Signatory States in the sphere of foreign policy and to invest this union with the necessary means of action,

Determined to work together to promote democracy on the basis of the fundamental rights recognized in the constitutions and laws of the Member States, in the Convention for the Protection of Human Rights and Fundamental Freedoms and the European Social Charter, notably freedom, equality and social justice,

Convinced that the European idea, the results achieved in the fields of economic integration and political cooperation, and the need for new developments correspond to the wishes of the democratic peoples of Europe, for whom the European Parliament, elected by universal suffrage, is an indispensable means of expression,

Aware of the responsibility incumbent upon Europe to aim at speaking ever increasingly with one voice and to act with consistency and solidarity in order

more effectively to protect its common interests and independence, in particular to display the principles of democracy and compliance with the law and with human rights to which they are attached, so that together they may make their own contribution to the preservation of international peace and security in accordance with the undertaking entered into by them within the framework of the United Nations Charter,

Determined to improve the economic and social situation by extending common policies and pursuing new objectives, and to ensure a smoother functioning of the Communities by enabling the institutions to exercise their powers under conditions most in keeping with Community interests,

Whereas at their Conference in Paris from 19 to 21 October 1972 the Heads of State or of Government approved the objective of the progressive realization of economic and monetary union;

Having regard to the Annex to the conclusions of the Presidency of the European Council in Bremen on 6 and 7 July 1978 and the Resolution of the European Council in Brussels on 5 December 1978 on the introduction of the European Monetary System (EMS) and related questions, and noting that in accordance with that Resolution, the Community and the Central Banks of the Member States have taken a number of measures intended to implement monetary cooperation,

*Have decided to adopt this Act and to this end have designated as their plenipotentiaries:*

*His Majesty the King of the Belgians,*  
*Mr Leo Tindemans,*  
*Minister for External Relations;*

*Her Majesty the Queen of Denmark,*  
*Mr Uffe Ellemann-Jensen,*  
*Minister for Foreign Affairs;*

*The President of the Federal Republic of Germany,*  
*Mr Hans-Dietrich Genscher,*  
*Federal Minister for Foreign Affairs;*

*The President of the Hellenic Republic,*  
*Mr Karolos Papoulias,*  
*Minister for Foreign Affairs;*

*His Majesty the King of Spain,*

*Mr Francisco Fernández Ordóñez,  
Minister for Foreign Affairs;*

*The President of the French Republic,*

*Mr Roland Dumas,  
Minister for External Relations;*

*The President of Ireland,*

*Mr Peter Barry, TD,  
Minister for Foreign Affairs;*

*The President of the Italian Republic,*

*Mr Giulio Andreotti,  
Minister for Foreign Affairs;*

*His Royal Highness the Grand Duke of  
Luxembourg,*

*Mr Robert Goebbels,  
State Secretary for Foreign Affairs;*

*Her Majesty the Queen of the Netherlands,*

*Mr Hans van den Broek,  
Minister for Foreign Affairs;*

*The President of the Portuguese Republic,*

*Mr Pedro Pires de Miranda,  
Minister for Foreign Affairs;*

*Her Majesty the Queen of the United Kingdom of  
Great Britain and Northern Ireland,*

*Mrs Lynda Chalker,  
Minister of State, Foreign and  
Commonwealth Office,*

Who, having exchanged their full powers, found in  
good and due form, have agreed as follows:

## TITLE I

### Common provisions

#### Article 1

The European Communities and European Political Cooperation shall have as their objective to contribute together to making concrete progress towards European unity.

The European Communities shall be founded on the Treaties establishing the European Coal and Steel Community, the European Economic Community, the European Atomic Energy Community and on the subsequent Treaties and Acts modifying or supplementing them.

Political Cooperation shall be governed by Title III. The provisions of the Title shall confirm and supplement the procedures agreed in the reports of Luxembourg (1970), Copenhagen (1973), London (1981), the Solemn Declaration on European Union (1983) and the practices gradually established among the Member States.

#### Article 2

The European Council shall bring together the Heads of State or of Government of the Member States and the President of the Commission of the European Communities. They shall be assisted by the Ministers for Foreign Affairs and by a Member of the Commission.

The European Council shall meet at least twice a year.

#### Article 3

1. The institutions of the European Communities, henceforth designated as referred to hereafter, shall exercise their powers and jurisdiction under the conditions and for the purposes provided for by the Treaties establishing the Communities and by the subsequent Treaties and Acts modifying or supplementing them and by the provisions of Title II.

2. The institutions and bodies responsible for European Political Cooperation shall exercise their powers and jurisdiction under the conditions and for the purposes laid down in Title III and in the documents referred to in the third paragraph of Article 1.

## TITLE II

### Provisions amending the Treaties establishing the European Communities

#### Chapter I

#### Provisions amending the Treaty establishing the European Coal and Steel Community

##### Article 4

The ECSC Treaty shall be supplemented by the following provisions:

##### 'Article 32d

1. *At the request of the Court of Justice and after consulting the Commission and the European Parliament, the Council may, acting unanimously, attach to the Court of Justice a court with jurisdiction to hear and determine at first instance, subject to a right of appeal to the Court of Justice on points of law only and in accordance with the conditions laid down by the Statute, certain classes of action or proceeding brought by natural or legal persons. That court shall not be competent to hear and determine actions brought by Member States or by Community institutions or questions referred for a preliminary ruling under Article 41.*

2. *The Council, following the procedure laid down in paragraph 1, shall determine the composition of that court and adopt the necessary adjustments and additional provisions to the Statute of the Court of Justice. Unless the Council decides otherwise, the provisions of this Treaty relating to the Court of Justice, in particular the provisions of the Protocol on the Statute of the Court of Justice, shall apply to that court.*

3. *The members of that court shall be chosen from persons whose independence is beyond doubt and who possess the ability required for appointment to judicial office; they shall be appointed by common accord of the Governments of the Member States for a term of six years. The membership shall be*

*partially renewed every three years. Retiring members shall be eligible for reappointment.*

4. *That court shall establish its rules of procedure in agreement with the Court of Justice. Those rules shall require the unanimous approval of the Council.'*

##### Article 5

Article 45 of the ECSC Treaty shall be supplemented by the following paragraph:

*'The Council may, acting unanimously at the request of the Court of Justice and after consulting the Commission and the European Parliament, amend the provisions of Title III of the Statute.'*

#### Chapter II

#### Provisions amending the Treaty establishing the European Economic Community

##### SECTION I

##### Institutional provisions

##### Article 6

1. *A cooperation procedure shall be introduced which shall apply to acts based on Articles 7, 49, 54(2), 56(2), second sentence, 57 with the exception of the second sentence of paragraph 2 thereof, 100 A, 100 B, 118 A, 130 E and 130 Q(2) of the EEC Treaty.*

2. *In Article 7, second paragraph of the EEC Treaty the terms 'after consulting the Assembly' shall be replaced by 'in cooperation with the European Parliament'.*

3. *In Article 49 of the EEC Treaty the terms 'the Council shall, acting on a proposal from the Commission and after consulting the Economic and Social Committee', shall be replaced by 'the Council shall, acting by a qualified majority on a proposal from the Commission, in cooperation with the European Parliament and after consulting the Economic and Social Committee.'*

4. In Article 54(2) of the EEC Treaty the terms 'the Council shall, on a proposal from the Commission and after consulting the Economic and Social Committee and the Assembly,' shall be replaced by 'the Council shall, acting on a proposal from the Commission, in cooperation with the European Parliament and after consulting the Economic and Social Committee.'

5. In Article 56(2) of the EEC Treaty the second sentence shall be replaced by the following:

*'After the end of the second stage, however, the Council shall, acting by a qualified majority on a proposal from the Commission and in cooperation with the European Parliament, issue directives for the coordination of such provisions as, in each Member State, are a matter for regulation or administrative action.'*

6. In Article 57(1) of the EEC Treaty the terms 'and after consulting the Assembly' shall be replaced by 'and in cooperation with the European Parliament'.

7. In Article 57(2) of the EEC Treaty, the third sentence shall be replaced by the following:

*'In other cases the Council shall act by a qualified majority, in cooperation with the European Parliament.'*

#### Article 7

Article 149 of the EEC Treaty shall be replaced by the following provisions:

#### Article 149

1. Where, in pursuance of this Treaty, the Council acts on a proposal from the Commission, unanimity shall be required for an act constituting an amendment to that proposal.

2. Where, in pursuance of this Treaty, the Council acts in cooperation with the European Parliament, the following procedure shall apply:

(a) The Council, acting by a qualified majority under the conditions of paragraph 1, on a proposal from the Commission and after obtaining the Opinion of the European Parliament, shall adopt a common position.

(b) The Council's common position shall be communicated to the European Parliament. The Council and the Commission shall inform the European Parliament fully of the reasons which led the Council to adopt its common position and also of the Commission's position.

If, within three months of such communication, the European Parliament approves this common position or has not taken a decision within that period, the Council shall definitively adopt the act in question in accordance with the common position.

(c) The European Parliament may within the period of three months referred to in point (b), by an absolute majority of its component members, propose amendments to the Council's common position. The European Parliament may also, by the same majority, reject the Council's common position. The result of the proceedings shall be transmitted to the Council and the Commission.

If the European Parliament has rejected the Council's common position, unanimity shall be required for the Council to act on a second reading.

(d) The Commission shall, within a period of one month, re-examine the proposal on the basis of which the Council adopted its common position, by taking into account the amendments proposed by the European Parliament.

The Commission shall forward to the Council, at the same time as its re-examined proposal, the amendments of the European Parliament which it has not accepted, and shall express its opinion on them. The Council may adopt these amendments unanimously.

(e) The Council, acting by a qualified majority, shall adopt the proposal as re-examined by the Commission.

Unanimity shall be required for the Council to amend the proposal as re-examined by the Commission.

(f) In the cases referred to in points (c), (d) and (e), the Council shall be required to act within a period of three months. If no decision is taken within this period, the Commission proposal shall be deemed not to have been adopted.

(g) The periods referred to in points (b) and (f) may be extended by a maximum of one month by

common accord between the Council and the European Parliament.

3. As long as the Council has not acted, the Commission may alter its proposal at any time during the procedures mentioned in paragraphs 1 and 2.'

#### Article 8

The first paragraph of Article 237 of the EEC Treaty shall be replaced by the following provision:

*'Any European State may apply to become a member of the Community. It shall address its application to the Council, which shall act unanimously after consulting the Commission and after receiving the assent of the European Parliament, which shall act by an absolute majority of its component members.'*

#### Article 9

The second paragraph of Article 238 of the EEC Treaty shall be replaced by the following provision:

*'These agreements shall be concluded by the Council, acting unanimously and after receiving the assent of the European Parliament, which shall act by an absolute majority of its component members.'*

#### Article 10

Article 145 of the EEC Treaty shall be supplemented by the following provision:

*'— confer on the Commission, in the acts which the Council adopts, powers for the implementation of the rules which the Council lays down. The Council may impose certain requirements in respect of the exercise of these powers. The Council may also reserve the right, in specific cases, to exercise directly implementing powers itself. The procedures referred to above must be consonant with principles and rules to be laid down in advance by the Council, acting unanimously on a proposal from the Commission and after obtaining the Opinion of the European Parliament.'*

#### Article 11

The EEC Treaty shall be supplemented by the following provisions:

#### Article 168 A

1. At the request of the Court of Justice and after consulting the Commission and the European Parliament, the Council may, acting unanimously, attach to the Court of Justice a court with jurisdiction to hear and determine at first instance, subject to a right of appeal to the Court of Justice on points of law only and in accordance with the conditions laid down by the Statute, certain classes of action or proceeding brought by natural or legal persons. That court shall not be competent to hear and determine actions brought by Member States or by Community Institutions or questions referred for a preliminary ruling under Article 177.

2. The Council, following the procedure laid down in paragraph 1, shall determine the composition of that court and adopt the necessary adjustments and additional provisions to the Statute of the Court of Justice. Unless the Council decides otherwise, the provisions of this Treaty relating to the Court of Justice, in particular the provisions of the Protocol on the Statute of the Court of Justice, shall apply to that court.

3. The members of that court shall be chosen from persons whose independence is beyond doubt and who possess the ability required for appointment to judicial office; they shall be appointed by common accord of the Governments of the Member States for a term of six years. The membership shall be partially renewed every three years. Retiring members shall be eligible for reappointment.

4. That court shall establish its rules of procedure in agreement with the Court of Justice. Those rules shall require the unanimous approval of the Council.'

#### Article 12

A second paragraph worded as follows shall be inserted in Article 118 of the EEC Treaty:

*'The Council may, acting unanimously at the request of the Court of Justice and after consulting the Commission and the European Parliament, amend the provisions of Title III of the Statute.'*

## SECTION II

### Provisions relating to the foundations and the policy of the Community

#### *Subsection I – Internal market*

##### Article 13

The EEC Treaty shall be supplemented by the following provisions:

##### 'Article 8 A

*The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992, in accordance with the provisions of this Article and of Articles 8 D, 8 C, 28, 57(2), 59, 70(1), 83, 99, 100 A and 100 B and without prejudice to the other provisions of this Treaty.*

*The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty.'*

##### Article 14

The EEC Treaty shall be supplemented by the following provisions:

##### 'Article 8 B

*The Commission shall report to the Council before 31 December 1988 and again before 31 December 1990 on the progress made towards achieving the internal market within the time limit fixed in Article 8 A.*

*The Council, acting by a qualified majority on a proposal from the Commission, shall determine the guidelines and conditions necessary to ensure balanced progress in all the sectors concerned.'*

##### Article 15

The EEC Treaty shall be supplemented by the following provisions:

##### 'Article 8 C

*When drawing up its proposals with a view to achieving the objectives set out in Article 8 A, the Commission shall take into account the extent of the effort that certain economies showing differences in development will have to sustain during the period of establishment of the internal market and it may propose appropriate provisions.*

*If these provisions take the form of derogations, they must be of a temporary nature and must cause the least possible disturbance to the functioning of the common market.'*

##### Article 16

1. Article 28 of the EEC Treaty shall be replaced by the following provisions:

##### 'Article 28

*Any autonomous alteration or suspension of duties in the common customs tariff shall be decided by the Council acting by a qualified majority on a proposal from the Commission.'*

2. In Article 57(2) of the EEC Treaty, the second sentence shall be replaced by the following:

*'Unanimity shall be required for directives the implementation of which involves in at least one Member State amendment of the existing principles laid down by law governing the professions with respect to training and conditions of access for natural persons.'*

3. In the second paragraph of Article 59 of the EEC Treaty, the term 'unanimously' shall be replaced by 'by a qualified majority'.

4. In Article 70(1) of the EEC Treaty, the last two sentences shall be replaced by the following:

*'For this purpose the Council shall issue directives, acting by a qualified majority. It shall endeavour to attain the highest possible degree of liberalization. Unanimity shall be required for measures which constitute a step back as regards the liberalization of capital movements.'*

5. In Article 84(2) of the EEC Treaty, the term 'unanimously' shall be replaced by 'by a qualified majority'.

6. Article 84 of the EEC Treaty shall be supplemented by the following paragraph:

*'The procedural provisions of Article 75(1) and (3) shall apply.'*

#### Article 17

Article 99 of the EEC Treaty shall be replaced by the following provisions:

#### 'Article 99

*The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, adopt provisions for the harmonization of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonization is necessary to ensure the establishment and the functioning of the internal market within the time limit laid down in Article 8 A.'*

#### Article 18

The EEC Treaty shall be supplemented by the following provisions:

#### 'Article 100 A

1. *By way of derogation from Article 100 and save where otherwise provided in this Treaty, the following provisions shall apply for the achievement of the objectives set out in Article 8 A. The Council shall, acting by a qualified majority on a proposal from the Commission in cooperation with the European Parliament and the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market.*

2. *Paragraph 1 shall not apply to fiscal provisions, to those relating to the free movement of persons nor to those relating to the rights and interests of employed persons.*

3. *The Commission, in its proposals laid down in paragraph 1 concerning health, safety, environmental protection and consumer protection, will take as a base a high level of protection.*

4. *If, after the adoption of a harmonization measure by the Council acting by a qualified majority, a Member State deems it necessary to apply national provisions on grounds of major needs referred to in Article 36, or relating to protection of the environment or the working environment, it shall notify the Commission of these provisions.*

*The Commission shall confirm the provisions involved after having verified that they are not a means of arbitrary discrimination or a disguised restriction on trade between Member States.*

*By way of derogation from the procedure laid down in Articles 169 and 170, the Commission or any Member State may bring the matter directly before the Court of Justice if it considers that another Member State is making improper use of the powers provided for in this Article.*

5. *The harmonization measures referred to above shall, in appropriate cases, include a safeguard clause authorizing the Member States to take, for one or more of the non-economic reasons referred to in Article 36, provisional measures subject to a Community control procedure.'*

#### Article 19

The EEC Treaty shall be supplemented by the following provisions:

#### 'Article 100 B

1. *During 1992, the Commission shall, together with each Member State, draw up an inventory of national laws, regulations and administrative provisions which fall under Article 100 A and which have not been harmonized pursuant to that Article.*

*The Council, acting in accordance with the provisions of Article 100 A, may decide that the provisions in force in a Member State must be recognized as being equivalent to those applied by another Member State.*

2. *The provisions of Article 100 A(4) shall apply by analogy.*

3. *The Commission shall draw up the inventory referred to in the first subparagraph of paragraph 1 and shall submit appropriate proposals in good time to allow the Council to act before the end of 1992.'*



## **Subsection II – Monetary capacity**

### *Article 20*

1. A new Chapter 1 shall be inserted in Part Three, Title II of the EEC Treaty, reading as follows:

*'Chapter 1  
Cooperation in economic and  
monetary policy  
(Economic and Monetary Union)*

### *Article 102 A*

1. *In order to ensure the convergence of economic and monetary policies which is necessary for the further development of the Community, Member States shall cooperate in accordance with the objectives of Article 104. In so doing, they shall take account of the experience acquired in cooperation within the framework of the European Monetary System (EMS) and in developing the ECU, and shall respect existing powers in this field.*

2. *In so far as further development in the field of economic and monetary policy necessitates institutional changes, the provisions of Article 236 shall be applicable. The Monetary Committee and the Committee of Governors of the Central Banks shall also be consulted regarding institutional changes in the monetary area.'*

2. Chapters 1, 2 and 3 shall become Chapters 2, 3 and 4 respectively.

## **Subsection III – Social policy**

### *Article 21*

The EEC Treaty shall be supplemented by the following provisions:

### *'Article 118 A*

1. *Member States shall pay particular attention to encouraging improvements, especially in the working environment, as regards the health and safety of workers, and shall set as their objective the harmonization of conditions in this area, while maintaining the improvements made.*

2. *In order to help achieve the objective laid down in the first paragraph, the Council, acting by a qualified majority on a proposal from the Commission, in cooperation with the European Parliament and after consulting the Economic and Social Committee, shall adopt, by means of directives, minimum requirements for gradual implementation, having regard to the conditions and technical rules obtaining in each of the Member States.*

*Such directives shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings.*

3. *The provisions adopted pursuant to this Article shall not prevent any Member State from maintaining or introducing more stringent measures for the protection of working conditions compatible with this Treaty.'*

### *Article 22*

The EEC Treaty shall be supplemented by the following provisions:

### *'Article 118 B*

*The Commission shall endeavour to develop the dialogue between management and labour at European level which could, if the two sides consider it desirable, lead to relations based on agreement.'*

## **Subsection IV – Economic and social cohesion**

### *Article 23*

A Title V shall be added to Part Three of the EEC Treaty, reading as follows:

*'Title V  
Economic and social cohesion*

### *Article 130 A*

*In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion.*

*In particular the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions.*

#### Article 130 B

Member States shall conduct their economic policies, and shall coordinate them, in such a way as, in addition, to attain the objectives set out in Article 130 A. The implementation of the common policies and of the internal market shall take into account the objectives set out in Article 130 A and in Article 130 C and shall contribute to their achievement. The Community shall support the achievement of these objectives by the action it takes through the structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund), the European Investment Bank and the other existing financial instruments.

#### Article 130 C

The European Regional Development fund is intended to help redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.

#### Article 130 D

Once the Single European Act enters into force the Commission shall submit a comprehensive proposal to the Council, the purpose of which will be to make such amendments to the structure and operational rules of the existing structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section, European Social Fund, European Regional Development Fund) as are necessary to clarify and rationalize their tasks in order to contribute to the achievement of the objectives set out in Article 130 A and Article 130 C, to increase their efficiency and to coordinate their activities between themselves and with the operations of the existing financial instruments. The Council shall act unanimously on this proposal within a period of one year, after consulting the European Parliament and the Economic and Social Committee.

#### Article 130 E

After adoption of the decision referred to in Article 130 D, implementing decisions relating to the European Regional Development Fund shall be taken by the Council, acting by a qualified majority on a proposal from the Commission and in cooperation with the European Parliament.

With regard to the European Agricultural Guidance and Guarantee fund, Guidance Section and the European Social Fund, Articles 43, 126 and 127 remain applicable respectively.

#### Subsection V – Research and technological development

#### Article 24

A Title VI shall be added to Part Three of the EEC Treaty, reading as follows:

#### 'Title VI

#### Research and technological development

#### Article 130 F

1. The Community's aim shall be to strengthen the scientific and technological basis of European industry and to encourage it to become more competitive at international level.

2. In order to achieve this, it shall encourage undertakings including small and medium-sized undertakings, research centres and universities in their research and technological development activities; it shall support their efforts to cooperate with one another, aiming, in particular, at enabling undertakings to exploit the Community's internal market potential to the full, in particular through the opening up of national public contracts, the definition of common standards and the removal of legal and fiscal barriers to that cooperation.

3. In the achievement of these aims, particular account shall be taken of the connection between the common research and technological development effort, the establishment of the internal market and the implementation of common policies, particularly as regards competition and trade.

#### Article 130 G

In pursuing these objectives the Community shall carry out the following activities, complementing the activities carried out in the Member States:

(a) implementation of research, technological development and demonstration programmes, by promoting cooperation with undertakings, research centres and universities;

(b) promotion of cooperation with third countries and international organizations in the field of Community research, technological development, and demonstration;

(c) dissemination and optimization of the results of activities in Community research, technological development, and demonstration;

(d) stimulation of the training and mobility of researchers in the Community.

#### Article 130 H

Member States shall, in liaison with the Commission, coordinate among themselves the policies and programmes carried out at national level. In close contact with the Member States, the Commission may take any useful initiative to promote such coordination.

#### Article 130 I

1. The Community shall adopt a multiannual framework programme setting out all its activities. The framework programme shall lay down the scientific and technical objectives, define their respective priorities, set out the main lines of the activities envisaged and fix the amount deemed necessary, the detailed rules for financial participation by the Community in the programme as a whole and the breakdown of this amount between the various activities envisaged.

2. The framework programme may be adapted or supplemented, as the situation changes.

#### Article 130 K

The framework programme shall be implemented through specific programmes developed within each activity. Each specific programme shall define the detailed rules for implementing it, fix its duration and provide for the means deemed necessary.

The Council shall define the detailed arrangements for the dissemination of knowledge resulting from the specific programmes.

#### Article 130 L

In implementing the multiannual framework programme, supplementary programmes may be decided on involving the participation of certain Member

States only, which shall finance them subject to possible Community participation.

The Council shall adopt the rules applicable to supplementary programmes, particularly as regards the dissemination of knowledge and the access of other Member States.

#### Article 130 M

In implementing the multiannual framework programme, the Community may make provision, with the agreement of the Member States concerned, for participation in research and development programmes undertaken by several Member States, including participation in the structures created for the execution of those programmes.

#### Article 130 N

In implementing the multiannual framework programme, the Community may make provision for cooperation in Community research, technological development and demonstration with third countries or international organizations.

The detailed arrangements for such cooperation may be the subject of international agreements between the Community and the third parties concerned which shall be negotiated and concluded in accordance with Article 228.

#### Article 130 O

The Community may set up joint undertakings or any other structure necessary for the efficient execution of programmes of Community research, technological development and demonstration.

#### Article 130 P

1. The detailed arrangements for financing each programme, including any Community contribution, shall be established at the time of the adoption of the programme.

2. The amount of the Community's annual contribution shall be laid down under the budgetary procedure, without prejudice to other possible methods of Community financing. The estimated cost of the specific programmes must not in aggregate exceed the financial provision in the framework programme.

#### Article 130 Q

1. The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, adopt the provisions referred to in Articles 130 I and 130 O.

2. The Council shall, acting by a qualified majority on a proposal from the Commission, after consulting the Economic and Social Committee, and in cooperation with the European Parliament, adopt the provisions referred to in Articles 130 K, 130 L, 130 M, 130 N and 130 P(1). The adoption of these supplementary programmes shall also require the agreement of the Member States concerned.'

#### Subsection VI – Environment

##### Article 25

A Title VII shall be added to Part Three of the EEC Treaty, reading as follows:

##### 'Title VII Environment

##### Article 130 R

1. Action by the Community relating to the environment shall have the following objectives:

- (i) to preserve, protect and improve the quality of the environment;
- (ii) to contribute towards protecting human health;
- (iii) to ensure a prudent and rational utilization of natural resources.

2. Action by the Community relating to the environment shall be based on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source, and that the polluter should pay. Environmental protection requirements shall be a component of the Community's other policies.

3. In preparing its action relating to the environment, the Community shall take account of:

- (i) available scientific and technical data;

(ii) environmental conditions in the various regions of the Community;

(iii) the potential benefits and costs of action or of lack of action;

(iv) the economic and social development of the Community as a whole and the balanced development of its regions.

4. The Community shall take action relating to the environment to the extent to which the objectives referred to in paragraph 1 can be attained better at Community level than at the level of the individual Member States. Without prejudice to certain measures of a Community nature, the Member States shall finance and implement the other measures.

5. Within their respective spheres of competence, the Community and the Member States shall cooperate with third countries and with the relevant international organizations. The arrangements for Community cooperation may be the subject of agreements between the Community and the third parties concerned, which shall be negotiated and concluded in accordance with Article 228.

The previous paragraph shall be without prejudice to Member States' competence to negotiate in international bodies and to conclude international agreements.

##### Article 130 S

The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, shall decide what action is to be taken by the Community.

The Council shall, under the conditions laid down in the preceding subparagraph, define those matters on which decisions are to be taken by a qualified majority.

##### Article 130 T

The protective measures adopted in common pursuant to Article 130 S shall not prevent any Member State from maintaining or introducing more stringent protective measures compatible with this Treaty.'

### Chapter III

## Provisions amending the Treaty establishing the European Atomic Energy Community

### Article 26

The EAEC Treaty shall be supplemented by the following provisions:

#### 'Article 140 A

1. *At the request of the Court of Justice and after consulting the Commission and the European Parliament, the Council may, acting unanimously, attach to the Court of Justice a court with jurisdiction to hear and determine at first instance, subject to a right of appeal to the Court of Justice on points of law only and in accordance with the conditions laid down by the Statute, certain classes of action or proceeding brought by natural or legal persons. That court shall not be competent to hear and determine actions brought by Member States or by Community institutions or questions referred for a preliminary ruling under Article 150.*

2. *The Council, following the procedure laid down in paragraph 1, shall determine the composition of that court and adopt the necessary adjustments and additional provisions to the Statute of the Court of Justice. Unless the Council decides otherwise, the provisions of this Treaty relating to the Court of Justice, in particular the provisions of the Protocol on the Statute of the Court of Justice, shall apply to that court.*

3. *The members of that court shall be chosen from persons whose independence is beyond doubt and who possess the ability required for appointment to judicial office; they shall be appointed by common accord of the Governments of the Member States for a term of six years. The membership shall be partially renewed every three years. Retiring members shall be eligible for reappointment.*

4. *That court shall establish its rules of procedure in agreement with the Court of Justice. Those rules shall require the unanimous approval of the Council.'*

### Article 27

A second paragraph shall be inserted in Article 160 of the EAEC Treaty, worded as follows:

*'The Council may, acting unanimously at the request of the Court of Justice and after consulting the Commission and the European Parliament, amend the provisions of Title III of the Statute.'*

### Chapter IV

## General provisions

### Article 28

The provisions of this Act shall be without prejudice to the provisions of the Instruments of Accession of the Kingdom of Spain and the Portuguese Republic to the European Communities.

### Article 29

In Article 4(2) of the Council Decision 85/257/EEC, Euratom of 7 May 1985 on the Communities' system of own resources, the words 'the level and scale of funding of which will be fixed pursuant to a decision of the Council acting unanimously' shall be replaced by the words 'the level and scale of funding of which shall be fixed pursuant to a decision of the Council acting by a qualified majority after obtaining the agreement of the Member States concerned.'

This amendment shall not affect the legal nature of the aforementioned Decision.

### TITLE III

## Provisions on European cooperation in the sphere of foreign policy

### Article 30

European Cooperation in the sphere of foreign policy shall be governed by the following provisions:

1. The High Contracting Parties, being members of the European Communities, shall endeavour jointly to formulate and implement a European foreign policy.

2. (a) The High Contracting Parties undertake to inform and consult each other on any foreign policy matters of general interest so as to ensure that their combined influence is exercised as effectively as possible through coordination, the convergence of their positions and the implementation of joint action.

(b) Consultations shall take place before the High Contracting Parties decide on their final position.

(c) In adopting its positions and in its national measures each High Contracting Party shall take full account of the positions of the other partners and shall give due consideration to the desirability of adopting and implementing common European positions.

In order to increase their capacity for joint action in the foreign policy field, the High Contracting Parties shall ensure that common principles and objectives are gradually developed and defined.

The determination of common positions shall constitute a point of reference for the policies of the High Contracting Parties.

(d) The High Contracting Parties shall endeavour to avoid any action or position which impairs their effectiveness as a cohesive force in international relations or within international organizations.

3. (a) The Ministers for Foreign Affairs and a member of the Commission shall meet at least four times a year within the framework of European Political Cooperation. They may also discuss foreign policy matters within the framework of Political

Cooperation on the occasion of meetings of the Council of the European Communities.

(b) The Commission shall be fully associated with the proceedings of Political Cooperation.

(c) In order to ensure the swift adoption of common positions and the implementation of joint action, the High Contracting Parties shall, as far as possible, refrain from impeding the formation of a consensus and the joint action which this could produce.

4. The High Contracting Parties shall ensure that the European Parliament is closely associated with European Political Cooperation. To that end the Presidency shall regularly inform the European Parliament of the foreign policy issues which are being examined within the framework of Political Cooperation and shall ensure that the views of the European Parliament are duly taken into consideration.

5. The external policies of the European Community and the policies agreed in European Political Cooperation must be consistent.

The Presidency and the Commission, each within its own sphere of competence, shall have special responsibility for ensuring that such consistency is sought and maintained.

6. (a) The High Contracting Parties consider that closer cooperation on questions of European security would contribute in an essential way to the development of a European identity in external policy matters. They are ready to coordinate their positions more closely on the political and economic aspects of security.

(b) The High Contracting Parties are determined to maintain the technological and industrial conditions necessary for their security. They shall work to that end both at national level and, where appropriate, within the framework of the competent institutions and bodies.

(c) Nothing in this Title shall impede closer cooperation in the field of security between certain of the High Contracting Parties within the framework of the Western European Union or the Atlantic Alliance.

7. (a) In international institutions and at international conferences which they attend, the High Contracting Parties shall endeavour to adopt common positions on the subjects covered by this Title.

(b) In international institutions and at international conferences in which not all the High Contracting Parties participate, those who do participate shall take full account of positions agreed in European Political Cooperation.

8. The High Contracting Parties shall organize a political dialogue with third countries and regional groupings whenever they deem it necessary.

9. The High Contracting Parties and the Commission, through mutual assistance and information, shall intensify cooperation between their representations accredited to third countries and to international organizations.

10. (a) The Presidency of European Political Cooperation shall be held by the High Contracting Party which holds the Presidency of the Council of the European Communities.

(b) The Presidency shall be responsible for initiating action and coordinating and representing the positions of the Member States in relations with third countries in respect of European Political Cooperation activities. It shall also be responsible for the management of Political Cooperation and in particular for drawing up the timetable of meetings and for convening and organizing meetings.

(c) The Political Directors shall meet regularly in the Political Committee in order to give the ne-

cessary impetus, maintain the continuity of European Political Cooperation and prepare Ministers' discussions.

(d) The Political Committee or, if necessary, a ministerial meeting shall convene within forty-eight hours at the request of at least three Member States.

(e) The European Correspondents' Group shall be responsible, under the direction of the Political Committee, for monitoring the implementation of European Political Cooperation and for studying general organizational problems.

(f) Working groups shall meet as directed by the Political Committee.

(g) A Secretariat based in Brussels shall assist the Presidency in preparing and implementing the activities of European Political Cooperation and in administrative matters. It shall carry out its duties under the authority of the Presidency.

11. As regards privileges and immunities, the members of the European Political Cooperation Secretariat shall be treated in the same way as members of the diplomatic missions of the High Contracting Parties based in the same place as the Secretariat.

12. Five years after the entry into force of this Act the High Contracting Parties shall examine whether any revision of Title III is required.

## General and final provisions

### *Article 31*

The provisions of the Treaty establishing the European Coal and Steel Community, the Treaty establishing the European Economic Community and the Treaty establishing the European Atomic Energy Community concerning the powers of the Court of Justice of the European Communities and the exercise of those powers shall apply only to the provisions of Title II and to Article 32; they shall apply to those provisions under the same conditions as for the provisions of the said Treaties.

### *Article 32*

Subject to Article 3(1), to Title II and to Article 31, nothing in this Act shall affect the Treaties establishing the European Communities or any subsequent Treaties and Acts modifying or supplementing them.

### *Article 33*

1. This Act will be ratified by the High Contracting Parties in accordance with their respective constitutional requirements. The instruments of ratification will be deposited with the Government of the Italian Republic.

2. This Act will enter into force on the first day of the month following that in which the instrument of ratification is deposited of the last Signatory State to fulfil that formality.

### *Article 34*

This Act, drawn up in a single original in the Danish, Dutch, English, French, German, Greek, Irish, Italian, Portuguese and Spanish languages, the texts in each of these languages being equally authentic, will be deposited in the archives of the Government of the Italian Republic, which will remit a certified copy to each of the Governments of the other Signatory States.

*In witness whereof, the Plenipotentiaries have signed this Act.*

Done at Luxembourg, 17 February 1986, and at The Hague, 28 February 1986.



**Final Act**



*The Conference of the Representatives of the Governments of the Member States convened at Luxembourg on 9 September 1985,*

*which carried on its discussions in Luxembourg and Brussels and which met at the end thereof in Luxembourg on 17 February 1986 and in The Hague on 28 February 1986, has adopted the following text*

## I

### Single European Act

## II

At the time of signing this text, the Conference adopted the declarations listed hereinafter and annexed to this Final Act:

1. Declaration on the powers of implementation of the Commission
2. Declaration on the Court of Justice
3. Declaration on Article 8 A of the EEC Treaty
4. Declaration on Article 100 A of the EEC Treaty
5. Declaration on Article 100 B of the EEC Treaty
6. General Declaration on Articles 13 to 19 of the Single European Act
7. Declaration on Article 118A(2) of the EEC Treaty
8. Declaration on Article 130 D of the EEC Treaty
9. Declaration on Article 130 R of the EEC Treaty
10. Declaration by the High Contracting Parties on Title III of the Single European Act
11. Declaration on Article 30(10)(9) of the Single European Act.

The Conference also notes the declarations listed hereinafter and annexed to this Final Act:

1. Declaration by the Presidency on the time limit within which the Council will give its opinion following a first reading (Article 149(2) of the EEC Treaty)
2. Political Declaration by the Governments of the Member States on the free movement of persons
3. Declaration by the Government of the Hellenic Republic on Article 8 A of the EEC Treaty
4. Declaration by the Commission on Article 28 of the EEC Treaty
5. Declaration by the Government of Ireland on Article 57(2) of the EEC Treaty
6. Declaration by the Government of the Portuguese Republic on Articles 59, second paragraph, and 84 of the EEC treaty
7. Declaration by the Government of the Kingdom of Denmark on Article 100A of the EEC Treaty
8. Declaration by the Presidency and the Commission on the monetary capacity of the Community
9. Declaration by the Government of the Kingdom of Denmark on European Political Cooperation.

#### **Declaration on the powers of implementation of the Commission**

The Conference asks the Community authorities to adopt, before the Act enters into force, the principles and rules on the basis of which the Commission's powers of implementation will be defined in each case.

In this connection the Conference requests the Council to give the Advisory Committee procedure in particular a predominant place in the interests of speed and efficiency in the decision-making process, for the exercise of the powers of implementation conferred on the Commission within the field of Article 100 A of the EEC Treaty.

#### **Declaration on the Court of Justice**

The Conference agrees that the provisions of Article 32d(1) of the ECSC Treaty, Article 168 A(1) of the EEC Treaty and Article 140 A(1) of the EAEC Treaty do no prejudice any conferral

of judicial competence likely to be provided for in the context of agreements concluded between the Member States.

#### **Declaration on Article 8 A of the EEC Treaty**

The Conference wishes by means of the provisions in Article 8 A to express its firm political will to take before 1 January 1993 the decisions necessary to complete the internal market defined in those provisions, and more particularly the decisions necessary to implement the Commission's programme described in the White Paper on the Internal Market.

Setting the date of 31 December 1992 does not create an automatic legal effect.

#### **Declaration on Article 100 A of the EEC Treaty**

In its proposals pursuant to Article 100 A(1) the Commission shall give precedence to the use of the instrument of a directive if harmonization involves the amendment of legislative provisions in one or more Member States.

#### **Declaration on Article 100 B of the EEC Treaty**

The Conference considers that, since Article 8 C of the EEC Treaty is of general application, it also applies to the proposals which the Commission is required to make under Article 100 B of that Treaty.

#### **General declaration on Articles 13 to 19 of the Single European Act**

Nothing in these provisions shall affect the right of Member States to take such measures as they consider necessary for the purpose of controlling immigration from third countries, and to combat terrorism, crime, the traffic in drugs and illicit trading in works of art and antiques.

#### **Declaration on Article 118 A(2) of the EEC Treaty**

The Conference notes that in the discussions on Article 118 A(2) of the EEC Treaty it was agreed

that the Community does not intend, in laying down minimum requirements for the protection of the safety and health of employees, to discriminate in a manner unjustified by the circumstances against employees in small and medium-sized undertakings.

#### **Declaration on Article 130 D of the EEC Treaty**

In this context the Conference refers to the conclusions of the European Council in Brussels in March 1984, which read as follows:

'The financial resources allocated to aid from the Funds, having regard to the IMPs, will be significantly increased in real terms within the limits of financing possibilities.'

#### **Declaration on Article 130 R of the EEC Treaty:**

##### **Re paragraph 1, third indent**

The Conference confirms that the Community's activities in the sphere of the environment may not interfere with national policies regarding the exploitation of energy resources.

##### **Re paragraph 5, second subparagraph**

The Conference considers that the provisions of Article 130 R(5), second subparagraph do not affect the principles resulting from the judgment handed down by the Court of Justice in the *AETR* case.

#### **Declaration by the High Contracting Parties on Title III of the Single European Act**

The High Contracting Parties to Title III on European Political Cooperation reaffirm their openness to other European nations which share the same ideals and objectives. They agree in particular to strengthen their links with the member countries of the Council of Europe and with other democratic European countries with which they have friendly relations and close cooperation.

#### **Declaration on Article 30(10)(g)**

The Conference considers that the provisions of Article 30(10)(g) do not affect the Decision of the

**Representatives of the Governments of the Member States of 8 April 1965 on the provisional location of certain institutions and departments of the Communities.**

**Declaration by the Presidency on the time limit within which the Council will give its opinion following a first reading (Article 149(2) of the EEC Treaty)**

As regards the declaration by the European Council in Milan, to the effect that the Council must seek ways of improving its decision-making procedures, the Presidency states its intention of completing the work in question as soon as possible.

**Political declaration by the Governments of the Member States on the free movement of persons**

In order to promote the free movement of persons, the Member States shall cooperate, without prejudice to the powers of the Community, in particular as regards the entry, movement and residence of nationals of third countries. They shall also cooperate in the combating of terrorism, crime, the traffic in drugs and illicit trading in works of art and antiques.

**Declaration by the Government of the Hellenic Republic on Article 8 A of the EEC Treaty**

Greece considers that the development of Community policies and actions, and the adoption of measures on the basis of Articles 70(1) and 84, must both take place in such a way as not to harm sensitive sectors of Member States' economies.

**Declaration by the Commission on Article 28 of the EEC Treaty**

With regard to its own internal procedures, the Commission will ensure that the changes resulting from the amendment of Article 28 will not lead to delays in responding to urgent requests for the alteration or suspension of Common Customs Tariff duties.

**Declaration by the Government of Ireland on Article 57(2) of the EEC Treaty**

Ireland, in confirming its agreement to qualified majority voting under Article 57(2), wishes to recall that the insurance industry in Ireland is a particularly sensitive one and that special arrangements have had to be made by the Government of Ireland for the protection of insurance-policy holders and third parties. In relation to harmonization of legislation on insurance, the Government of Ireland would expect to be able to rely on a sympathetic attitude from the Commission and from the other Member States of the Community should Ireland later find itself in a situation where the Government of Ireland considers it necessary to have special provision made for the position of the industry in Ireland.

**Declaration by the Government of the Portuguese Republic on Articles 59, second paragraph, and 84 of the EEC Treaty**

Portugal considers that as the change from unanimous to qualified majority voting in Articles 59, second paragraph, and 84 was not contemplated in the negotiations for the accession of Portugal to the Community and substantially alters the Community *acquis*, it must not damage sensitive and vital sectors of the Portuguese economy, and, wherever necessary, appropriate and specific transitional measures should be introduced to forestall the adverse consequences that could ensue for these sectors.

**Declaration by the Government of the Kingdom of Denmark on Article 100 A of the EEC Treaty**

The Danish Government notes that in cases where a Member State is of the opinion that measures adopted under Article 100 A do not safeguard higher requirements concerning the working environment, the protection of the environment or the needs referred to in Article 36, the provisions of Article 100 A(4) guarantee that the Member State in question can apply national provisions. Such national provisions are to be taken to fulfil the abovementioned aim and may not entail hidden protectionism.

**Declaration by the Presidency and the Commission on the monetary capacity of the Community**

The Presidency and the Commission consider that the provisions inserted in the EEC Treaty with reference to the Community's monetary capacity are without prejudice to the possibility of further development within the framework of the existing powers.

**Declaration by the Government of the Kingdom of Denmark on European Political Cooperation**

The Danish Government states that the conclusion of Title III on European Political Cooperation in the sphere of foreign policy does not affect Denmark's participation in Nordic cooperation in the sphere of foreign policy.

European Communities - Commission

**Single European Act**

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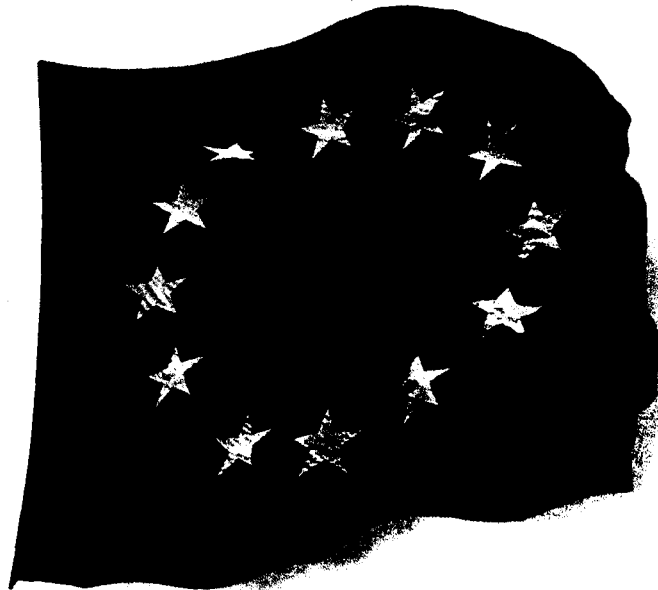
#### **The Single Act:**

**A new frontier**

#### **Programme of the Commission for 1987**

**Statement by Jacques Delors,  
President of the Commission,  
to the European Parliament**

**Strasbourg, 18 February 1987**





Bulletin  
of the European Communities

Supplement 1/87

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**The Single Act: A new frontier for Europe**

## Introduction

The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion. The realization of these two objectives will also respond to the hopes and needs of the countries which have just joined and which rightly expect that their involvement in the Community should underpin their development and help raise their living standards through a combination of their own efforts and support from their partners.

In order to succeed in its new responsibilities, the Community must first complete the reforms it has started, especially since 1984, with the aim of adapting its old policies to the new conditions: the reform of the common agricultural policy to take account of new production and trade conditions, the reform of the structural funds to make of them instruments of economic development, and the reform of the financing rules to ensure a budgetary discipline as rigorous as that which the Member States impose upon themselves.

Once these reforms have been implemented, the Community will have to have the resources needed to be in a position to achieve the objectives of the Single Act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous economic growth trends, creating more jobs.

For this reason, the Commission feels that it should set out the conditions that must be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament, and these have a medium-term context, looking towards 1992 as the date by which the large market, without internal frontiers, will be complete.

## I — The conditions for success

Before examining the reforms already under way or that have to be undertaken in order to implement the Single Act, it would be useful to review briefly the prospects before us and the conditions governing success. It is hardly necessary to point out that this 'new frontier' entails the simultaneous implementation of the six policies highlighted by the Single European Act:<sup>1</sup> the establishment of a large market without internal frontiers, economic and social cohesion (in other words greater convergence as regards both the methods used and the results obtained), a common policy for scientific and technological development, the strengthening of the European Monetary System, the emergence of a European social dimension and coordinated action relating to the environment. It is easy to show that these policies have to go hand-in-hand if the single economic area is really to be achieved, which is the only outcome compatible with the overriding idea of European Union, as formally restated in the preamble to the Act. And our efforts will never be crowned with success unless we also have a common, strong and coherent external policy.

### A — A common economic area

In political terms, this is not a new idea. Article 2 of the Treaty of Rome provides that the Community should promote 'throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability [and] an accelerated raising of the standard of living'.

In economic terms, it is self-evident that a large market without internal frontiers could not be completed or operate properly unless the Community had instruments enabling it to avoid imbalances interfering with competitiveness and inhibiting the growth of the Community as a whole.

Let us be quite clear. This does not mean transferring all powers in the fields of economic and social policy to the European level. But experience has shown that it is impossible to achieve freedom of movement of persons, goods, services and capital without a common exchange-rate discipline and without increased cooperation between national policies. The recent difficulties of the European Monetary System are proof enough of this, if proof were needed.

In other words, the ship of Europe needs a helmsman. The large market without internal frontiers cannot, on its own, properly be responsible for the three main functions of economic policy: the quest for greater stability (the fight against inflation and external imbalances), the optimum allocation of resources to obtain the benefit of economies of scale and to stimulate innovation and competitiveness, and the balanced distribution of wealth allowing for individual merit.

Thus it is, for example, that the Community will this year take the final step as regards the liberalization of capital movements. The implementation of this step implies strengthening the European Monetary System in such a way as to enable capital markets to be regulated and imbalances to be corrected. Likewise, it will be necessary at the same time to ensure, for the purpose of fair competition, that the basic rules regarding banking legislation and supervisory standards are harmonized. Lastly, national monetary policies should be mutually compatible so that this common financial area is as stable as possible.

A further example drawn from past experience: the economic integration brought about by the large market will entail considerable economic benefits. However, all regions of the Community ought to be able to share progressively in these benefits. It is no easy matter to bring the fruits of progress to all, whether as regards technical progress, the effect of competition in bringing cheaper and better quality goods and even as regards the financial innovations that are essential for investment and development. It is for this reason that the 'transparency' of the large market should be facilitated by supporting the efforts of regions with ill-adapted structures and those in the throes of painful restructuring. Community policies can be of assistance to these regions, which in no way absolves them from assuming their own responsibilities and from making their own effort. The Commission has conceived the 'structural' policies in this spirit, firmly resolved that they should have a genuine economic impact and that they should not consist merely of budget transfers, which would be far too costly and inadequate as well.

To put it plainly, Community instruments must cease to be seen as mere elements in a system of offsetting payments. Their role is the central one of bringing about the convergence of national economies alongside and in harmony with national and regional policies.

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<sup>1</sup> Supplement 2/86 — Bull. EC.

Community action must be more closely related to real economic circumstances and there must be closer cooperation between national policies: it is on the basis of these two conditions that we can hope to reap all the benefits—for all concerned—of a large market without internal frontiers. But in striking to the heart of the problem, i.e. by leaving the fullest scope for decentralized measures, the 'new frontier Community' has greater need of selective incentives and schemes than of any further proliferation of intervention and regulations. Common sense dictates and the large market demands that it be so.

If Community action and decentralization are to be effectively reconciled, a number of adjustments are proposed. These include:

(i) as regards the large market, the most important measures should be selected to ensure that the necessary impetus is provided, such as the liberalization of public contracts and capital movements. The principle of mutual recognition of standards and rules should be adopted in the place of an endless and fruitless search for agreement on common standards and rules;

(ii) as regards the control of national aid schemes and the objective of cohesion, the necessary steps should be taken to ensure that the conditions for fair competition are met, and in this context to take account of the level of development of the regions to show the flexibility necessary to take account of the evaluation of the local context;

(iii) the concept of 'programme' should replace, for the most part, that of 'projects'. Rather than being responsible for the management of thousands of dossiers, the Commission would fix its attention, as is the case with the integrated Mediterranean programmes,<sup>1</sup> on supplementing the efforts of the multiannual programmes drawn up by backward regions and regions undergoing restructuring;

(iv) social policy should be concentrated on one or two main priorities and the Community should now avoid a wide scatter of individual schemes born of a plethora of objectives and criteria. But these priorities should become the building blocks of Europe and effective sources of innovation, and should be perceived as such by their beneficiaries and by public opinion. What is the central issue, the most harrowing problem that faces us?—unemployment. The Community must show through the implementation of two major policies that it is able to help solve this problem; on the one hand, through a specific policy aimed at helping young people to find their first job and, on the other hand, by

taking measures to tackle actively long-term unemployment.

## B — More vigorous economic growth

The Commission is not afraid of disequilibria which the introduction of the large market could entail. But it has been studying the Community's short history—with its successes, but also its failures, with its ambitious ideas, but also the obstacles which have hampered their implementation—and its conclusion must be that a background of weak economic growth has severely inhibited progress. This is one of the reasons why a cooperative growth and employment strategy was proposed in 1985 enabling more rapid development of activity and employment to be achieved throughout the Community, through the specific contributions of each country.

This strategy is still relevant, given the rather disappointing results achieved by our economies, despite the stimuli from the fall in oil prices, and, initially, the decline in the dollar. The strategy is needed all the more because it would make it possible, as a result of the additional wealth created, to provide substantial assistance to each country in carrying through the necessary adjustment to the large market and the new world economic pattern.

This is not a question of legislation, although the Council's decision of 18 February 1974 on convergence will have to be reviewed.<sup>2</sup> This decision, it must be recognized, has not lived up to the expectations of its authors. Indeed, it has got bogged down in routine and sterile procedures. What is really at stake is political will and economic imagination. Are the member countries really determined to go beyond their short-term view of the situation and outdated concept of independence with regard to economic and financial decisions? Will they be reasonable enough to discern and accept the network of interdependence of which their own activities form part and will they be in a position to turn this situation to best account by a sort of 'positive sum' game?

In addition, the slowdown in world trade over the past decade makes it more necessary than ever to exploit the internal potential for growth within the Community. This is what is at stake in the effort to achieve completion of the large internal market.

<sup>1</sup> OJ L 197, 27.7.1985; Bull. EC 7/8-1985, point 2.1.106.

<sup>2</sup> OJ L 63, 5.3.1974.

### **C — Greater effectiveness on the part of the institutions**

The word 'routine' was mentioned in the context of the 'convergence of economic policies'. This word can be applied to Community life in all its aspects, Europe takes the wrong decisions too late and is rarely able to implement effectively what decisions it takes. And this has spawned a paralysing and over-interventionist process of bureaucratization.

The Single Act sets out to remedy these shortcomings. Even so, the will must be found to implement it in the right spirit. Failing this, Europe will never recover from its congenital disease: a succession of good resolutions that sink into the sands of long drawn-out and sometimes inconclusive deliberations. In order to escape from the morass, the Council should make full use of qualified-majority voting, the Commission should at last be given the powers that it has been denied so far and Parliament should assume full responsibility as co-legislator in the cooperation procedure.

Indeed, the true interests of Europe demand that one should go even further in improving the effectiveness of the institutional triangle composed of the Council, Parliament and the Commission. This is particularly true as regards the budget, if revenue and expenditure are to be brought under greater control, thereby fulfilling the objectives of the Single Act whilst ensuring that the European taxpayer's money is put to the best possible use. The Commission is making a number of proposals as regards budgetary discipline which should not reactivate the institutional squabble. In other words, it does not wish, for the moment, to add to the difficulties of 'le grand rendez-vous' on the implementation of the Single Act, but it is convinced that the day will come when the provisions of the Treaty will have to be revised to enable the Commission, in the manner of the 'cooperation' procedure, to assume fully its initiative-making role and to involve the Council and Parliament as equal partners at every stage of the budget procedure.

However, the Council should, without delay, tackle its own internal workings in order to put right what has to be recognized as the disintegration of the decision-making process. To return to the question of the budget—there is at present no arbitration body within the Council, which is one of the reasons for the failure of the budgetary discipline procedure adopted at Fontainebleau in June 1984.<sup>1</sup> Each Council is at liberty to adopt its own positions and its own measures. The Agricultural Council has a

relatively free hand as regards its policy and the expenditure that results therefrom. The Council of Ministers for Economic Affairs and Finance, for its part, determines the maximum level of expenditure... but it is the Budget Council that is responsible for actual implementation in an acrimonious and often not very dignified quarrel with Parliament. No political entity can operate properly under such conditions.

### **D — Strengthened budgetary discipline**

These last considerations lead on directly to what is for the Commission another major condition to be met if the Single Act is to be properly implemented: strengthened budgetary discipline.

At a time when, rightly or wrongly, the member countries are keen to reduce their budgetary expenditure and cut public deficits and, in some cases, to lower taxes, it is no easy task to persuade public opinion that the Community needs more money. It is true that the EEC is growing fast and therefore needs practical policies to reach the new frontier proposed by the Single Act. It is true that the substitution effect is important — what is spent by the Community often represents sums saved from the national budgets. More than this, every single ECU which is well spent jointly by the Twelve can yield more than equivalent national expenditure. It can easily be shown that this is the case at present for the common agricultural policy and for research, and will be the case in future for transport and major infrastructures.

These are points which must be emphasized, for much of the unjustified criticism of the Community budget is born of a curious attitude held by some observers who are all too apt to treat Community finance as if their countries were not in fact members of the Twelve.

The inconsistency would be even more obvious if, having signed the Single Act, the authorities refused to allocate the resources to implement it!

But the Community — that is to say the Council, Parliament and the Commission — must, as a counterpart to acceptance of the new responsibilities conferred on the member countries under the Single Act, manage its budget in the spirit of the 'prudent citizen' and ensure the best possible use of the resources allocated to it. This will depend on the quality of the policies implement-

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<sup>1</sup> Bull. EC 6-1984, point 1.1.9.

ed, on their effective execution, and on a spirit of rigour, which must prevail everywhere.

By presenting this new plan for budgetary discipline, the Commission is drawing on the experience gained from 1985 to 1987 and correcting the defects of the present system: the disintegration — already noted — of the decision-making process; the lack of control over commitment appropriations and the difficulty in getting agricultural expenditure under control (while acknowledging, on this last point, the major role played by an entirely unpredictable external parameter: the extreme volatility of the dollar).

The new budgetary discipline is a sort of fiscal contract for the Community: the assurance that before 1992 the European tax charge will not exceed a ceiling fixed at 1.40% of the Community's gross 'national' product, the adoption of tighter rules concerning agricultural expenditure, and the optimum allocation of resources to the other policies which are essential to the success of the Single Act.

#### **E — A common and strong external economic policy**

The European Community is the world's leading trading power. As such, it is sometimes courted and sometimes criticized. Courtied, because it represents a formidable potential in terms of purchasing power and because it is in a position to play an even more important role in stimulating multilateral trade and commerce. Criticized, because other countries feel that it is not open enough to their products and because it has fully exploited its agricultural potential.

First and foremost, it must be underlined that the Community is, in fact, the most open trading unit in the world. Although the Commission believes that the Community must go further on the road to helping the developing countries, it

can only reject attacks from elsewhere. Especially from countries whose protectionism is sometimes not even disguised.

Of course, the Community's political position would be stronger if it could take promptly the initiative required to solve the problems of world currency disorder, the inefficient allocation of financial resources or the quite inadequate growth of world trade. But all hope should not be lost. The positions adopted at the outset of the Uruguay Round, the exemplary measures implemented under the Lomé III Convention or in connection with food aid, and the proposals for the adaptation of the roles played by the IMF and the World Bank are all points on the credit side of a Community acting with a proper sense of responsibility. But this is obviously not enough.

How are we to explain to our farmers that they must adapt to a world situation in which the excess of supply over demand is structural in character, if other agricultural powers are not making the same effort?

How are we to assert the need for technical progress to sharpen our competitive edge and boost employment, if we are incapable of meeting threats from elsewhere?

How are we to state effectively the case for better relations between the North and South if we haggle endlessly over a few tens of millions of ECU in trade advantages or aids for countries suffering the direst poverty?

One thing we have got to realize is this. There will be no tangible progress in European integration if the Community does not speak clearly to the outside world, with strength, courage and magnanimity. In fact, this is an aspect of Community life which is all too often neglected or even ignored. Let there be no mistake about it, the Community will prove its mettle, also, in the way it resists, now and in the future, the wrong kind of pressure, but yields to those in real need.

## II — Reforms needed

### A — A common agricultural policy adapted to the world context

Closely dovetailed into the rest of the economy, agriculture is, for the Community, a sector of fundamental economic and strategic importance, not only as a supplier of essential raw materials but also as a purchaser of a wide range of inputs. It is therefore vital for the Community that this industry should go forward on economically sound bases, so as to provide real prospects for those who depend on it directly or indirectly, and that the common agricultural policy (CAP) should allow for and adjust to change.

The factors which, in the early 1960s, led to the formulation of the CAP still hold good, as do its basic principles of Community preference, a single market and financial solidarity.

On the other hand the general economic context and the situation on agricultural markets have changed radically: growth has slowed, unemployment has increased, extraordinary progress in productivity and advances in biotechnology have led to surpluses on world markets, currencies are fluctuating and there are budget difficulties.

The Commission has, therefore, repeatedly and emphatically stressed the need for progressive efforts to bring about changes in agriculture in order to eliminate surpluses and check the steady increase in the budget burden to which they lead. This is all the more necessary as, given the present circumstances of structural imbalances between supply and demand, difficulties have emerged in reaching the desired objectives of stabilizing market prices and supporting farm incomes, even though the amount of money committed to this has been rising steadily.

Similar efforts have also had to be made in other major industries in the Community. This is essential if Europe is, in the long term, to maintain its competitive edge and thus its standard of living. This does not mean that we can ignore the special features of the agricultural sector—especially the fact that most farms are family enterprises and the role of farming in protecting the countryside. The Commission consequently intends to see that efforts are undertaken at the same time to help rural development.

It is therefore up to agriculture to join in the common effort which is vital for the future of all the countries of Europe and of which the

citizens of Europe will have to bear the consequences, whether it is successful or not.

In its previous communications, and especially the one made following the consultations for the 'Green Paper',<sup>1</sup> the Commission clearly indicated the approach it intends to adopt in seeking better balance on agricultural markets. This involves:

- (i) a restrictive pricing policy,
- (ii) more flexibility in guarantees and intervention mechanisms,
- (iii) a greater degree of producer co-responsibility, including recourse to quota systems.

If the Community cannot manage to give market prices a greater role in the interplay of supply and demand, the CAP will sink ever deeper into a morass of administrative measures and rules for the quantitative regulation of production. This will provoke resistance from consumers and the development of substitute products, and will in addition cut off agriculture from the potential for developing industrial and food outlets through exports.

The Community must continue to try to bring intervention back to its original role of short-term market adjustment. Intervention must no longer be seen as an artificial supplement to the market, automatic and permanent, ironing out all market effects and preventing any action to bring supply into line with demand.

Since 1985 a large number of proposals have been put to the Council and Parliament in pursuit of this approach. The decisions so far taken, in particular those of April and December 1986 on milk and beef,<sup>2</sup> have been in the right direction and have set in train the process of adjustment which is required. Through the disposal programme implemented since last year, which the financial decisions adopted by the Council on 9 and 10 February will make it possible to accelerate, stocks may be brought down to more acceptable levels.

Thus, in its proposals for future marketing years, the Commission intends to give clear signals to producers, by freezing or even reducing prices, in the light of the situation for each product concerned.

The Commission also intends to continue adjusting intervention mechanisms for the products where the major problems arise, especially by limiting buying-in to certain periods of the

<sup>1</sup> Bull. EC 12-1985, point 1.2.1 *et seq.*

<sup>2</sup> Bull. EC 12-1986, point 1.2.1 *et seq.*

year or, as recently proposed in the milk sector, by altering the arrangements when quantities delivered exceed certain limits. The Commission also intends to reinforce measures to guide production towards those qualities which the market really requires. The general aim is that farmer should gradually be induced to take greater responsibility for their choices of types of product and for finding unsubsidized outlets.

Particular attention will be paid this year to the oils and fats sectors, where the prospects for balance have been greatly modified by the enlargement of the Community to include Spain and Portugal. This sector is also affected by erratic developments on the world market due, at least in part, to monetary factors independent of agriculture. The Commission's proposals here will be aimed at stabilizing production, by means of definite quantitative objectives, and stabilizing consumer prices on the basis of the underlying trends on world markets over previous years. The Commission thus intends to see that the growing budget burden of this sector is shared fairly between producers, consumers and taxpayers.

The Commission also wishes to give all our agricultural regions the possibility of developing products in which there is a shortage, in order to contribute to more harmonious development of the different regions.

In order to promote the rationalization of the various CAP mechanisms and to improve their mutual consistency, the Commission also intends to propose changes to the agri-monetary system, in order to bring the 'green' currencies progressively into line with general monetary arrangements and also to prevent the elimination of monetary compensatory amounts (MCAs) stimulating inflation and, through an artificial increase in prices when expressed in national currency, offsetting some or even of the effect of the measures adopted at Community level.

In formulating its proposals the Commission is none the less aware that the changes required in the CAP will be brought to bear on an agricultural situation which, in a Community of Twelve, is extremely diverse. There are great differences in natural and structural conditions of production and in the impact of agriculture on socio-economic balances and on the environment. The measures taken will bite more in the case of those farms which are economically and structurally weaker. Their consequences will be of varying impact for society in general depending on certain regional characteristics.

The action the Community is to take must allow for these facts; at the same time it must also

avoid any tendency to sideslip into national or Community measures which may lead to unfair distortion of competition within a single market.

Over the last few years the Commission's proposals and the decisions adopted by the Council have differentiated measures to take account of the special situations of some farmers or some regions. For example, the milk levy has been varied. Aids have been introduced for small grain farmers, and the special features of certain regions or countries have been adopted as criteria in deciding on production quotas. In its proposals for the next few years the Commission intends to continue along these lines, ensuring that small farmers have a future.

It would be foolish to imagine, however, that this will solve all the problems arising in this area. In particular, such differentiation cannot go beyond the limits imposed by a policy of improving the allocation of resources in the light of the comparative advantages enjoyed by each country and region.

In order to achieve greater balance between the imperatives of the market and the need for solidarity, the Commission therefore takes the view that there must be, at Community level, a supplementary mechanism for supporting incomes. In addition, schemes operated by the member countries must be brought within the same framework. If restricted to economically weaker holdings, accounting for only a limited share of Community output, two-pronged action along these lines could well enable the socially unwelcome consequences of such a Community policy to be reduced. This could be a decisive factor in putting such a policy into effect and successfully completing it in the time available.

To this end the policy as regards national aids in agriculture will have to be supplemented by a strict framework for income supports, setting out precise limits at Community level. We must ensure that any national aid granted does not distort competition or have the effect of cancelling out the Community effort being made to achieve a balance between supply and demand. Account must also be taken of individual Member States' financial capacities, in order not to increase existing disparities.

In addition, regional measures—included in the three Community support programmes<sup>1</sup>—would complement existing instruments such as

<sup>1</sup> See what is said on 'structural' policies in the next chapter.



the compensatory allowance for mountain and hill and less-favoured areas.

The measures envisaged will, together, lead to more balanced Community action, with a better distribution between market support and income support. This should make such support fairer as between the different categories of farmers, thus making a considerable contribution to the Community's social and economic cohesion. It will also serve the need to make greater allowance, in the process of adjusting the farm sector, for constraints regarding the management of the countryside, the environment or the general economic development of outlying regions. It will entail better coordination between the different policies at Community level and with national measures in this sphere.

The Community economy is part and parcel of the world economy. This is true for all industries, and agriculture is no exception. The Community is the world's largest importer of farm products and its second largest exporter. The Community is not alone in facing a growing imbalance between supply and demand and ever larger stocks which it is difficult to dispose of. Only through concerted action with our partners can the Community hope to deal with the problem of erratic prices on world markets, aggravated by monetary factors which lie quite outside agriculture and therefore cannot be handled by agricultural policy measures alone.

The Community must therefore vigorously maintain its right to pursue and develop an agricultural policy meeting the requirements of economic efficiency, solidarity and management of the countryside. It is also entitled to ask for more consistent behaviour on the part of its trading partners. It must, however, also resist the lure of protectionism. The rate of growth of the Community economy is largely dependant on trends on world markets. Any approach ignoring this fact will be of little benefit, even from the point of view of the farming sector alone. There would inevitably be a reaction which would be harmful to our agriculture, whose future depends not only on European policy decisions but also on developments in the world at large.

## **B — Community policies with real economic impact**

It is not the purpose of the Community's structural policies merely to serve as compensatory devices. Together with national or regional poli-

cies, they should bring the weight of European solidarity to bear in encouraging greater competitiveness and more convergence between Member States in paving the way for the future. This is already the purpose of the current policy of scientific and technological development and it is what lies behind the reform of structural instruments and the new transport and environment policies.

### **A common policy for the development of science and technology**

In clearing away obstacles to the large internal market, the Community is providing opportunities internally, but it is also opening Europe to the outside world. Under these circumstances, 'to strengthen the scientific and technological basis of European industry and to encourage it to become more competitive at international level', as the Single Act states, will be a Community requirement of prime importance.

Brought together in a framework programme for research and technological cooperation, Community policies should concentrate on essentials, i.e. on measures which are sure to have a multiplier effect. Policies should thus aim to stimulate cooperation between undertakings and research institutes in different countries, to facilitate pooling of resources and the definition of common standards at the stage of pre-competitive research. Finally, these policies should encourage the mobility of academics and scientists.

### **Activities conducted through the structural Funds**

The Community's structural policies will in future pursue a limited number of simple, clear objectives. They stem from the Single Act and are expressed in terms of needs felt by European citizens. They illustrate the political determination of the Community to reinforce its economic and social cohesion:

- (i) achieving growth and adaptation in regional economies showing structural backwardness, so that they can be fully integrated into the Community area (Objective No 1);
- (ii) converting declining, sometimes devastated, industrial regions, by helping them to develop new activities (Objective No 2);
- (iii) combating long-term unemployment, which is now affecting all age groups of Europe's working population (Objective No 3);

(iv) integration into employment of young people, especially first jobs (Objective No 4);

(v) speeding up the adjustment of agricultural production structures and encouraging rural development in line with the European social model, with a view to the reform of the common agricultural policy (Objective No 5).

By giving priority to these five objectives, aids or loans for structural purposes will reach the threshold for effectiveness at Community level; they will serve to reinforce the macroeconomic growth policies required for cohesion. They will increase their effectiveness by facilitating the optimum allocation of resources, by preventing excessive disparities in growth rates between regions, and by fostering balanced distribution of saving at Community level. From these various viewpoints, the Community's structural policies form part of an ambitious macroeconomic growth strategy with an eye to 1992.

The Commission is proposing that the budget funds committed via the structural Funds to the achievement of these five objectives should be doubled in real terms by 1992. The resources deployed must be consistent with the stated aspirations, and in particular with the main objective of enabling the less-favoured regions to catch up.

#### **Enabling the less-developed regions to catch up is an objective of paramount importance**

Among the objectives selected, that of aiding regions which have fallen significantly behind in terms of structure to catch up is the real crux when it comes to cohesion, as the Community is nowadays more heterogeneous and therefore more vulnerable than before. Two figures are sufficient to indicate the extent of this change: before Spain and Portugal joined, one European in eight had an annual income 30% below the Community average—the figure now is one in five.

That is why the reform of the structural Funds entails a significant effort to concentrate Community budget funds in the least-favoured regions, i.e. all of Portugal, Ireland and Greece, some parts of Spain, the south of Italy, Northern Ireland and the French overseas departments.

The reform of the Community's structural instruments centres around two principal ideas.

Firstly, it is programmes which will constitute the central plank: the aim is to make sure that the Community's support for the Member States' efforts and initiatives is located at the

right level. As opposed to action through projects, programmes will combine the following advantages:

(i) they will associate effectively the specific intervention operations conducted by the various subsidy and loan facilities, each having its own responsibility and experience as regards regional development, employment policy and agricultural techniques;

(ii) they will lead to decentralization of Community action by giving maximum scope for local or regional initiatives, which are the most effective for investment and employment. Programmes will involve contracts between the Community, the Member States and the regions. They will involve joint preparation, monitoring and assessment, and they will thus lead to a fully-fledged partnership.

The same principles will hold good for the regions which are undergoing conversion, which will thus be able to draw on the technical assistance and financial solidarity of the Community. For this purpose it will be necessary to adopt a new approach to the structural Funds.

Eligibility for structural instruments will take two distinct forms, either on the basis of geographical criteria as regards the first two objectives, or irrespective of geography and open to all the Member States as regards the last three objectives, which relate to the policies on employment and rural development.

Thus Community aid will be able to adjust to different aims, some of which will be naturally limited at regional or local level while others will run throughout the Community.

These guidelines determine the new operating rules particular to each of the structural instruments.

#### **European Regional Development Fund (ERDF)**

The ERDF will be the main instrument for achieving the first two objectives. There will have to be a significant increase in its capacity to intervene, together with the other structural instruments. The reform of the ERDF is the continuation of the movement which started in 1984 and takes advantage of experience gained, particularly in the implementation of the integrated Mediterranean programmes.

To achieve the objective of helping regions lagging behind structurally to catch up, ERDF funds will be concentrated on them to a greater

extent. The amounts set aside for those regions may be up to 80% of the total.

As regards the second objective, the ERDF will represent a 'European presence' in depressed areas particularly affected by the decline of a dominant economic sector.

ERDF action will come within the framework of Community programmes providing backing for development or conversion. Such programmes, which will be multiannual, will be based on proposals initially put forward by the national or regional authorities at the relevant geographical level. The experiment in regional development programmes stemming from the reform of the ERDF in June 1984 will thus be continued and extended.<sup>1</sup>

Part of the Fund's resources will continue to be set aside for Commission initiatives. It will be used in particular to develop technical assistance, foster cooperation between regions and promote European regional development across national frontiers. It will also enable funds to be allocated harmoniously, offering recipients the necessary guarantees of fairness and providing the vital incentive for quality and effort.

The ERDF's rates of contribution to expenditure for investments in the poorest regions will be raised, in compliance with the general rules on competition and without affecting the natural complementarity between loans and subsidies.

As regards the control of aids and the objective of cohesion, the Commission will ensure that the conditions for fair competition are met and, in this context, take account of the level of development of the regions and show the flexibility necessary to take account of the evaluation of the local context.

#### European Social Fund (ESF)

One side of the ESF's activities will follow regional eligibility rules, and thus contribute towards objectives 1 and 2 in the framework of integrated programmes.

The second side, of a horizontal nature, will give priority to two main aims: combating long-term unemployment (Objective No 3) and integration into employment of young people, especially first jobs (Objective No 4).

Community action in these two fields will be formulated at the stage when the employment policies of the Member States are being drawn up and will take place in the framework of programmes. The allocation of funds will take

maximum account of the seriousness of problems of unemployment and the employment of young people. Quality criteria will be defined precisely when the guidelines of the ESF are laid down each year. Innovations will be encouraged and, if successful, applied throughout the Community.

#### EAGGF Guidance Section

The existing regulations are to be amended around the two main aims covered by Objective No 5, namely supporting rural development and encouraging the adaptation and diversification of agricultural production throughout the regions most affected by the reform of the common agricultural policy.

Guidance Section management rules will be amended to facilitate its application within programmes also involving the other structural Funds.

The Guidance Section will thus make a direct contribution to the aim of enabling regions with a structural lag to catch up. In particular, aid for investment in processing and marketing will be redirected to these regions; Guidance Section aid for infrastructure projects (except irrigation) will be transferred to the ERDF.

The idea of a limit on expenditure over a five-year period will be replaced by an organizational outline laying down three-yearly guidelines consistent with the multiannual framework of agricultural policy.

An overall proposal will be put to the Council, under Article 130 D, setting out the details for the reform of the three structural Funds. This proposal will include the necessary transitions between the present situation and the organization which the reform is to achieve by 1992, in particular the Funds' contribution to the integrated Mediterranean programmes.

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Just as the structural Funds represent experience peculiar to the Community, so the loan instruments may contribute effectively to achieving the same structural priorities.

This is particularly true for the European Investment Bank, which accounts for almost 75% of Community loans. It concentrates on financing infrastructures or productive investments (in transport, telecommunications and energy, and in new technologies and small and medium-sized

<sup>1</sup> OJ L 169, 28.6.1984; Bull. EC 6-1984, point 1.3.1 *et seq.*

undertakings), allocating more than 50% of its loans for regional objectives to regions where development is lagging behind.

In accordance with the relevant provisions of the Treaty, the Bank will continue to play a major role in the development of such regions by providing financial aid of an exceptional quality, attracting private finance as well.

Similarly, ECSC loans and those of the New Community Instrument (NCI), which was renewed by the Council in December 1986,<sup>1</sup> will continue to play an active role in some declining industrial regions or in the financing of innovative investments in small and medium-sized undertakings.

The innovatory role played by the NCI in influencing loan policy objectives in the light of economic needs should be remembered. The Commission must retain the possibility of taking new initiatives along these lines.

Thus the Commission will in due course forward proposals to the Council with a view to setting up a financing instrument fully adapted to investment needs in regions lagging behind in development or whose industry is declining.

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A real single economic area cannot be achieved without major progress in the policies for transport and infrastructures and for the environment.

#### Transport and infrastructures policy

Complete freedom of movement of goods and persons can make full economic sense only if transport policy makes substantial progress towards a genuinely competitive system enabling unit costs to be reduced significantly; travel within Europe must be made easier, while maintaining high quality and safety standards and adequate welfare rules.

But action in the area of competition will not in itself offset handicaps affecting some areas and regions, either because they are far from communication routes or—the opposite evil—because they are congested by excessive traffic.

This raises the problem, alongside the completion of the large market, of creating certain infrastructures (roads, railways, ports and airports) which have already been identified (medium-term European transport infrastructures programme<sup>2</sup>), the financing for which will have to be found by greater mobilization of private money. The Community, which is responsible

for identifying such vital projects, could decree that they are of European significance and play the part of financial catalyst, in close relationship, if necessary, with its development or structural support programmes.

#### A Community policy for the environment

Europe's environmental policy is based on a system of high standards, and it must live up to public expectations. The quality of the environment may not show up in any balance sheet, but it is none the less a gain both economically and in well-being.

A single economic area is by definition the very dimension in which environmental problems are posed, either because nuisances and pollution of industrial origin or from energy consumption or production ignore national frontiers (as made obvious by recent events, such as the Chernobyl catastrophe or the accidental pollution of the Rhine), or because full freedom of movement must entail the positive harmonization of national rules relating to pollutant emissions and dangerous waste.

In real terms this means that the measures in the new five-year programme for the environment<sup>3</sup> will be tackled constructively and in a spirit of solidarity, in accordance with the provisions of the Single Act (Article 130 S), which states that the Council 'shall define those matters on which decisions are to be taken by a qualified majority'.

#### C — Sufficient, stable and guaranteed financial resources

The Community's own resources currently break down into about one third 'traditional' own resources (customs duties and agricultural levies) and two thirds the VAT call-in, on which there is at present a ceiling of a 1.4% rate of VAT for each Member State.

These arrangements were decided upon at the European Council in Fontainebleau in 1984<sup>4</sup> and their limits have now been reached. It will not be possible for 1987 expenditure to be financed in full within these limits and at some stage the Commission will have to take the steps needed to bring expenditure down to match the resources available.

<sup>1</sup> Bull. EC 12-1984, point 2.1.4.

<sup>2</sup> Bull. EC 11-1985, point 2.1.227.

<sup>3</sup> OJ C 3, 7.1.1987; Bull. EC 12-1986, point 2.1.178.

<sup>4</sup> Bull. EC 6-1984, point 1.1.9.

There is no reason to be surprised at this: only by resorting to various makeshifts, such as the storage of agricultural produce, the carryover of appropriations and the time-lag between commitment and payment appropriations, has it been possible, artificially, to keep the budget within the ceiling. Since 1983, there has been a deficit in the Community budget, disguised by bad accounting practice.

This is brought out clearly by the following comparison between the budgets as adopted by the budgetary authority and what the true budgets should have been, with the expenditure which should have been allocated to each year actually being so allocated. The table shows that at the time when the VAT ceiling took effect in 1986 the VAT call-in rate necessary for sound financing was already in excess of it.

### Budgets approved and real costs

	<i>(as % of VAT rate necessary for financing)</i>				
	1983	1984	1985	1986	1987 <sup>1</sup>
1. Expenditure set in the budgets approved <sup>2</sup>	1.00	1.14	1.23	1.40	1.39
2. Expenditure not in the budget:					
(a) Current deficit <sup>3</sup>	—	—	—	0.10	0.23
(b) Non-depreciation of agricultural stocks	0.13	0.08	0.08	0.10	0.03
(c) Cost of the past	0.09	0.06	0.09	—	—
3. VAT ceiling required for financing (1+2)	1.22	1.28	1.40	1.60	1.65
4. Overrun not covered by own resources and non-reimbursable intergovernmental advances					
(a) expressed as VAT rate	0.22	0.20	0.17	0.20	0.25
(b) expressed in million ECU:					
(i) per year	3.02	2.95	2.67	3.56	4.8
(ii) accumulated from year to year	3.02	5.97	8.64	12.20	17.0

<sup>1</sup> Estimate.

<sup>2</sup> Incorporating, for the relevant period, the cost in terms of VAT rate of the compensation to correct budgetary imbalances made in the form of a reduction in VAT payment and the incidence of intergovernmental advances.

<sup>3</sup> EAGGF guarantee deficit and shortfall in traditional own resources for 1986 and 1987.

The Commission takes the view that neither in the short nor in the medium term is this situation tenable and that the Community must have a system of own resources which is adequate, stable and guaranteed, giving it a long enough period of 'budgetary security' to allow it to plan its own development, especially while the internal market is being completed.

Recent and current developments in expenditure show that the present system of own resources is inadequate and this has disrupted the continuity of Community activity and forced it into stop-gap expedients.

The Community has, however, recently entered into major policy commitments, formally adopted by its institutions and ratified, or soon to be so, by each Member State.

The Community must thus be consistent with itself.

In fact, political commitments which the Community is to enter into

under the Single Act are reflected in the following main hypotheses with regard to the development of expenditure:<sup>1</sup>

(i) the maximum growth laid down for the EAGGF Guarantee Section by the policy of budgetary discipline would lead to a budget share, in 1992, of slightly over 50%, as against 60% at the present time;

(ii) in real terms funds for the improvement of structures would double by 1992, in appropriations for commitment. They would come to represent about 25% of the budget, compared with 16% at the present time;

(iii) expenditure on research, on the basis of proposals for the next framework programme,<sup>2</sup> would represent 3% of the budget, as against 2.5% at present;

<sup>1</sup> Cf. Chapter II.B.: Community policies with real economic impact.

<sup>2</sup> OJ C 275, 31.10.1986; Bull. EC 7/8-1986, point 1.2.1 *et seq.*

(iv) a margin is provided for new policies;<sup>1</sup> this would increase progressively up to about 5% in 1992.

It is thus clear that the 1.4% ceiling is already outdated. Even raising the rate to 1.6% would offer no lasting solution to the financial problem. The retention of this system of financing would mean perpetuating improper practices in order to conceal a deficit which now has a structural character.

Also, maintenance of the present policies alone requires new resources, without which the policies that have already been agreed could no longer be properly executed.

Accordingly the Commission proposes that the Community should be assured of adequate, stable and guaranteed own resources at least until 1992 in order to restore 'budgetary truth' and put an end to unacceptable practices.

The Community cannot progress by lurching from financial crisis to financial crisis. The alterations to the systems of own resources in general presuppose ratification by the national parliaments. Such procedures ought not to be unduly frequent.

The proposals made as regards budgetary discipline and management would ensure that a period of 'budgetary security' was clearly given to the Community.

From the point of view of stability, the present system has a key defect: the basis of the resources is gradually being eroded, and the decline in the resources available under the present ceiling has a structural character. This is because:

(i) traditional own resources (customs duties and agricultural levies) are steadily diminishing as a result of multilateral tariff reductions and the Community's growing self-sufficiency in farm products;

(ii) the VAT base itself is increasing more slowly than economic activity in the Community, because of a decline in the share of consumer expenditure in the GNP. Thus, at a time when the main beneficiaries of Community policies (such as farmers and inhabitants of less-favoured areas) are, quite rightly, comparing their situation with those in other sectors of the economy, financing of these policies has run into trouble;

(iii) the Fontainebleau correction mechanism has reduced the resources available in so far as the VAT ceiling applies to the Member States financing the correction and not to the Community as such.

The existing revenues provide neither the volume, nor the stability, nor the flexibility which the Community needs now and in the future.

Accordingly, the Commission proposes use of a fourth resource in addition to customs duties (the arrangements for which would be slightly altered), agricultural levies, and VAT (1% of the basis described below) to cover the whole of the budget.

The basis of this supplementary resource would be provided by the difference between the GNP of each country and the basis of assessment of VAT. It would cover economic aggregates such as investment, part of public consumption and net exports. It would thus adjust the impact of the VAT system by referring to the Member States' actual ability to pay.

If it is to provide the Community with the security it needs in the medium term, the own resources system must also provide proper safeguards for the Member States, and must therefore have a ceiling.

Reflecting a tendency in the Member States, the Commission proposes that this ceiling should take the form of a 'maximum rate of the compulsory Community levy', and should be fixed by reference to the Community GNP. This would be the safeguard given to the citizens of Europe and to the Member States. For this purpose:

(i) the quantity of resources is related to the most representative indicator of economic activity. This practice is being followed more and more in the member countries, which define their budgetary objectives by reference to GNP. The Community would be aligning itself on this practice;

(ii) the decision to allocate to the Community a given volume of budgetary resources would become more 'transparent' and more reliable in that it would no longer be exposed to the erosion effects or to the instability besetting the present own resources;

(iii) it will no longer be necessary to set ceilings by type of resource. A single ceiling will suffice. The Community will thus enjoy greater stability, but also greater flexibility in the composition and the allocation of the resources financing the Community budget.

The Commission proposes that the ceiling on available resources should be set at 1.4% of the Community's GNP, a figure which should

<sup>1</sup> The expenditure on development cooperation would rise very sharply at the end of the period if the Seventh European Development Fund is included in the budget.

suffice until at least 1992. It emphasizes that this ceiling is certainly not too high, since it does not give the Community an expenditure growth capacity beyond that which it has enjoyed during the 1980-87 period, although the Community must clear the backlog of costs and stocks of agricultural products that has built up.

The Commission's aim is to ensure the provision of the funds needed to implement the common policies, especially those provided for by the Single Act, to restore sound conditions as regards the present situation (agricultural stocks and commitments still to be settled) and to give the Community a long enough period of 'budgetary security'.

The resources available within 1.4% of the Community GNP break down as follows:

- (i) customs duties;
- (ii) agricultural levies,

with the following adjustments for these two resources:

- (a) the 10% reimbursement to the Member States to be discontinued,
- (b) allocation to the Community of customs duties on ECSC products;
- (iii) the VAT revenues which would accrue by a 1% levy on the basis actually subject to VAT. As the link between the Community and those engaged in economic life would become more direct, the 'own resources' character of VAT would be reinforced. The basis constituted by zero-duty products in certain Member States would also be subject to the same 1% levy;
- (iv) a fourth resource: a levy on the 'supplementary basis' as additional resources to cover the whole of the budget. This would come from a financial contribution from the Member States obtained by applying a uniform call-in rate to a basis defined as being the difference between the GNP and the actual basis of VAT used for the 1% levy;
- (v) Lastly, the Commission wishes to retain the possibility of adding a further resource between now and 1992 to those indicated above, within the ceiling of 1.4% of GNP.

This fifth resource is to be provided for in the basic decision creating the new own resources arrangements. Its implementation would require unanimous endorsement of the Member States and ratification by their parliaments.

The Commission emphasizes that its proposal for new resources would ensure, overall, that the contribution to the financing of the budget

matches more closely relative levels of prosperity in the various countries.

The European Council at Fontainebleau, in 1984, accepted the concept of a 'Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity'. It also adopted a standard system on the revenue side to measure this excessive burden.

The Commission would point out that the idea of a budget excess or shortfall is inconsistent with that of the own resources of the Community. Nor can the budgetary benefit (or disadvantage) a country may draw (or suffer) from its membership in any circumstances reflect, much less measure, its interest in belonging to the Community. Also the European Council expressly referred to expenditure policy as a means of solving in the longer term the problem of budgetary disequilibria.

The Commission also takes the view that the origin of budgetary disequilibria must be assessed in the light of the nature of the expenditure and the way it changes. A considerable share of the budget (but one which will be contracting) goes to the financing of guarantee expenditure under the common agricultural policy, the only type of expenditure which is wholly borne by the Community.

Expenditure designed to promote greater economic and social cohesion and expenditure on new policies will be accounting for an ever larger proportion of the budget, and this is a factor which is highly relevant for the future.

For the moment, analysis of the budget outturn shows that EAGGF guarantee expenditure, and its financing, are the main sources of disequilibria. The problems also have a structural character, connected with the nature and structures of agriculture in certain countries.

This applies particularly to the United Kingdom, where agriculture, although very efficient, makes only a modest contribution to GNP. There is thus a very large gap between the UK's share of Community GNP and its share of agricultural guarantee expenditure, which entails a specific burden which it is very difficult for a country whose relative prosperity is only slightly above the Community average to bear.

The other categories of Community expenditure have to be looked at differently. For instance, it is reasonable that the most prosperous countries should make a full contribution to financing structural policies which are aimed mainly at supporting the economic and social develop-

ment of the less prosperous countries, with a view to economic and social cohesion. In the same way, any offsetting mechanism in the management of the other Community policies must be ruled out, be it in the Community's international activities or in the financing of its operation.

The aim being to lay down medium- and long-term rules for financing the Community, the bases for any budgetary correction mechanism must be as objective as possible. Making good the loss to the United Kingdom in the management of guarantee expenditure would seem to be legitimate. Growing control over production and over agricultural expenditure should, in any case, eventually help to narrow down this gap. The scale of the correction must be assessed in the light of the changes made in the own resources system (as indicated below), which would yield a significant reduction in the charge to the United Kingdom. The Commission proposes a rate of 50%.

The correction should be made in a way which is fair within the Community of Twelve, where the situation is very different from that of 1984. The Commission takes the view that the Community's four least prosperous countries (Portugal, Greece, Ireland and Spain) should not, as things stand at present, be required to make any contribution to financing the correction. This arrangement should be reviewed periodically (as should the whole of the correction system), looking towards greater convergence between the economies of the Member States.

Subject to the special rule laid down for the Federal Republic of Germany, as indicated below, the other Community countries will therefore bear the cost of financing the correction, on a modulated scale related to prosperity levels.

The European Council in Fontainebleau acknowledged a special situation for the Federal Republic when it established the budgetary compensatory mechanism. In view of the size of the German contribution and its low participation in the policies conducted under the structural Funds, the burden on that country incumbent upon it as a result of the United Kingdom compensation could be lightened. It could be reduced to 25% of its normal share in the financing of the United Kingdom compensation. This would allow for the special situation of this country, without there being any need to set up a special mechanism. The Commission is anxious to avoid any dangerous precedent which would abandon the spirit of the Community. The aim is, therefore, for the period up to the completion

of a single economic area (1992), to make a gesture to accommodate the misgivings expressed by this country as to budgetary matters. But the Commission does hope that the successes achieved in the area of economic integration will be such as to convince all the member countries of the advantages they reap from a market of 320 million consumers and the development of the common and cooperation policies.

The correction could take the form of a direct payment to the beneficiary, from the Community budget, financed according to the procedures described above.

#### **D — Ways to strengthen budgetary discipline**

Efforts to achieve budgetary discipline as agreed by the European Councils held in Brussels and Fontainebleau have not so far yielded satisfactory results.

There are a number of reasons for this, some of them of a short-term, incidental, nature (mainly in the area of agriculture), and others of a structural character, reflecting the difficulties inherent in the present institutional system.

In the first place, the authorities have not been able to contain agricultural expenditure within the 'reference framework' and the 'financial guidelines' in accordance with the conclusions of the Council of 4 December 1984,<sup>1</sup> adopted at a time when the dollar and world prices were both very high. The limits have been overrun partly because of unforeseeable external events (the sharp decline in the dollar, currency realignments) and partly because of the Council's failure to endorse the Commission's proposals unamended or failure to act promptly; another point is that the current regulations are not well adapted to ensuring consistency between budgetary decisions and agricultural decisions. This is one of the reasons why the Commission proposes that work on the reform of the common agricultural policy should continue.

In the second place, the fact that Parliament has not taken part in the procedures concerning budgetary discipline has entailed each year growing difficulties for the adoption of the budget, as was the case for the 1986 and 1987 budgets.

For non-compulsory expenditure, Parliament has not endorsed the Council's guidelines. Thus

<sup>1</sup> Bull. EC 12-1984, point 1.3.1 *et seq.*



the Council has found itself alone as the object of budgetary discipline guidelines. The result has been a power conflict between the Council and Parliament on the ability to increase the non-compulsory expenditure. This shows that a system of budgetary discipline which does not have clear rules, binding on all the institutions, bears in itself all the seeds of a lasting institutional conflict, and thus of excessively restricted effectiveness.

The Council's guidelines for non-compulsory expenditure have also proved inapplicable because they concerned only the appropriations for payment, although the 'cost of the past', generated by the scale of the commitments entered into in previous years, has to be worked off.

In general, the present decision-making processes within the Council are not such as to enable it to act as a referee in the way that authorities in the Member States can reconcile the bodies having law-making or regulating power on the one hand and those responsible for the budget and finance on the other.

Accordingly, the Commission proposes the introduction of rules of budgetary discipline which would help to promote consensus between two two branches of the budgetary authority.

First and foremost, the management of the Community's budget must be such that the new ceiling set on the Community's own resources is complied with at least until 1992.

For this purpose, on the basis of the multiannual 1987-92 estimates which it has established, the Commission will propose that the decision on the Community's own resources should state (as a percentage of the GNP and in absolute values) the ceiling each year on the own resources that can be called in, and should do this within a ceiling of 1.4% of the Community GNP, until 1992.

This provision, which will have been endorsed by the Parliaments of the 12 Member States, in accordance with Article 201 of the EEC Treaty, will be the basis of budgetary discipline. It will therefore have force of law.

Within this framework, the Commission proposes the conclusion of an inter-institutional agreement between Parliament, the Council and the Commission, under which the three institutions would enter into the following formal undertakings with a view to ensuring harmonious execution of the budgetary procedure laid down in Article 203 of the EEC Treaty:

1. the rate of increase in the non-compulsory expenditure, both for appropriations for com-

mitment and for appropriations for payment, will be fixed at the beginning of the budgetary procedure, by agreement between the three institutions;

2. there will be no overrun of the maximum rate of increase such as that set out in Article 203(8), except for expenditure connected with the implementation of the policies in the Single European Act;

3. increases in the various categories of expenditure during the 1988-92 period will be worked out on the basis of multiannual estimates proposed by the Commission and agreed by the budgetary authority.

For the implementation of the inter-institutional agreement, compliance with budgetary discipline will rest on the following rules:

(a) The appropriations authorized for each year (within the annual ceilings on resources) must suffice to cover expenditure necessary to clear the 'cost of the past' and dispose of agriculture stocks. This rule will lead to a relative slowdown (in terms of appropriations for commitment) of the growth of the Community's budget as compared with its growth during the 1980-87 period.

(b) The annual expenditure allocated to the management of the agricultural markets must not increase more rapidly than the base for the own resources. Such control will be implemented during a three-year period and in accordance with the definitions adopted in the conclusions of the Council of 4 December 1984. The appropriate adaptations will have to be made to allow for the gradual incorporation of Spain and Portugal in the CAP financing arrangements.

For this purpose, the regulations designed to ensure lasting control of production will be supplemented by budget stabilizers, which will be added to those already in force or proposed by the Commission for 1987/88 (oilseeds, olive oil). These stabilizers should be binding in character and even automatic, so that there can be no overrun of the budget limits set.

In this connection, it is important that the financing of the common agricultural policy should be properly 'transparent'. In particular, a procedure for the 'budgetization' of stock depreciation will be set up to cover the relevant costs. The system of advance payments will be discontinued and replaced by a system of reimbursement of expenditure committed by the Member States.

The agricultural regulations will have to authorize the Commission to adapt the intervention system should there be any danger of overrunning available funds. Should such arrangements

prove insufficient, the Commission will be required to lay before the Council such stabilization measures as would be necessary and the Council will be under the obligation to take decisions within short and specified time-limits.

To meet exceptional circumstances, notably with regard to exchange rates, the annual limitation laid down for budgetary discipline will include a reserve. Savings made in terms of a basic parity of currencies (ECU/dollar relationship) would be paid into a reserve fund. Conversely, this fund would be used to finance extra expenditure entailed by exchange rates necessitating increases in export refunds or deficiency payments.

(c) By observing the annual ceilings on the own resources, the multiannual estimates become an important instrument for the management of the budget and compliance with budgetary discipline. They will be expressed both in appropriations for commitment (expression of the policy to be conducted) and in appropriations for payment. The ceiling on the own resources for 1992 will therefore have to be complied with also for the appropriations for commitment.

### **E — New rules for managing the budget**

The introduction and observance of strict budgetary discipline by the three institutions calls for changes both in the practices and in the rules governing the preparation and execution of the budget, so as to limit the necessary call-in of resources and improve their allocation in the light of the objectives sought. These changes are the essential complement of the requirements of budgetary discipline and are designed to facilitate its observance. The ultimate aim is to achieve more control over expenditure and to increase its effectiveness.

The Commission takes the view that the most critical aspects from the point of view of improving management are the following:

(i) the over-budgetization of many headings, especially of differentiated appropriations, caused by overestimating expenditure capacity or underestimating the time required to obtain from the Council the legal basis enabling the appropriations to be used. This phenomenon is encouraged by the possibility of carrying over appropriations;

(ii) incomplete observance of the principle of the 'annuality' of the budget, reflected in heavy carryovers of appropriations from one year to the next. This obscures budget 'transparency' in

that the appropriations available for a given financial year lack homogeneity, some being adopted by the budgetary authority for the year in question and others being substantial leftovers from past decisions which could not be carried out;

(iii) insufficient monitoring of measures or programmes under way, which leads to considerable deviations from the timetables planned and largely accounts for the fragility and insufficient take-up of budget appropriations. It also results in the build-up of a substantial volume of 'sleeping commitments', i.e. commitments which no longer have a real counterpart in terms of projects or programmes to be financed;

(iv) Community action is not always of maximum effectiveness in terms of objectives pursued. This means that in some cases the same objectives could be achieved with less expenditure and/or by different methods.

This is why the Commission is proposing changes in the rules and practices governing the preparation and execution of the budget, in four respects.

Firstly, to reduce to a minimum the risks of over-budgetization, the Commission proposes the following twofold approach.

On the one hand, as far as practice is concerned, it undertakes to ensure that its requests for appropriations correspond as closely as possible to the actual scope for execution, not forgetting the actual take-up capacity of potential beneficiaries. It calls upon the budgetary authority to pay more attention to this aspect, during the budget procedure, when it wishes to make changes to the Commission's evaluations.

A multiannual approach to the planning of expenditure would also enable those concerned to allow more fully for any expression of a political will to strengthen certain operations, and its realism.

Secondly, as an incentive to prudence in the entry of appropriations in each line, so as to achieve an overall saving effect, the Commission is proposing that, independently of the agricultural reserve referred to in Chapter II.C, a certain amount in unallocated appropriations should be entered in the budget.

Thirdly, the Commission proposes that the principle of budget 'annuality' and of transparency of available appropriations should be strengthened by the following measures:

(i) abolishing the automatic nature of the appropriations outstanding and the carryover of payment appropriations by adapting the Finan-

cial Regulation and the specific regulations, particularly those relating to the structural funds, where necessary. As a result, any appropriation unused during a given financial year ('n') and for which the Commission had not proposed an alternative use for the following year ('n + 1') would lapse;

(ii) proposing to the budgetary authority, at the start of the year, the use it intends to make of the appropriations which have not been cancelled. This use can take three forms: carryover under the same heading, carryover under another heading and carryover to the global reserve.

The budgetary authority would have explicit information on the appropriations available line by line for the new financial year. In these circumstances, the global reserve may take on the nature of a permanent reserve.

Fourthly, the Commission will make the necessary internal arrangements to establish a system

under which the appropriations allocated can be executed in accordance with the estimates and under which the appropriations which cannot be used as stated can be cancelled without delay.

The multiannual forecasts must become an instrument of budget management by providing for a regular and gradual flow of expenditure and preventing the new resources available from being eaten into too soon. They will act as a 'sliding' plan enabling the Community to keep to a line of conduct in the medium term. In addition, better than the current procedures, they will ensure that appropriations were used efficiently. This is why the 'annuality' rule, instead of generating losses, encourages the introduction and implementation of realistic, effective programmes.

These new management procedures will entail substantial reform of the financial regulations.



**Introduction of the Commission's programme  
for 1987**

**Mr Jacques Delors,  
President of the Commission**

*Mr President, ladies and gentlemen,  
Mr President*

In January 1985, in my statement on the thrust of Commission policy as our term of office began, I spoke of what is closest to my heart: Europe's credibility. Last February, during the debate on the Commission's programme, I referred to the two pitfalls that bedevil European integration: impatience and inertia. I even spoke, at the risk of causing displeasure, of the dangers of labels.

You will therefore appreciate why the Commission, after two years in office, wants to measure, with you, the gap between words and deeds, between promises made and goods delivered, so that it can do better and advance more rapidly on the road to European Union.

What have we done over the last two years to breath new life into European integration? What do we need to do this year and next?

In 1985 we relaunched the large internal market and proposed that the Community should become a frontier-free area by 1992. Guided by past experience we proposed a timetable for attaining this objective. We believed then, and we believe today, that the large internal market will fuel European economic integration.

And it is the pace of economic integration that will determine the outcome of the world race against the clock on which Europe's survival depends. This is why we had to change gear, this is why we had to do something about the obsession with unanimity, which had gradually vitiated the Commission's institutional system.

In 1986 we negotiated and adopted the single Act. Our mutual hope was that this reform would not be confined to a mere revamping of procedures. Together we pressed for the inclusion of new areas: a European research and technology policy; the environment; working conditions. Although many people—myself included—feel that it did not go far enough, the Single Act is in fact more demanding than it appears on first sight. It will be for us, this year and next, to translate the Single Act into action and proposals and to ensure that the 12 Member States are made aware of the implications. Make no mistake about it—it will be no easy task. The contract is virtually signed, but the political will may be lacking.

That at least is the impression I got on my 'tour of the capitals' over the last few months at the

request of the European Council. Let me remind you that the sole purpose of this tour was to listen to the views of the 12 governments before the Commission put the final touches to its proposals for what I have termed 'le grand rendez-vous'.

There was no question of trying to reconcile viewpoints or letting governments take over the initiative. It was, rather, a matter of explaining what was at stake, raising awareness, getting people thinking. Experience has shown that this is essential whenever the threat of a Community crisis looms on the horizon.

The Commission has listened to the Member States. It has listened to your representatives whom we met last week. The Commission has worked hard—in fact it only finished its discussions last Sunday. It took the decision to unveil its proposals in this House, because it senses that they stand no chance of adoption without the support of those who are actively campaigning for European integration, without the support of members of this House, the elected representatives of the people of Europe.

*(Applause)*

I admit that we wavered and argued. But at the end of the day we opted for clarity. Because it is our duty to face the 12 governments with the choices that must be made if European integration is to progress as quickly as we would like. The approach we are proposing hinges on two simple ideas: more cohesion, more discipline. Whether we look at the common agricultural policy, the structural policies or the financial system, the choice is between a hazy free-trade area embellished with a few financial transfers and a truly common economic area, a precondition for Europe's vitality, a precondition for European Union, solemnly proclaimed in the Preamble to the Single Act.

This is what is at stake, ladies and gentlemen. The report we have sent to your governments spells it out.

This is the mission on which the Commission has embarked.

I would like to begin by commenting on proposals the Commission has made. Their adoption will be central to the Community's activities in 1987. But there is more to be done. If you bear with me, I will therefore go on to give you a brief outline of what the Commission intends to do to underpin the foundations laid in 1985 and 1986 for revitalizing the Community.

First and foremost we must make the Single Act work. In a nutshell, the obligation imposed by the Single Act is nothing less than the simultaneous achievement of the large frontier-free market, greater economic and social cohesion, a European research and technology policy, a stronger European Monetary System, the beginnings of a European social area and meaningful measures for the environment. You will notice that I said 'simultaneous achievement'.

If this is to be done, the Commission must get to grips with difficult problems and satisfy the four basic conditions discussed in our report to Parliament and the Council: an agricultural policy adapted to the new world context; Community policies with real economic impact; sufficient, stable and guaranteed own resources; and effective budgetary discipline.

Let us look first of all at a common agricultural policy adapted to the new world context.

Agriculture, which employs more than 10 million people in the Community—and provides work for many more—is the basis of an essential agri-food chain. It is an economically and strategically vital industry for Europe.

The common agricultural policy has been a success over the last 25 years. The underlying principles are still valid: Community preference, a unified market and financial solidarity.

But today, ladies and gentlemen, the general economic environment and the world market situation compel us to strive for a finer balance between supply, which has been amplified by technological progress, and demand, which is growing less rapidly. This is the background to action taken by the Commission since 1985, which it now proposes to strengthen with a restrictive pricing policy, more flexibility in guarantees and intervention mechanisms and a higher degree of producer co-responsibility, including recourse to quota systems.

The general aim is to encourage farmers to adapt gradually to conditions on the European and world markets and to seek new outlets for their produce. The Community has taken the first steps in this direction. But it must go further.

Together, the reforms introduced since 1984 and the 1987 price package represent an annual budgetary saving of some 6 000 million ECU in constant dollars. This is a measure of the sacrifices accepted by our farmers. It should silence mistaken criticism of the common agricultural policy.

This new approach clearly poses a threat to the incomes of the least well-off. Our rural areas, moulded by the tradition of family farms, may be completely transformed. And yet, culturally and socially, this tradition has proved its worth in economic and ecological terms and must therefore be preserved. It can be done. All we have to do is to differentiate measures to allow for the special situations of certain farmers or regions.

We have already modulated the milk levy, introduced aids for small grain farmers, taken the special features of certain regions or countries as criteria for modulating production quotas, and introduced aids for cattle farmers.

Should these measures prove inadequate the Community will have to consider the possibility of incomes support. If it doesn't, others will, with all the dangers of renationalization that we are so anxious to avoid.

*(Applause)*

The Commission therefore proposes to introduce a strict framework for income support, setting out precise limits at Community level. This framework will ensure that aids do not distort competition or undo our efforts to contain production. It is the future of the common agricultural market that is at stake, but the framework will also help to avoid aggravating existing disparities between the regions.

In essence, the objective is more balanced Community action and a better breakdown between market support and income support. But we must also provide the basis for rural development, striking a balance between man and his environment, and above all sustain a way of life that gives character to many regions in both northern and southern Europe.

Our farmers, ladies and gentlemen, would have difficulty in accepting that the Community alone was making this painful effort to adapt to the new world context. The Community's partners must be made to understand this. It is only by concerted international action that we can cushion the adverse effects on world markets of erratic exchange rates, aggravated by monetary turmoil, and avoid the consequent subsidies war.

But let us first put our own house in order. Only then can we insist that our partners do the same. In this way the common agricultural policy can once again play its essential role and contribute on an equal footing with other Community policies to greater economic and social cohesion.

*(Applause)*

The Community needs a common agricultural policy adapted to the new world context, but it also needs other policies with real economic impact.

It is unacceptable, ladies and gentlemen, that the common agricultural policy should be the only Community policy with genuine economic impact; today's enlarged Community needs new frontiers.

There are two possible approaches to structural action by the Community.

The first, purely macro-economic, is based on the principle of the invisible hand operating in this instance in financial flows; providing they are sufficiently substantial, transfers of resources between the Member States should guarantee economic convergence.

The second, micro-economic and structural, is designed to speed up the dissemination of innovation, to reduce bottlenecks and to promote economies of scale. To put it in a nutshell, this approach would bring structural policy 'down to earth'.

Encouraged by the success of the integrated Mediterranean programmes the Commission has opted for the second approach as being not only less costly but also more efficient.

Reform of the structural Funds must therefore be geared to real economic objectives. Just like the framework programme for research and technological development, the new transport and environment policies assume their full significance when they are set in the Community framework and seen as a component of the single economic area.

Five priority objectives have been identified for the structural Funds: helping backward areas to catch up, restructuring regions in decline—for which, incidentally, we are not doing enough—combating long-term unemployment, integrating young people into the working environment and, lastly, developing rural areas, notably but not exclusively through the adjustment of agricultural structures.

These, then, are the five priority objectives to be pursued if we are to give our policies punch and make them work.

As to the practicalities, I would ask you to concentrate on two key principles.

Firstly, preference will be given to multiannual programmes designed to complement action by the Member States and the regions themselves.

Secondly, management will be decentralized as far as possible. Brussels must not become yet another centralizing force but rather a base for generating and disseminating initiatives.

*(Applause)*

The Commission is therefore proposing that the Community should give itself the resources it needs to manage Community operations which genuinely boost national and regional programmes. This is the background to its proposal to double the volume of the structural Funds in real terms between now and 1992.

*(Applause)*

If the Community is to reform the common agricultural policy, if the Community is to ensure that its other policies have real economic impact, it must have sufficient, stable and guaranteed own resources.

It is quite unacceptable that the Community should be plunged into crisis every two or three years and have to call on national parliaments to bail it out. This is why the Commission has deliberately chosen to take a medium-term view.

If the Community's political credibility is to be restored it is essential that we press ahead with reform of the common agricultural policy and boost action under the structural Funds. And, as I have just said, these objectives are inseparable from reform of the Community's finances.

The present own resources system, born of the 2 April 1970 decision and the Fontainebleau European Council, is bankrupt.

Everybody knows that there is not enough in the kitty to finance spending throughout 1987 and that the Commission will be left to cope with the consequences. This House is aware of the stop-gap expedients used since 1983 to mask the real deficit on the Community's budget. When I was asked to take the floor at the London European Council I warned the Heads of State or Government that I would refuse to resort to unacceptable practices in 1987 or any subsequent year.

It is common knowledge that the own resources base is being eroded since the various components are growing less rapidly than economic activity.

But despite its shaky finances, the Community has recently taken on large-scale political commitments with negotiation of the Single Act and the accession of Spain and Portugal.



What will the Community budget look like in 1992? This is the question that the Commission has been addressing, the question it needed to address. And the factors we took into consideration were our plans to rebalance agricultural spending, to double the structural Funds in real terms, to fund the framework programme for research, action on transport and the environment, and, I would add, the need to expand our development aid policy.

The Community cannot limp on from crisis to crisis, nor can it muddle through by means of stopgaps which the Commission will not tolerate.

What the Community needs today is budgetary security and this can be achieved by making two major changes to its financial resources.

The first change is to define the new ceiling on resources by reference to Community GNP, a better reflection of its prosperity, and to fix the new ceiling at 1.4% of GNP for 1992. This political decision provides a guarantee that the compulsory Community levy will not be opened.

The second change is to alter the make-up of resources within this ceiling, not only to achieve a better match between each country's budget contribution and its relative prosperity but also to provide a measure of flexibility. The sources of revenue would then be stable and sufficient.

Under the Commission's proposal, the resources available within the limit of 1.4% of GNP would be as follows.

First, customs duties; second, agricultural levies; third, revenue from VAT, representing 1% of the base actually subject to VAT. This would reinforce the own resources aspect of VAT. Fourth, a 'balancing' resource, calculated on an additional base defined as the difference between GNP—I have already spoken of the advantages of this—and the actual VAT base used for the 1% levy.

These four items would be the new sources of revenue.

However, the Commission wants to keep a fifth option open. This resource could be added between now and 1992 but—let me be quite clear on this—without exceeding the 1.4% ceiling. One possibility, for instance, might be a minimal stamp duty on financial transactions, but I hasten to add that we are making no proposals at this stage.

I would like to make the point here that with the proposed ceiling corresponding to 1.4% of GNP the growth of own resources will be no higher than in the years 1980 to 1987. In fact it will be lower if you allow for the fact that existing liabilities will have to be absorbed within this ceiling.

What exactly are these liabilities? Disposing of agricultural stocks, settling the cost of the past—too many commitments and not enough payments—and finally the growing and completely normal impact of enlargement of the Community to include Spain and Portugal. I feel bound to stress this point to prove to you that the Commission has shown financial moderation.

Finally, we come to the burning question of compensation for budgetary imbalances. Let me be quite frank on this one: the Commission had four possible solutions:

(i) To sit back and do nothing, arguing that it was not the Commission but the Heads of State or Government at the Fontainebleau European Council who devised the mechanism; this approach would have been compatible with Community logic but the Commission, in its desire to be realistic and responsible has preferred to make a proposal on this aspect too.

(ii) To extend the Fontainebleau mechanism. But the situation has changed since 1984 with the accession of two new members with a standard of living way below the Community average.

(iii) To start calculating all the net balances and introduce a mechanism to reduce the size of the biggest. There had been much talk of this prior to Fontainebleau, but because the idea is at odds with the Community spirit, the Commission is resolutely opposed to it. The advantages and disadvantages of Community membership simply cannot be measured by the yardstick of budget contributions. Such an approach is unacceptable. In any event, the Commission is not prepared to take that road.

*(Applause)*

(iv) To come up with a new, and let me stress, a provisional mechanism. We considered this to honour the undertakings given at the Fontainebleau European Council. We worked on the basis of the notion—to quote the Fontainebleau text—of 'a budgetary burden which is excessive in relation to the relative prosperity of a Member State'.

To cater for the special position of the United Kingdom, we have chosen to base this correction on the underlying reason for the imbalance, that is to say, the utterly different structure of agriculture in the United Kingdom and in the other Community countries. What we have come up with, to revert to Community jargon, is a 'green scale' for compensation.

Last but not least, we come to tighter budgetary discipline and improved budget management. There is no doubt that this is an area in which you have to field a lot of questions. Why should the Community be given new resources if it can't show good stewardship in the organization of its finances? Why should the Community be given new resources if it acts like a run-of-the-mill international organization rather than a genuine community? It must be said that the budgetary discipline introduced following the Fontainebleau European Council has failed. Why? Because there is little point in taking one set of decisions at an agricultural council or at a research council and then fixing a reference framework at a budget council which is routinely exceeded. The fault lies with a decision-making process in disarray.

*(Applause)*

There is little point in unilaterally fixing a maximum rate of increase for non-compulsory expenditure and then refusing to discuss the matter with Parliament in defiance of the spirit of Article 203 of the Treaty.

*(Applause)*

Budgetary discipline will remain an illusion until such time as Parliament is involved in the procedure from the outset, until such time as the Council stops taking contradictory decisions.

The Community cannot go on with this petty institutional war. It must take unequivocal, firm decisions.

But it needs budgetary discipline too. Budgetary discipline should emerge from an interinstitutional consensus.

This is why the Commission is proposing that Parliament, the Council and the Commission should enter into a five-year pact which fixes the ceiling and the broad outlines of budgetary expenditure in advance. The budgetary procedure will then take place within this pre-defined framework, after the institutions have set a ceiling on resources for each of the five

years, that is to say 1988, 1989, 1990, 1991 and 1992.

Unambiguous criteria must be fixed for non-compulsory expenditure. But the containment of agricultural expenditure must finally be taken seriously, firstly by pressing ahead with reform of the common agricultural policy and secondly by introducing budgetary stabilizers, which will operate strictly, perhaps even automatically, within the existing framework of budgetary discipline applicable to farm spending.

Of course allowance must be made for exceptional monetary circumstances, which is why the Commission is proposing that a special reserve be created alongside the annual endowment for agriculture to cushion the shocks caused by the ups and down of the dollar.

As this House has urged again and again, the multiannual budget forecasts would then become an important tool for managing the budget and ensuring observance of budgetary discipline. Changes to the rules and practices of budget management should help too. The Commission proposes that the main aim here, as applies to national budgets, should be to adhere more strictly to the annuality principle, by limiting the scope for over-budgetization and by increasing the transparency of appropriations available. This will require a radical reform of the financial regulations.

It is time, ladies and gentlemen, that the two arms of the budgetary authority gave themselves the means to manage Community resources in a serious, responsible way. The people of Europe demand it!

*(Applause)*

These, then, are the main lines of proposals which the Commission has made in the context of what I have termed 'le grand rendez-vous'. But the Commission will also have to pursue its efforts in 1987 to strengthen the base for revitalizing the Community.

The most useful contribution we can make to the debate which has now opened on how we are to make the Single Act work is to demonstrate that it is already in operation, that progress is possible, that more progress is on the way. Since movement builds up momentum, we must broaden and strengthen the base for revitalization in 1987 by advancing towards completion of the internal market and implementation of Community policies which this implies, by moving to a new phase of the

European Monetary System, by taking the people of Europe and the two sides of industry with us, by viewing the year ahead as a test of the improved functioning of the institutions in line with the Single Act.

To take the internal market and Community policies first. As I have said, the large market remains the prime objective. In 1987 the Commission will take two initiatives which it regards as particularly significant.

The first relates to the liberalization of public contracts in areas which are still shielded from competition: energy, transport, water and telecommunications. At the same time we will propose that the Commission be given greater powers to monitor tendering procedures.

The second relates to the approximation of the rates of VAT and excise duties and the distribution of products between rates. This should make it possible to underpin the large market with a tax system compatible with fair competition.

Here then are two new tests of the determination of the Member States to meet the 1992 deadline for completion of the internal market. There is no need to remind you that other important issues, including air transport, car exhaust emissions and a new approach to standards, are still before the Council and must be settled this year. Finally, the Commission will honour its undertaking to present a general survey of the consequences of completion of the internal market for the Community's commercial policy. This will meet the wishes this House has already expressed, notably last month when you adopted Mr Beazley's impressive report on the automobile industry.

You know as well as I do that the large market implies greater cooperation and modern and efficient Community policies. You also know that the top priority in this context is mastery of the new technologies, the key to the competitive and prosperous economy which the large market can help produce for us if only a start can be made.

Ladies and gentlemen, although the crucial importance of Community action is recognized by the Single Act, although it has been accepted at the highest political level, the framework programme for 1987-91 has still not been adopted. This is not good enough. Are programmes as important as Esprit, Race and Brite to die for lack of funds? I ask the question because here again our credibility and the credibility of the Community are at stake.

(Applause)

The Commission with the backing of this House and, in particular, the excellent work of your Committee on Energy, Research and Technology, has already taken steps to ensure that the Councils meeting this month and next take an early decision. May I add my thanks to the Belgian Presidency for the resolute approach it has adopted.

Are we to interpret these hold-ups, particularly on research, as an indication that the Member States are suspicious of the Community? This would be mistaken and unjust. The Community is not setting itself up as a rival to the Member States. Its aim is rather to stimulate that desirable and even essential cooperation between all those involved in any of the aspects of research. Our open and vigilant attitude to the Eureka project is proof of this.

The framework-programme approach means help not hegemony, as was shown recently with the adoption of the integrated Mediterranean programmes. Ladies and gentlemen, Parliament has proved to be a great ally. And I must say that this experience has been most encouraging since a new *modus operandi* has emerged: a permanent dialogue and a new form of consultation between the Community and the regions, which remain responsible for identifying their own needs and deciding how these needs can best be met.

The Commission's role is really that of a regional development engineer. It is far from being the ivory-tower bureaucracy of popular imagination.

But most important of all — and this is why we have extended the use of this approach in our proposals — the regions thus stimulated have become aware of their strengths and weaknesses and have demonstrated their willingness to find new ways of developing.

So we will continue working towards completion of the internal market, we will continue striving to consolidate these Community policies, but in 1987 we will also — and there can be no delay — take stock of the European Monetary System. What happened in December and January shows that the EMS is under threat, that it is at a turning point. Broadening the base for revitalizing the Community means strengthening the bonds of monetary cooperation between Europeans.

It can be said that the first phase of the EMS is coming to an end. Moderate inflation, monetary stability and budgetary prudence are now the

common coin of the countries belonging to the exchange-rate mechanism. We must not forget that during this first phase the EMS has played a vital part in leading most countries into the virtuous spiral of battling against inflation and imbalances.

We must now place the European Monetary System at the centre of an economic system which offers higher performance in terms of growth, competitiveness and employment. The spectacular progress in liberalizing capital movements within the Community leaves us with one choice: to widen the area of economic and monetary cooperation.

The unprecedented upsurge of speculation on capital markets has led some to advocate the relaxation of exchange-rate discipline — a view that we cannot share. Others are thinking in terms of some kind of control over exchange rate movements between key currencies within the international monetary system. But that is another story.

Uncertainty about parities is an unacceptable price to pay for greater financial integration of Europe's economies since it undermines the stability which is vital to the expansion of trade. Indeed I would argue that a common agricultural policy and a frontier-free market which really works is unthinkable unless all currencies are subject to the same exchange rate disciplines by 1992.

The Commission will shortly set out the essential conditions for complete liberalization of capital movements: continuing patient work on the coordination of monetary, budgetary and fiscal policies and the parallel approximation of the rules of prudential management and basic regulations for banks and other financial institutions. At the prompting of the President of the Council of ministers of economic and financial affairs, an initial discussion of these problems will be held in April.

At the same time, the Commission will contribute, as it has done since 1985, to the debate on how the European Monetary System can be strengthened as part of a plan for greater economic convergence. The best ways forward must be found.

The first step is more effective coordination of interest rate policies, which has been conspicuously absent in recent weeks. That at least is one lesson to be learned from that experience.

Then the divergence indicator provided for by the Bremen European Council needs to be reap-

praised. This indicator could become a positive trigger for coordinated and balanced intervention by the central banks. The final step is a wider regulating role for the European Monetary Cooperation Fund, which in turn implies, in our view, increased use of the ECU.

These are only the first steps towards controlling our common financial area and, more generally, ensuring that the large frontier-free market yields all the expected benefits.

In this way, ladies and gentlemen, Europe will be in a position to make the ECU a reserve currency and a means of payment. In this way, and this way only, can it make an effective contribution to restoring international monetary order.

Thirdly, we intend to pursue cooperation with those active in the economy and in industrial relations. Over the last two years, the Commission has endeavoured, with some success, to promote a fresh dialogue between employers and trade unions. It has also won their support for its cooperative growth strategy.

We must hold on to these facts at a time of universal disappointment at how little has been achieved in the area of economic growth and job creation despite the stimulation provided by the fall in oil prices and the value of the dollar.

The Belgian Presidency has shown that it is extremely anxious to reopen the economic debate on growth and the social debate on the organization of work, changes in working time, introduction of the new technologies and operation of the labour market. The Commission has convened working parties of employers and trade unions to study these topics.

In 1987, the Commission in liaison with the Belgian Presidency, will continue to encourage the social dialogue and will call for fresh discussions within the Council on ways of achieving stronger job-creating growth throughout the Community — a perfectly attainable objective. As the Commission stresses in its report on what I have termed 'le grand rendez-vous', this is a precondition for actual completion of the internal market.

I cannot present the Commission's programme without referring to a people's Europe, however disappointed this House and the Commission may be about what has been achieved.

Now that we are trying to get the Community moving again, it is essential that the people of

Europe should feel that this new movement is relevant, that it is of immediate concern to them. The widespread approval which greeted the donation of food surpluses to charitable organizations is a good example of what I mean. 'So Europe does have a heart after all' was the reaction to the measures which were taken, admittedly rather late in the day, although they will remain in operation for some time.

We must pay more attention to a people's Europe, a Europe in which its citizens are free to move and reside, a Europe in which their qualifications are recognized wherever they are.

*(Applause)*

Our critics claim that Europe is synonymous with bureaucracy. But nothing could be further from the truth. Just think of the formalities and mountains of paperwork that will disappear with the frontier-free area, with the mutual recognition of standards and diplomas.

We will encourage young people to be mobile within the frontier-free area. The Comett programme, enabling thousands of students to benefit from on-the-job training with firms in other Member States, has been adopted already. The Erasmus programme should be approved shortly, following the commitment given by the Heads of State or Government at the London European Council. This will allow tens of thousands of students to follow part of their courses of study at universities in other Community countries. Lastly, there is the YES programme to promote youth exchanges.

To the man in the street, Europe is his everyday life, his health. This is why we have taken a number of initiatives in the fight against cancer that have proved remarkably effective in strengthening cooperation. We will do the same for AIDS. We need to demonstrate that, thanks to scientific cooperation, the exchange of information and experience, and the resolute efforts of specialists and academics, the Community can enhance the value of individual contributions and multiply the effectiveness of action taken.

To the ordinary citizen, Europe stands for change which strengthens the feeling of belonging to one and the same community. At the heart of this sense of community lies our cultural heritage in all its rich diversity. I would draw your attention in passing to the conference being organized by the Commission in Florence next month, which will, we trust, serve as the starting point for a debate on the relationship between culture, the economy and technology.

I would like to say a few words, difficult though that may be, about radio, television and the cinema to make the point that, behind the growing multiplicity and profusion of sounds and images being generated by the new technology, it is our cultural identity and technical capacity that is being threatened.

Ladies and gentlemen, unless we join forces we cannot hope to meet the new demand for programmes. If we fail to establish common standards we cannot hope to control the production and distribution process. The stakes are enormous in industrial and cultural terms. With an eye to the large internal market, the Commission has proposed a comprehensive policy for this area, including the 'television without frontiers' directive, which this House will be examining in the near future. This lays down minimum rules governing the distribution of television broadcasts and provides for the implementation, beginning this year, of the Media programme, which will involve the professionals in a diagnosis of the European broadcasting and film industry and the production and distribution of films and programmes. We need to find a way of ensuring that the industry becomes a vehicle for the promotion of our cultural heritage. European Cinema and Television Year will be an important milestone. Let me say again that the stakes are enormous, for Europe cannot live by economic performance alone. Our civilization, our culture, our creative artists demand that we seize an historic opportunity.

The year ahead will also be a test of whether our institutions can operate more effectively.

Within the triangle there are three essential requirements: the Council must improve its decision-making, Parliament must be more closely involved in the legislative process, and the Commission must be given more effective executive powers.

Last December the Council finally agreed to revise its rules of procedure. The formula adopted is far from perfect, but the essential fact is that in practice there is now an obligation of sorts to proceed to a vote. This is undoubtedly an improvement. Last year the Council voted on something like a hundred occasions.

This augurs well for the success of the cooperation procedure, which, as you are aware, is based on the assumption that Parliament and the Council will be conscientious in the matter of voting to avoid delay and deadlock.

Sensibly applied, the cooperation procedure promises to be far more fruitful than seemed

likely at first and certainly for more effective in terms of involving Parliament in the legislative process.

The first requirement for success is that Parliament and the Commission should consult more closely. Indeed, this is what Mr Prout proposes in his report. For its part the Commission has tried to identify in its programme for 1987 the proposals which are likely to be subject to the cooperation procedure. Our two institutions can now negotiate an agreed timetable on this basis. The second requirement for success is the opening of a permanent dialogue between our two institutions and, above all, the need for agreement on first reading of a proposal. That is the approach advocated in your resolution on the Planas-Puchades Report and the Commission is thinking along the same lines.

Finally there is the question — though here I am more pessimistic — of strengthening the Commission's executive powers. The fears I expressed in this House during the debate on the Hänsch Report have, regrettably, proved only too well-founded.

Although our proposal was perfectly realistic, some Member States are obdurately opposed to change, in the future as in the past, and want to perpetuate the army of committees which undermines the effectiveness of Community action.

Be that as it may, the Commission refuses to be deflected in its day-to-day business from the principles of simplicity, transparency and effectiveness which inspired its proposal.

Europe stands at a crossroads this year and has to choose a new path. The Single Act obliges it

to do so. The Commission's proposals form a complete and coherent package of policies and suggestions for implementing the Single Act, the whole Single Act and nothing but the Single Act. What is involved here is Europe's credibility, a demonstration of what the Community can do for the people of Europe, the moral duty of our governments, in the face of the growing disillusionment of Europeans deprived of a common ideal and a vision of their collective destiny.

The Community, ladies and gentlemen, must assert itself at home by finding lasting solutions rather than stop-gap palliatives. It must highlight the close link between what the Community can do and what the Member States can do. But it must also assert itself abroad, taking concerted action to defend its legitimate interests and to make its contribution on the key issues of underdevelopment and peace. It must learn to say 'no' on occasion, it must be generous to the have-nots (hence the priority given to development aid in our programme), it must give itself the means of attaining prosperity and competitiveness.

Being able to say 'no', being generous, being competitive — this is the essence of the struggle which is constantly renewed. The Commission has faced up to its responsibilities without flinching in the hope that, with the support of this House, the coming year will see a major positive advance towards the integration of Europe.

*( Loud applause )*

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**The Commission's programme for 1987**

## I—Europe at the crossroads

1. A year after the accession of Spain and Portugal the Single Act is due to enter into force. The Community is thus experiencing in rapid succession two of the most important changes that it has known since its inception 30 years ago.

The timing is no accident. If a larger Community was not to be a weaker one, the level of its ambitions had to be raised and its institutional system renovated. This is the purpose of the Single Act. It represents a long overdue strengthening of the institutions rendered imperative by enlargements. But, more significantly, it sets new objectives for the Community, including completion of the internal market and the achievement of economic and social cohesion. Completion of the internal market is vital for progress in other areas and for the economic future of Europe. Greater cohesion is a political necessity following enlargement of the Community to include less-favoured countries in southern Europe. But it is an economic necessity too if the Community is to find a coherent response to the challenges facing it.

2. The importance of this period in the Community's history did not escape the governments of the Member States and led to a number of major decisions — at Fontainebleau in 1984 on financial resources and in Luxembourg in 1985 on the structural Funds in the context of greater cohesion. A decision has also been taken to press ahead with the change of direction given to management of the common agricultural policy two years ago. Recent debates in Parliament indicate that it too is keen to see early decisions being taken in these three areas.

Technically these three areas form a single whole. The same is true politically because the Member States' response to the Commission's proposals in these three areas will shape the new Community of Twelve in the years to come.

3. Without prejudice to any new initiatives regarding foreign policy or joint security, it is the pace of economic integration that will determine the outcome of Europe's fight for survival. This pace has still to be set: the Community must choose between a common market embellished with a few financial transfers between Member States with differing standards of living, and the construction of a common economic area in which national and common policies combine to promote stronger growth and more jobs thanks to greater concentration in fields where the Community can achieve more than the

Member States acting individually. Examples are R&D and the environment — both specifically mentioned in the Single Act — and the establishment of the basic transport and telecommunications infrastructure that is essential for the smooth functioning of the internal market.

The Commission's proposals are, then, more than mere technical adjustments. Discussions in the European Council, and the experience of recent years, have shown just how politically sensitive these three areas are and how easily disagreements about them can paralyse the Community. In all three areas — the common agricultural policy, the structural Funds and the budget — the Commission's main conclusion is the same: if the Community is to continue to progress, the Member States must make a fresh effort and the institutions must accept stricter discipline.

### **Further adjustment of the common agricultural policy**

4. Implementation of a common agricultural policy was a key component of the political and economic balance that lay behind the creation of the Community. The policy is based on three principles: Community preference, a unified market and financial solidarity. A further feature is the will to preserve a European farming system characterized by a preponderance of family-run farms. Although this system is not restricted to the less prosperous countries of the Community, it is particularly important where a high proportion of the workforce is engaged in agriculture. Central to the policy is the desire to guarantee consumers security of supply at stable, reasonable prices.

The results obtained from the policy bear witness to the validity of the basic choices made. Improved productivity and technical progress have considerably strengthened European agriculture and made the Community one of the world's agri-food superpowers.

5. But this stimulation of production cannot continue. Today stocks are manifestly excessive, the Community's external trade deficit in agricultural products has dropped over the past 20 years, and world markets are glutted because of a structural imbalance between supply and demand: the long-term increase in the volume of production is 1.5 to 2% a year, while the increase in consumption no more than 0.5%. There is every indication that technological pro-



gress (particularly in biology) will lead to further increases in productivity, which will be spectacular and difficult to assess in economic and ecological terms.

This will prompt a number of countries at present lagging behind to mobilize the substantial production capacity available to them and hence buy less and sell more on world markets. There is therefore a clear need to adjust the common agricultural policy mechanisms in cases where they lead to more and more costly overproduction. Expenditure on agriculture has increased by more than 5% a year in real terms since the early 1980s, and by more than 8% if related to the number of farmers.

6. Market support and income support, which were originally seen as identical and were to be secured by fixing high prices, must now be differentiated. Hence the change of direction begun in 1984, and given further impetus at the end of 1986, aimed at containing both production of and expenditure on certain categories of product.

The 1985 Green Paper outlined the Commission's ideas on how production could be curbed: greater price restraint, less open-ended and more selective intervention, and the fixing of quotas and guarantee thresholds at levels that would bite.

Experience showed, however, that these measures were neither immediately nor totally effective and that further mechanisms would be needed to stabilize expenditure. The budgetary discipline proposed by the Commission was intended to be such a mechanism but exceptional circumstances helped block its acceptance. More specific measures applying to certain product areas were therefore considered or put into effect: these put a ceiling on expenditure by restricting it either to a given quantity produced or to a maximum per production unit, or by imposing charges or co-responsibility levies on producers.

Progress has been made here, but many rules and regulations and some ingrained habits still have to be changed if the common organizations of the market are to regain the necessary flexibility to contain production and restore a balance between supply and demand, thereby curbing budget expenditure on agriculture. The common agricultural policy will then be perceived as genuinely contributing to improved economic and social cohesion. In addition, existing stocks will have to be run down to reasonable levels, in ways the Commission has already proposed.

7. But the position of farmers in our countries must not be placed in jeopardy; that would have

grave social consequences. Adjustments to the common agricultural policy and stricter market and price management may progressively affect farmers' incomes or their capacity to make a living in inverse proportion to their economic size. There is therefore a need for complementary income support measures to prevent the disappearance of yet more agricultural holdings in certain regions, with the consequences this would have for regional planning and conservation of the environment. Such preoccupations are not absent from the common agricultural policy as it stands: certain aids are already targeted to particular types of farmer, product or area. Various socio-structural measures are also being examined by the Council (early retirement, extensification of production etc.). But the new impetus that will be given to the containment of production will undoubtedly call for a change of dimension and the devising of techniques that will allow the aids and measures to reach their targets without exceeding previously defined budget limits. A greater degree of coordination between EAGGF Guarantee and EAGGF Guidance, and between EAGGF Guidance and the Regional Fund, will also be needed.

This policy approach involves a risk, namely that the pressure to grant national aids will increase. The Commission is resolutely opposed to any renationalization of the common agricultural policy, that is, any increase in national aids not in conformity with policies adopted at Community level, generating new imbalances between Member States, clashing with the policy of restricting production, creating a barrier to competition and the free movement of goods, and hindering greater market transparency.

Lastly, more effort and more discipline in agricultural matters on the part of the Community will not have its full impact on world markets unless concerted action along the same lines is taken internationally. Since the potential for the world's leading producers to increase their exports is now limited, the different international forums of negotiation should concentrate their attention on the supply issue. The Community, as the world's biggest importer and second biggest exporter, will have to use all its powers of persuasion to induce its partners, notably the United States, to move towards a healthier agricultural industry and reaffirm, as necessary, the importance of a common external trade policy. This would give our farmers an assurance that the sacrifices associated with the containment of production worldwide will be fairly shared by the world's main producers.

## Reform of the structural Funds

8. The Single Act instructs the Commission to submit to the Council 'a comprehensive proposal . . . the purpose of which will be to make such amendments to the structure and operational rules of the existing structural Funds . . . as are necessary to clarify and rationalize their tasks in order to contribute to the achievement of the objectives (of cohesion) . . ., to increase their efficiency and to coordinate their activities between themselves and with the operations of the existing financial instruments' (Article 130 D).

General reform is needed to give new impetus to reducing regional disparities, which successive enlargements have widened. Reform is also essential to deal with the problems of the existing Funds: the Regional Fund, the Social Fund and the EAGGF Guidance Fund.

9. The first problem is the consistency and complementarity of national action and Community support. This is epitomized by the need for consistency between the Commission's activities and its powers to monitor and authorize national aids. The Commission must ensure that advantages in terms of location cause no distortion of competition, and at the same time that aid to assist regions which are structurally backward or suffering deindustrialization is effective.

The second problem is the visible utility of Community support. As in other areas, Community action through the structural Funds is justified if it gives a genuine additional boost to national measures. This can be difficult to identify in certain types of operation; hence the multiplication of targets and criteria leading to the scattering of assistance over small-scale projects, whose capacity to generate local initiatives is poor and whose impact is difficult to assess. Moreover, the financial resources at present earmarked for these Funds are too modest to secure any marked reduction in macro-economic terms of regional imbalances in the Community.

10. It follows that the planned reform must clarify objectives, ensure greater selectivity in the choice of targets, concentrate resources and improve the way in which the Community intervenes.

The priorities must be to help underdeveloped regions to catch up, to restructure regions in decline, to combat long-term unemployment and to preserve the countryside. These objectives relate variously to regional economic develop-

ment, the functioning of the labour market, and the pattern of agricultural activities. For this reason the Commission considers that a merger of the structural Funds would inevitably lead to a mere budgetary redistribution among the Member States. This would be a retrograde step since it would kill the seeds of new policies that could, in the long term, bear fruit in the form of new developments.

Greater selectivity will make it easier for action to be concentrated, to an extent to be determined, on the least-favoured regions (Portugal, Ireland and Greece; certain parts of Spain, Italy and the United Kingdom; the French Overseas Departments).

Lastly, Community intervention must become more and more integrated into programmes negotiated with national, regional and local government. These programmes should embrace not only aid for investment, further vocational training and other measures to encourage geographical mobility, but also aid for the development of an environment that will foster the continuation of existing activities and the introduction of new ones. The programme approach implies coordination between the three separate Funds, thereby allowing sufficiently specialized know-how to be developed. It should also open the door to more decentralization of the execution of operations and the diversion into technical assistance and monitoring capacity of resources at present devoted to administrative tasks.

11. By looking at essentials, by helping build up local know-how—often lacking in the least-favoured regions—and by concentrating their resources on reduction of structural handicaps, the structural Funds can be expected to play a leading role in achieving economic and social cohesion. They cannot however be identified too closely with the achievement of cohesion because the Community's financial instruments are not restricted to the three structural Funds. Not only that, the attempt to improve the allocation of resources and to distribute activities more harmoniously, the very foundation of the Community plan for greater economic and social cohesion, is part of a broad area of cooperation, as the Single Act makes clear: conduct and coordination of Member States' economic policies, implementation of common policies, including monetary cooperation, and completion of the internal market, bringing with it advantages of scale and economic and technical progress. The reform of the structural Funds must, then, be seen in the context of stronger economic growth for everyone, including the more prosperous regions, which can expect

greater cohesion to create new outlets for their products, their services and their human and financial resources.

### **New own resources**

12. A greater degree of control over farm spending and greater economic effectiveness in the use of the structural Funds should substantially alter the future prospects for the Community budget, but the financial system, as set up by the Treaty of Rome and revised in 1970, can no longer be simply the sum of expenditures to be financed by the Member States. Experience has shown this system to have its own inadequacies, which are now so obvious that major reform is necessary here too if the future development of the Community is to be founded on bases which are sound and credible both for the Member States and Parliament, and for the people of Europe.

The Community budget is different from those of the Member States in that there is a legal requirement for it to be in balance. In theory no budget deficit is allowed and expenditure is thus strictly limited by the different resources available, the bulk of which are themselves subject to a ceiling. Things are quite different in practice and, from one budget crisis to another, a number of devices have been resorted to in order to circumvent these limits, by deferring expenditure for which funds were not immediately available: the accounting arrangements for agricultural stocks are such that, in the very short term, it is much less of a burden on the Community budget to increase stocks of agricultural products than to market them; the growth of commitment appropriations and of payment appropriations are not subject to the same constraints, so that, again in the short run, the former may increase much faster than the latter, though the commitments have nonetheless to be honoured in the end; and the arrangements for carrying over appropriations from year to year allow certain adjustments to be made, which also generate expenditure in the future.

13. Why have these devices been employed and on what scale? The answer is to be found on both the expenditure side and the revenue side, and in the various repayment and compensation mechanisms.

On the expenditure side, we have already seen that in addition to the foreseeable and politically desirable increase in the allocations for new policies there has also been the budgetary bur-

den of the common agricultural policy, which it has not been possible to contain over the last few years despite the budgetary discipline imposed in 1980 and the major reforms since 1984.

As regards revenue, one-third of which comes from traditional own resources (customs duties and agricultural levies) and two-thirds from VAT contributions, the trend is in the opposite direction, the inevitable result being a structural shrinking of the Community's revenue base: customs duties and agricultural levies are diminishing regularly as a result of multilateral tariff dismantling and the Community's growing self-sufficiency in farm products, while the VAT base increases more slowly than economic activity in the Community because of the fall in the proportion of gross domestic product accounted for by consumer expenditure. This trend affects the Member States to differing extents, and accentuates the inherent inadequacies of the VAT base.

There has also been the sharp increase in compensation provided for by the Fontainebleau mechanism and more recently by the accession arrangements for Spain and Portugal, together with other existing types of repayment to Member States. The effect of this has been to keep the resources actually available well below the 1.4% VAT ceiling.

It can thus be seen that the situation cannot be described solely in terms of the runaway growth of overall expenditure. While there can be no denying that the VAT call-in rate has practically doubled between 1980 and 1986 (from 0.73% to nearly 1.4%), the reconstitution of a 'true' budget gives a more accurate picture of how the situation has developed and what the real cost is. The VAT call-in rate required for actual expenditure was already around 1.2% in 1983, when the ceiling was set at 1%, and exceeds 1.6% for 1987.

14. The Commission considers that neither in the short nor in the medium term is this situation tenable.

The likely deficit for 1987 is currently estimated at 4 000 million ECU. This sum is more than can be made up by the expenditure-shifting expedients referred to earlier, and there is thus a serious risk of a cash crisis, with the Commission being unable to honour commitments provided for in the budget. Measures to reduce agricultural stocks, which are currently over-valued by two-thirds, and the accumulated cost of the past for the structural Funds will also lead to unavoidable expenditure for which there is at present no budget provision.

For later years, there must be sounder guarantees both for the Community and for the Member States. The Commission takes the view that the Community needs budgetary security for long enough to allow it to plan its own development and to avoid hiccups which jeopardize the continuity and consistency of Community action. The possibility must exist for decisions on the strengthening of structural policies and on the development of new policies (including policies on research and technology, infrastructure policies to facilitate completion of the internal market, environmental policies) to be taken on their own merits and in the light of the benefits that will accrue to Member States and the possible saving to their budgets, without it being necessary each year for the 12 national parliaments to go through a ratification procedure for a new ceiling on resources.

Community financing must not only be put on a sounder footing; it must also be fairer. The Commission considers that arrangements must be made for the burden of financing to be so distributed among the Member States that it is not out of proportion to their relative prosperity.

15. At the same time the Commission for its part is prepared to propose and to implement a

major reform of the current financial regulations, which experience has shown to be inadequate for strict budget management. These new rules which the Community would impose on itself would provide the Member States and Parliament with more effective guarantees as regards transparency and the implementation of the budgetary authority's decisions.

These arrangements could be accompanied by a limit on the total Community tax levy, to be expressed as a proportion of gross domestic product ('compulsory Community levy'). Such a ceiling would assume an economic and political significance which would justify thorough discussion in national parliaments every five or ten years. Up to this ceiling the Community's various own resources would be adjusted by the budgetary authority in accordance with procedures to be determined.

Finally, the Commission is convinced that a strict budget system is impossible without a multiannual reference framework to underpin arrangements for real budgetary discipline, i.e. which are binding upon Member States, Parliament and Commission alike. The Commission for its part is ready to outline such a framework.

## II — The large market

### An area without frontiers

16. The Community's overriding concern in 1987 must be to keep up — if not step up — the momentum created at the end of 1986 so that work on completion of the internal market can proceed in accordance with the programme set out in the Commission's White Paper. Attainment of this objective is a prerequisite for a efficient, modern Europe that will provide industry and commerce with a structural framework in which they can be fully competitive.

Each institution has a key role to play. Thanks to the Single Act the 1992 deadline for creation of a frontier-free area will be enshrined in the Community's constitution. The Council has been given the means of speeding up decision-making while the new cooperation procedure gives Parliament a far wider role than in the past in this area which is crucial for the development of the Community.

The abolition of internal frontiers calls for parallel progress in harmonizing import and export arrangements at Community level. Many physical inspections at internal borders relate to trade between the Community and other countries and are the direct result of the continued existence of national or regionalized quantitative restrictions. The Commission will therefore look further into these problems, which are linked to the need to strengthen the Community's commercial policy, which will in turn affect the Community's ability to play an active and constructive role in the world economy.

17. It should be possible to advance more rapidly in 1987 and dispel any doubts that industry and commerce may harbour concerning the credibility of the Community's efforts to create a frontier-free area. The measures approved by the Council last December (standardization in information and telecommunications technologies, intellectual and commercial safeguards in data-processing and telecommunications, marketing of pharmaceuticals) are steps in the right direction, as is the progress registered during the year in a number of important areas: capital movements, universities and technology (Comett), application of the new approach to standardization, right of establishment. etc.

But on the debit side it must be admitted that the Council was very late with its undertakings on taxation, and that progress on the veterinary, plant health and agri-foodstuffs side was par-

ticularly disappointing. This is where the Council comes up against the problem of the procedure for delegating powers to the Commission.

It is important therefore that definite progress be made in a number of key areas in 1987.

18. The first of these is public contracts. Apart from those awarded by central government and regional or local authorities (accounting for 8-9% of Community GDP), there are the public procurement contracts of the non-competitive sector governed by private law. They epitomize the scale of what is at stake, even though a quarter of the orders are for military equipment and as such fall under Article 223 of the Treaty. The industrial and technological impact of public contracts is quite substantial too, since it frequently affects key sectors such as telecommunications, construction, major infrastructure projects, energy, transport, education and health.

It is for this reason, faced with the poor results produced by the relevant Directives, that the Commission adopted an action programme designed to adapt and improve existing instruments, to ensure that they are properly applied and to develop a Community procurement discipline in areas not yet covered.

Last year the Council agreed on a compromise solution as regards the improvements to the supplies Directive. In 1987 it will take a decision on the Commission's proposals for improving the works Directive. This advance will have to be sustained by proper application of Community law. To this end the Commission will be making proposals in the near future for tightening up monitoring and intervention powers before completion of tendering procedures. The Commission will also tackle the four major sectors which are outside the scope of the Directives (transport, energy, water and telecommunications). Its aim will be to secure greater transparency in these key sectors and open contracts to competition from economic operators throughout the Community.

19. A second key area is tax frontiers. The Council has yet to examine the Commission's standstill proposal presented at the end of 1985 as required by the timetable.

A start must be made as a matter of urgency on the harmonization and approximation of indirect taxation, since tax controls remain a major barrier to the crossing of internal frontiers. At the beginning of the year the Commission will present proposals for reducing the

disparities between rates and the distribution of products between rates.

At the same time it will propose an appropriate clearing house mechanism to ensure correct allocation of revenue and to prevent the new system leading to distortions of trade. It is also vital that the Council reach agreement on various harmonization measures still pending (VAT Directives eliminating certain concessions and further harmonizing provisions on particular categories of goods).

20. Then there is standardization, the linchpin of European policy on new products and new technologies. The Commission has outlined a new approach to the elimination of technical barriers to trade which will imply increased activity by European standardization agencies and further work to prevent the creation of obstacles. The first proposals are already with the Council and further proposals will follow in the course of 1987 (safety of machines and radio electric interference). Discussions on the mutual recognition of tests and certificates issued by national laboratories — an essential complement to an effective European standardization policy — should be brought to a successful conclusion in 1987.

These activities assume particular importance in relation to the new technologies. The agreements reached last year in the Council (first stage of standardization in the field of information and telecommunications technologies, mutual recognition of type-approval for telecommunication terminal equipment, technical specifications for direct relay of satellite television) will have to be consolidated in 1987 if material progress is to be made towards standardization in other areas related to the new technologies (biotechnology, radio and television services, mobile telephony, electronic payment systems etc.). The early establishment of European standards in these areas is vital to the creation of a reliable Community-wide framework capable of sustaining technical innovation through the interoperability of systems.

These standardization activities are closely linked to the progress of research programmes, the Esprit and Race programmes in particular. They also have a bearing on the Eureka programme, offering joint research projects the advantage of a larger market.

21. Last but not least, there is the full financial dimension of the internal market. Significant progress was made last year with the adoption of a new Directive as part of the programme for liberalizing capital movements in the Com-

munity. This move towards the interlinking of financial markets will afford much wider opportunities for the circulation of securities, the development of collective forms of investment, access for borrowers to the capital markets of other Member States, and the quotation of securities on other stock exchanges. It is a first step towards achieving a unified financial market by 1992, especially as it is accompanied by similar developments in the Member States which have made it possible, for instance, to discontinue application of the safeguard clause which has operated in France since 1968 and to restrict the scope of the arrangements applying in Italy.

Progress must continue in 1987, along the lines laid down for implementation of the final stage of the Commission's programme. In the spring the Commission will propose terms for transition to the complete liberalization of movements of a monetary nature. But before then it will present the Council and Parliament with a report, produced in close liaison with the Committee of Governors and the Monetary Committee, on the multiple implications of full financial integration, so as to ensure that the creation of a European financial area proceeds under optimum conditions, yielding positive benefits for the economies of all the Member States.

22. Again in the specific area of financial services — which is developing on an extraordinary scale and is directly linked to the process of full financial integration — decisive progress will have to be made.

With regard to insurance, the way towards free movement was made clearer by recent Court of Justice judgments. Harmonization should now proceed rapidly in the key sector of banking. The recent recommendations concerning deposit guarantee schemes and monitoring large exposures have gone to make up a consistent package of measures. In following up the Directive recently approved by the Council on annual accounts and consolidated accounts, progress must be made on the aspects of financial stability (equity capital, reorganization and winding up, mortgage credit). The Commission will present a second Directive before the end of the year to round off harmonization of the essential elements of banking law.

23. A continuing priority will be affirmation of European identity so that the man in the street is aware of living in a frontier-free area: the Commission's proposals on the easing of frontier controls, the right of residence and the general system for the mutual recognition of diplomas, are steps in that direction. The Hague

European Council in June 1986 had hoped for definite progress in these areas and on the Erasmus plan. But it must be admitted that nothing concrete emerged despite the impetus given by the European Council itself. The Commission will be urging the Council to produce tangible results without delay. As soon as its proposal on personal checks is adopted the Commission will launch an information campaign to make the public aware of the easing of border controls, a significant step towards freedom of

movement. The abolition of checks at internal borders must be offset by tighter controls at the Community's external frontiers to counter the threat of terrorism, drug trafficking, illegal entry, and so on. At a meeting last October the Interior Ministers recognized the importance of increased cooperation on these matters given the objectives set by the Single Act. This essential process must move forward in 1987 under the impetus provided by the conclusions reached by the European Council in London last December.

## **Internal market**

### *Physical barriers*

- Elimination of statistical formalities at internal borders
- Preparations for the introduction in 1988 of two major customs reforms: the Single Administrative Document and a harmonized system for the designation and classification of goods
- \* Proposal on control of the acquisition and possession of arms
- Various measures relating to animal health, public health and plant health provided for in the White Paper

### *Technical barriers*

- \* Various proposals (in particular a new approach to standardization) in the fields of mechanical engineering, electrical engineering, metrology, etc. (safety of machines, radioelectric interference, pressure gauges, etc.)
- \* Proposals to amend several existing directives in the motor vehicles sector (field of vision, anti-blocking devices, rear protective devices, lighting, etc.); test procedures, supplementary directive on emission control test cycles, etc.
- \* Proposals to amend several existing directives on tractors and agricultural machinery (steering equipment, driver's seat, lighting, etc.)
- \* Proposals on foodstuffs
- \* Proposal to extend the existing directives to include pharmaceutical products not yet covered; amendments relating to veterinary medicinal products
- \* Proposal relating to the kinds of fertilizers covered by the 1976 general Directive on fertilizers, secondary fertilizers, methods of analysis, etc.
- \* Proposals relating to individual protective devices (eyes, breathing, clothes, etc.)

### *Public contracts*

- \* Liberalization of public works and supply contracts in hitherto excluded sectors (telecommunications, energy, transport, water); liberalization of public service contracts

### *Free movement of workers and members of the professions*

- \* Proposals to adapt and amend existing directives for several professional categories (veterinary surgeons, doctors, nurses, etc.), to facilitate access to the professions, to extend the mutual recognition of diplomas and certificates, etc

#### *Capital movements and the services market*

- Communication on the implications of complete liberalization of capital movements and a proposal for a directive on the recognition of the principle of complete freedom of capital movements within the Community
- \* Continuation of efforts to induce the Council to adopt directives proposed in 1985/86 in accordance with the White Paper (mortgage credit, equity capital, reorganization and winding up, treatment of branches of foreign banks)
- \* Proposals for a second directive on the coordination of laws, regulations and administrative provisions on the taking up and pursuit of the business of credit institutions; harmonization of solvency ratios
- \* Efforts to induce the Council, in the light of recent Court rulings, to adopt the second directive coordinating laws, regulations and administrative provisions on non-life insurance and directives on insurance contracts, legal protection, credit insurance, winding up and annual accounts; proposal for directives on third-party motor vehicle insurance and freedom to provide life assurance services
- \* Proposals for directives on investment advisers and insider trading
- Encouragement of the adoption of a code of conduct relating to the principles of use of new means of payment

#### *Creation of an environment favourable to industrial cooperation*

- \* Continuation of work in the area of company law (fifth, tenth, eleventh, fourth and seventh directives)
- \* Proposal for a directive on takeover bids and the winding up of companies
- Publication of a Green Paper on priority matters relating to copyright
- Proposals relating to the legal protection of biotechnological inventions and computer programs
- General Commission communications, under Article 30 of the Treaty, on several sectors (food products, motor vehicles, works of art, customs disputes, etc.)
- Presentation of a White Paper on company taxation
- Proposal for a mutual assistance procedure for the forced recovery of direct tax claims and for common rules to determine the taxable profits of companies
- Further efforts to induce the Council to adopt the proposals for directives on the harmonization of indirect taxes on transactions in securities, the establishment of a common system for the taxation of mergers, divisions and contributions of assets, the establishment of a common tax arrangement applicable to parent companies and subsidiaries and the establishment of an arbitration procedure to eliminate double taxation between associated enterprises

#### *Tax barriers*

- Proposals on the harmonization of VAT rates and the distribution of products between rates and the establishment of a clearing-house mechanism
- Proposal on the harmonization of the structure of excise duties, the approximation of rates and the gradual abolition or reduction of excise duties not covered by the common system and giving rise to border formalities



## Competition

24. The Commission will seek to ensure that the competition rules continue to play their role as a unifying force enabling the common market to function without distortion.

The Commission will continue to enforce the competition rules as they apply to conventional forms of restrictive practice and abuse of dominance, and will also press ahead with work on new aspects of antitrust law, work which is already far advanced. Guidelines on joint ventures will be published after the Member States have been consulted for a second time. Draft regulations on know-how and franchising agreements will be notified to Member States for their comments in 1987.

State aids do not merely distort competition; in the long term they undermine efforts to increase competitiveness. The Commission proposes to take a stricter approach in this field; 1987 will see a continuation of the gradual opening up to competition of particularly sensitive industries such as steel and shipyards. The Commission will continue its work with a view to publishing as soon as possible the White Paper setting out an inventory of State aids in the Community.

## Research and technological development

25. Research and technological development is a decisive area for the creation of a large, modern and competitive market, an area in which it is becoming increasingly clear that the Community has a specific and indispensable role to play. In 1986 the Commission drew up a framework programme for research and technological development (1987-91) to enable the Community to play that role to best advantage. The programme was not adopted by the end of the year as initially hoped and expected. The Commission's first aim in 1987 will therefore be to ensure that the programme is adopted and put into operation. It will be the first instance of application of the Single Act, which provides a legal basis for giving a new impetus to the Community's scientific and technological base. The support given to the Commission's proposal by Parliament and others bears witness to the interest aroused by the framework programme and the remaining reservations within the Council should be withdrawn before long.

The framework programme identifies a number of areas on which the Community's activities

can be focused and in which the Commission will take a number of initiatives in 1987. The Commission's new plans for financial engineering operations will help to translate R&TD activities into industrial applications.

26. To begin with the quality of life, 1987 should see implementation of a new programme to coordinate medical research which will pay considerable attention to cancer and AIDS. In addition the environment and radiation protection programmes will be reviewed.

In the field of information technology and telecommunications, the second phase of Esprit and the main phase of RACE will be adopted this year. Other programmes designed to stimulate the integration of information technology in new applications—computer-aided teaching, road safety and medical information—are in preparation. The pilot projects for testing transnational integrated data-communication applications for public users will continue (Insis and Caddia). Other operations will start in the field of electronic data transfer for business users (Tedis).

To make advanced telecommunications and information services more easily and rapidly available to the user, other important proposals will be made, involving broadband networks for commercial traffic, radio telephony, specialized information, and so on. The major structural changes occurring in the telecommunications market will now mean considerable changes in Europe: the Commission will produce a discussion document on this topic.

27. One of the Community's priority aims is to put Community research at the service of European industrial development. To this end the Commission will review the materials and biotechnology research programmes and present a proposal for an action programme on biotechnology applications in the agro-industrial sector; it will also review research programmes. The Brite programme will be reviewed and Brite II will get under way. The preparation and launching of a new programme for the Community Bureau of References should make it possible to expand the role the Community is an ideal position to play in the field of standardization, a crucial element in completion of the internal market. As far as energy is concerned, the Commission will be guided by the desire to maintain and develop within the Community a technological capacity which is as diversified as possible and applicable in the short, medium and long term. In 1987 this will be reflected in the review of the non-nuclear energy research programme, a number of programmes in the

nuclear fission energy field, and the launching of a new programme of fusion research.

This year should also see the implementation of a new research programme on development aid and the addition of a new area—marine science and technology—in which research at Community level offers indisputable advantages. This year should also see further progress in the building of a Research Workers' Europe, with the expansion of the programme to encourage scientific exchanges and the launching of a back-up programme for large research equipment. In addition, the launching of a new forecasting programme (FAST) and a new plan for the evaluation of research should enable the Community to exert more control over its scientific and technological future and ways and means of achieving it.

The industrial revival which should result from this technological effort is the essential culmi-

nation of the research-industrialization chain. The Commission hopes that 1987 will see implementation of the practical suggestions put forward in 1986 as part of the Community-level financial engineering initiatives to aid technological progress.

28. For the Joint Research Centre 1987 will be a year of decision. Various measures will be examined and implemented to improve the functioning of the JRC which is vital to the Community; its relations with other research centres and industry will be strengthened and its activities will be brought into line with the main aims of the framework programme by intensifying pre-standardization research (materials, environment, energy technologies, etc.). To that end, the Commission will present a proposal on the future role of the JRC to the Council in 1987.

## **Research and technological development**

### *Implementation of the framework programme for research and technological development (1987-91)*

- \* Proposal on the future role of the Joint Research Centre (1988-91)

### *Quality of life*

- \* Implementation of the 1987-89 programme for the coordination of medical research
- \* Review of the radiation protection programme (1985-89)

### *Information technology, telecommunications, innovation*

- \* Implementation of the main phase of the RACE (Research in advanced communication technologies in Europe) programme
- \* Implementation of the Esprit programme for 1987, proposal for a regulation on the second phase of the Esprit programme, fourth Esprit conference in September, and presentation of the detailed work plan for the second phase of the Esprit programme for 1988
- \* Finalization of preparatory work on proposals on the pilot phase of the Delta (Development of European learning by technological advance), DRIVE (Dedicated road and intelligent vehicles in Europe) and Euroaim (European advanced informatics in medicine) programmes
- \* Implementation of the preparatory phase of the Tedis (trade electronic data interchange system) programme

### *Biotechnology*

- \* Review of the biotechnology programme (1985-89)
- \* Proposal for the pilot phase of an action programme on biotechnology applications in the agro-industrial sector

### *Industrial technologies*

- \* Review of the Brite (Basic research in industrial technology for Europe) programme (1985-88) and proposal for Brite II
- \* Proposal on a programme for the Community Bureau of References (CBR) (1988-91)
- \* Review of the materials research programme (1986-89)

### *Energy*

- \* Fusion research programme for 1987-91 and amendment to the statutes of the JET joint undertaking (extension to 1992 and accession of Spain and Portugal)
- \* Review of the research programme on non-nuclear energy (1985-88)
- \* Review of the research programme on the management and storage of radioactive waste (1985-89)
- \* Review of the research programme on the decommissioning of nuclear facilities (1984-88)

### *Research workers' Europe*

- \* Review of the stimulation plan (1985-88) and proposal on a plan for Community support for large-scale scientific facilities of European interest
- \* Proposal for a new FAST programme (Community forecasting and assessment in science and technology) (1988-91)
- \* Proposal on adaptation of the multilingualism programme approved by the Commission
- \* Communications on the evaluation of specific programmes and on the dissemination and utilization of results from the Community's R&TD activities

### *Science and technology activities outside the framework programme*

- Continuation of the Insis (Interinstitutional integrated services information system) and Caddia (cooperation in the automation of data and documentation for imports/exports and agriculture) programmes
- Presentation of a Green Paper on the structural reorganization of telecommunications
- Communication on the setting up of a transnational broadband backbone (TBB)
- Proposals on the introduction of a common policy for the development of information services
- Proposal on the coordinated introduction of second-generation mobile telephony services
- Proposal on the continuation of the revised Sprint (Strategic programme for innovation and technology transfer) programme
- Proposal for steel research projects.

## Industrial policy

29. The success of the large internal market will depend on the performance of the Community's main industries, especially those most immediately affected by the need to do away with frontiers. Particular attention will have to be paid in this respect to the steel industry, the motor industry and shipbuilding.

As far as the steel industry is concerned, 1987 will see the continuation of efforts to deal with the remaining consequences of the long-standing crisis. The Commission will ensure that the special measures in operation since 1980 are dismantled in an orderly fashion in order to facilitate the restructuring of the industry and that appropriate flanking social measures are introduced. As far as the motor industry is concerned, the Commission will continue to press for the introduction of a Community policy, the aim being to remove technical barriers to trade and to achieve greater uniformity in the matter of access to the Community market for cars from non-member countries. As far as shipbuilding is concerned, restructuring in 1987 should focus on the new approach initiated by the Sixth Aid Directive with a view to making the industry more efficient and more competitive. The Commission will present a general communication expanding on the guidelines submitted last year on the industrial, social and regional aspects of this sensitive sector.

## Transport

30. The Community's transport policy, aimed at a liberalized system, is a component of the large internal market. Progress will therefore need to be made in a number of significant respects in 1987. The Commission will pursue its efforts to secure gradual application of the principle of freedom to provide services and to eliminate distortions of competition in a sector which has a direct economic impact on trade and industry.

31. The *Nouvelles Frontières* judgment was a milestone on the road to achieving the goals set in the 1984 Memorandum on air transport. The impetus it provided was strengthened by the conclusions of the European Council in The Hague in June 1986. At the end of 1986 the discussions within the Council allowed some progress to be made. The Council and the Commission will continue their efforts to achieve rapidly the degree of competition and deregu-

lation required by the Treaty. The Commission's efforts will also be aimed at achieving easier access to the interregional market, along the lines set out in the communication submitted last September.

32. As far as shipping is concerned, the regulations aimed at ensuring healthier competition both within and outside the Community (ocean trades, competition, tariffs, freedom to provide services) have been adopted at last. Approval of these four components of the shipping package means that the Commission can move on to a new stage of the programme for implementing the Community's shipping policy, under which freedom to provide services would be backed by measures to approximate social legislation, technical aspects and State aid. Proposals may also be made for recourse to a Community flag as a means of combating the crisis being experienced by the Community fleet.

33. As far as inland transport is concerned, the Commission will concentrate on the transition to the new organization of the road haulage market from 1992 and freedom to provide freight and passenger transport services. The Commission's main objective on rail transport will continue to be the financial reorganization of the railways. A similar objective will be pursued in relation to inland waterway transport (scrapping).

Completion of the internal market in 1992 will imply a new approach to relations with non-member countries which are of vital importance in the transport sector. The top priority in the immediate future will be inland freight transport. The Commission will submit a communication with proposals on the problem of goods transiting through non-member countries.

34. There is also a need for a Community dimension in the matter of transport infrastructure, which has considerable implications for completion of the internal market and increased economic and social cohesion within the Community. Under the medium-term programme of transport infrastructure of European interest which the Commission proposed last year, 1987 should see effective recognition of the major importance and specific nature of action by the Community to develop this powerful factor for integration which will create new outlets and guarantee the competitiveness of industry.

The Commission has now clarified the catalytic role the Community can play in the promotion of major projects in this area which is full of potential. It is important that, in addition to existing instruments, financial engineering techniques should be used from 1987 onwards to

create conditions favourable to the planning and realization of major projects and to mobilize the market for new forms of Community funding (budget guarantees and project financing).

Initiatives of this kind will provide concrete examples of what the Community can do to supplement its cooperative growth strategy for more employment.

## **Transport**

### ***Road transport***

- Proposal to amend Regulations 117/66, 516/72 and 517/72 (common rules on international passenger transport)
- Proposal concerning the conditions under which non-resident carriers can carry out national passenger transport operations
- Proposal for a directive designed to tighten up the conditions relating to access to the occupation of freight transport operator and passenger transport operator
- Communication and proposals concerning inland transport of goods through non-member countries
- Proposals on negotiations with Yugoslavia for a limited agreement on occasional international road passenger services and the conclusion of an agreement on combined transport with various non-member countries

### ***Air transport***

- Continuation of the determined effort made in 1986 to achieve greater flexibility in the organization of air transport (fares, capacity, competition) in line with the objectives set out in Memorandum No 2 in 1984
- Proposals on easier access to the air transport market, the principles underlying airport charges, consultations between airports and users

### ***Shipping***

- Next phase of a Community shipping policy (approximation of legislation, technical aspects, State aid)
- Proposals on the use of a Community flag, and studies on the possibility of introducing a ship-scraping scheme

### ***Follow-up to Road Safety Year***

- Proposals on safety, the environment and social matters (safety belts, technical characteristics of tyres, transport of dangerous goods, mutual recognition of licences and certificates etc.)

### III — Economic recovery and cohesion

35. Achieving a significant and lasting fall in unemployment will continue to be the priority in 1987. The Community's strategy has been in place since 1985 with the adoption of an integrated approach to the macroeconomic and microeconomic aspects and the social dimension of this fundamental problem (moderate real wage increases that fall short of productivity growth; greater market adaptability; and a strengthening of domestic demand through an increase in private and public investment and the promotion of venture capital).

36. Moderate recovery continued in 1986 but failed to reach the level which would produce a significant reduction in the rate of unemployment. Growth remained at about 2.5%. In 1987 the figure for the Community as a whole is likely to range between 2.5% and 3%, and employment is expected to increase by about 0.8% per annum. The rate of unemployment will fall only slightly, working out at about 11.7% (EUR 12).

Although these results are insufficient the Commission believes that the Community's cooperative growth strategy for more employment has lost nothing of its relevance. Quite the reverse, the substantial improvement in the terms of trade brought about by falling oil prices and the falling dollar, the expectation that investment growth will be sustained in 1987, the fresh fall in inflation rates and their more rapid convergence towards greater stability, are all factors militating in favour of more determined and deliberate implementation of the cooperative strategy in order to boost the current improvement in supply and demand conditions and to encourage changes in behaviour patterns in the interests of more rapid growth in employment. As far as public finance policy is concerned, the objective of medium-term budgetary consolidation must be maintained, and full use made of existing or emerging room for manoeuvre to improve supply and demand conditions while taking account of the specific situations of the individual Member States.

37. The support for the basic thrust of the cooperative strategy expressed in November in a joint opinion by the two sides of industry (represented by UNICE, CEEP and ETUC), and the emerging agreement on the microeconomic aspects, bode well for its effective application. It is essential that social dialogue on the themes

of the cooperative strategy should get under way at national level. In 1987 the Commission, in response to the request made by the Council last December, will act with determination to induce governments, employers and unions to enter into dialogue in each Member State. Widening the base for the dialogue will be crucial in persuading all concerned to adhere to the guidelines implicit in the cooperative strategy.

As promised in the Annual Report approved by the Council last December, the Commission will present an interim report on application of the cooperative strategy in July, based on reports to be drawn up by each Member State by the beginning of May.

38. The European Monetary System is vital to the implementation of the cooperative strategy on two counts. Firstly, the relative stability of exchange rates provides participants with a guarantee that the efforts they undertake in pursuit of modernization and competitiveness will not be undermined by aggressive exchange-rate policies. Secondly, effective use of Community instruments for medium-term balance-of-payments support facilitates implementation of the most difficult cyclical adjustments.

The importance of the EMS as a basis for closer monetary cooperation between Member States is recognized in the Single Act. It is a prerequisite for rapid economic growth in the Community and consequently a major force for cohesion.

In 1987 it will be desirable and necessary to strengthen the working of the EMS as the basis of monetary cooperation in response to two developments:

- (a) thanks to increased convergence in macroeconomic performances on inflation, the rates of price increases in the various Member States will be closer together than they have been for 15 years, around an average of 3%;
- (b) the liberalization of capital movements will make significant progress; seven Member States are already giving full effect to the recent Directive on the complete liberalization of movements linked to financial market transactions.

For its part the Commission will work to three main deadlines.

In April it will submit a report to the Council (Economic and Financial Affairs) on the necessary conditions for a complete liberalization of capital movements. This will be produced in collaboration with the Monetary Committee and the Committee of Governors of Central

Banks, in accordance with the timetable in the programme for the liberalization of capital movements published last June.

In the course of 1987 it will send the Council a draft Directive on the complete liberalization of capital movements, together with proposals on the renovation of the Community instruments for balance-of-payments support and an updating of the 1972 Directive on capital movements between the Community and non-member countries.

Before the end of the year it will draw up a progress report on operation of the EMS and progress on the liberalization of capital movements, as it was requested to do by the Heads of State or Government at the Luxembourg European Council in December 1985.

39. To further the objective of economic and social cohesion, everything must also be done to ensure that the structural instruments can begin operating on a new basis from January 1988. The Council, Parliament and the Economic and Social Committee will have to give this matter the necessary priority. The Commission will put forward proposals on the definition of the role of each instrument in the context of a Community structural policy based on objectives, optimum concentration of resources and measures; and the proper framework for coordination between the structural instruments themselves and between these and the financial instruments, the aim being to simplify management and make Community assistance more efficient. The Commission will also complete the in-depth consultations now in progress with interested parties (government departments, regional development agencies and recipient local and regional authorities), so that the tools of social and regional development in the Community can operate on a sound and solid basis from the start of the new arrangements.

40. Side by side with work on reform of the structural instruments, the measures and policies launched last year will be continued in 1987. They form part of an ongoing effort to simplify, decentralize and concentrate Community assistance.

There will be several significant applications of the integrated approach, involving the restructuring of areas affected by the steel crisis, industrial development (Portugal), regional development (Spain), and the conversion of regions in decline.

As far as the integrated Mediterranean programmes are concerned, 1987 will be devoted in

the main to continued appraisal of the projects submitted so that programme contracts for Greece, Italy and France can be concluded by the end of the year. Monitoring structures will be set up in close collaboration with the national and regional authorities and associated technical assistance measures will be taken. The Commission will produce an initial report on the IMPs, dealing with financial aspects, implementation and evaluation.

41. The Commission will continue its project financing activity, seeking to assist those investments which best serve the Community interest. It will also act to step up Regional Fund operations in several priority fields.

The Community STAR and Valoren programmes, which link energy and telecommunications policy objectives to the development of less-favoured regions, will come into operation in 1987. Other Community programmes will be proposed in the course of the year; apart from measures to assist regions affected by the restructuring of the steel industry, the Commission will put forward proposals aimed at helping less-favoured regions to work towards Community environmental objectives, facilitating the conversion of areas affected by the restructuring of the shipbuilding industry, and tying in regional development with technological research and development objectives.

42. A more determined effort will be made to combat unemployment, particularly long-term unemployment. The Commission will draw up a report on the pilot projects for labour market development launched in 1986 to improve local and regional management. It will carry out a general industry-by-industry survey of new fields of employment and new types of job, generated in particular by local initiatives and the cooperative sector.

In line with the programme adopted by the Council at the end of last year, the Commission will implement schemes to promote the training of young people and adults in the new technologies, to regenerate regions lagging behind or in decline, to help the worst-off sections of the population and to get the long-term unemployed back into work.

43. As far as the social dimension is concerned, the progress being made in the context of the social dialogue at microeconomic level is pointing to better ways of coping with structural and technological change. The dialogue will have to be broadened in certain industries.

In 1987 the major subjects of study, discussion and action with the two sides of industry will

be worker training and motivation, worker information and consultation, new forms of work organization and the internal and external adaptability of firms.

As far as the labour market is concerned, the Commission plans to make the forthcoming reform of the Social Fund part of a more selective effort to combat long-term unemployment.

## **Economic recovery and cohesion**

### *Recovery and cooperation*

- Quarterly monitoring of the implementation in the Member States of the various aspects of the Community cooperative strategy (macroeconomic trends and convergence, assessment of budgetary and monetary policies and of wage trends, progress towards greater market adaptability) and mid-year interim report
- As part of the cooperative strategy, adoption of economic policy guidelines to be followed by the Member States in accordance with Articles 1 to 4 of the convergence Decision (70/120/EEC)
- Presentation of the Annual Economic Report for 1987-88
- Steps to facilitate borrowing (a more flexible timetable for issues, diversification of geographical areas and types of issue, etc.)

### *Cohesion: reform of structural instruments*

- Presentation of a comprehensive proposal for rationalizing the tasks of the structural Funds to improve coordination and efficiency (better identification of targets, adaptation of the means used and concentration on specific ends, intensification of vertical integration, etc.), with appropriate proposals for the reform of each Fund

### *Regional measures*

- Continued appraisal of IMP projects with a view to their adoption by the end of 1987; presentation of an initial report
- Presentation of the Third Periodic Report on the social and economic situation and development of the regions, the first to cover the Community of Twelve
- Greater use of conversion loans carrying interest subsidies (Article 56 of the ECSC Treaty) to stimulate employment-creating investment in the productive sector in areas affected by restructuring of the steel industry
- Proposals for Community programmes designed to help the less-favoured regions to work towards Community environmental objectives, to provide a better link between regional policy objectives and technological research and development objectives, and to assist the regions affected by the restructuring of the steel and shipbuilding industries
- Opinions on 'third-generation' regional development programmes (1986-90)
- Financing of projects which contribute to job creation, have an optimal impact on regional development and the environment and establish a better balance between different categories of infrastructure, etc.
- Continued action to develop the network of business and innovation centres throughout the Community
- Steps to establish more structured relations with the organizations representing regional and local authorities



### ***Social measures***

- Development of the labour market (report on the pilot projects for forward-looking labour market management at regional and local level)
- New fields of employment and new types of job
- Long-term unemployment (including the young)
- Internal and external adaptation of firms in relation to employment
- Measures relating to the status of women and equal treatment (reversal of the burden of proof, vocational training, social security etc.)
- Intensification of action on vocational training for adults (social dialogue, small businesses, etc.)
- Further steps to ensure the comparability of vocational training qualifications in several sectors
- Integration of disabled children in education
- Second action programme for the promotion of the social and economic integration of the disabled people; communication on the integration of disabled people in education systems
- Communication on working and living conditions
- Communication on the new poor
- Recommendation on racism and xenophobia
- Improvements in social security for migrant workers (pensions, family benefits)
- \* Protection of workers' health (substances which cause cancer and other diseases)
- Surveys and studies on the labour force, wages and salaries, manpower supervision, etc.

### ***Industrial competitiveness and large-scale infrastructure projects***

- Implementation of the proposed measures to encourage the development of financial instruments adapted to the various stages of technological cooperation between firms
- Application of the proposed financial engineering measures to allow the Community to play a more active role in the launching, financing and management of large-scale infrastructure projects of European interest

## IV — Flanking policies

### Financial engineering

44. The Commission will be implementing its financial engineering programme in 1987. This is a new instrument which will be used to provide support in a wide range of areas such as R & TD, transport and small businesses with a view to promoting the economic cohesion of the Community, the completion of the internal market and the free movement of capital. Pursuing the course which it embarked upon last year in the area of infrastructures, the Commission will be presenting two new communications on the financing of small businesses and of new technologies.

The Commission also plans to apply this new policy in the budgetary field in order to further progress this year. For instance, wider use will be made of budgetary techniques other than direct subsidies: this will involve extending repayable aid schemes and financial mechanisms such as the provision of loan guarantees and venture capital. These formulas will be applied in various fields of activity such as fisheries, the IMPs and integrated operations in areas of severe unemployment. Nor is the progress which this policy aims to achieve during the year limited to the Community: financial engineering, particularly at the service of small businesses, will be used to strengthen relations with other regions of the world such as the southern Mediterranean, Latin America and South Asia.

### Small businesses

45. Faced with the challenge of making firms more competitive and developing Europe's technological potential, it is vital that the Community should do more to help businesses, particularly small ones, with an eye to completion of the internal market.

Business policy is part of the Community's cooperative growth strategy for more employment.

The general guidelines approved by the Council in October 1986 are designed to create an

environment favourable to the formation and expansion of small businesses by adjusting legislative, administrative and tax arrangements, making more allowance for the cultural and social aspects, providing better information, increasing inter-firm cooperation, facilitating access to training and innovation, and improving the availability of capital through a new programme of loans and financial innovations.

The first projects implementing these guidelines will be put in hand in 1987.

46. With a view to improving the business environment, a more detailed assessment will be made of the impact of all new proposals for Community legislation on competitiveness and employment. Specific proposals will be made on taxation, company law and cooperatives. A committee set up to pool Member States' experience with the application of more flexible rules and regulations will meet for the first time in 1987.

In addition, a number of positive steps will be taken to compensate for the handicaps suffered by certain businesses precisely because they are small. These will cover information (pilot 'Community Information Centres'), training (increased access to the Social Fund, specific programmes Comett, etc), measures to encourage the setting-up of firms (partnership schemes, extending the network of business and innovation centres, support for local employment initiatives, etc.) and export promotion (more intensive market research, provision of appropriate services, etc.).

In the matter of funding the Commission's efforts will reflect the guidelines for the Community's financial engineering activities: adaptation and reinforcement of existing lending instruments (EIB, NCI), development of equity capital mechanisms (including venture capital) and provision of services related to the transnational activities of small businesses.

Lastly, a special effort will be made to promote and support inter-firm cooperation. The activities of the Business Cooperation Centre will be extended — notably thanks to the BC-Net system — to ensure that its activities become better known to small businesses and their intermediaries, and the transnational programme of assistance for innovation and technology transfer (Sprint), an extension of which was recently proposed by the Commission, will continue to operate.

### Small businesses

- Assessment of the impact on competitiveness and employment of all new proposals for Community legislation; forwarding of statements to Council and Parliament; continued assessment of the impact of existing Community legislation
- \* Proposals on company law and taxation
- Promoting the spirit of enterprise (information campaigns, pilot projects, etc.)
- Preparation of legislative and technical manuals on subcontracting
- Creation of Community Information Centres (selection, pilot networks, training)
- Proposals on the development of continuous training in small businesses
- Initiatives on financing
- Implementation of the BC-Net system to expand the activities of the Business Cooperation Centre

### Environment

47. In the months ahead priority will be given to incorporating the environmental dimension into other Community policies. In 1987 — European Year of the Environment — various model projects will be carried out and the new five-year action programme proposed last year will get under way in accordance with guidelines and priorities to be established by the Council before the end of June.

The importance which the Single Act attaches to environment policy should therefore be acknowledged, the hitherto reactive attitude to environmental problems being replaced by an overall preventive approach based on strict standards and rational economic choices.

48. A major multimedia Community action programme will be implemented to mark European year of the Environment. It will include projects designed to heighten public awareness of issues such as the quality of life, the environment's contribution to growth and employment, environmental concerns in agriculture and industry, clean technologies, water quality etc. Various events throughout Europe will endeavour to sell the message to young people and specialized circles.

49. As in previous years, one of the Commission's priorities for 1987 will be the adoption of the 1983 proposal for a directive in the crucial sphere of emissions from large combustion plants and agreement on pending measures on motor vehicle emissions.

Another major concern in 1987 will be the issues raised by the Sandoz accident. The Commission

will do all in its power to ensure that existing Community legislation is applied to the letter and to promote the adoption of comparable standards by the Community and neighbouring States. It will look into the possibility of negotiating arrangements similar to the Community information system on inland waterway pollution and will continue to examine ways and means of ensuring that full compensation is forthcoming in the wake of major accidents.

The first step in the establishment of control strategies will be a proposal for an action programme on cadmium pollution. In the matter of water pollution the Commission will propose new limit values and quality objectives for dangerous substances. In the growth sector of biotechnology, the Commission will present proposals on classification, confinement and risk control. Similarly, it will present a proposal to expand existing rules on movements of hazardous wastes. Action at international level will be actively pursued. In particular, the Commission will implement the action programme for the protection of the Mediterranean and play an active part at the North Sea Conference to be held in London in the autumn.

Lastly, to emphasize the importance of a stricter environmental policy, the Commission will propose the launching of a multiannual Community programme of demonstration projects to highlight the favourable impact which environmental measures can have on job creation.

## Environment

- 1987 — European Year of the Environment (national and Community programmes of operations, events and model projects throughout Europe)
- First year of the fourth environmental action programme (1987-92); this will include:
  - a communication on the state of the environment in the Community
  - an all-out effort to persuade the Council to adopt the directive on emissions into the atmosphere from large combustion plants
  - presentation of an action programme on cadmium pollution
  - setting new limit values and quality objectives for dangerous substances discharged into the aquatic environment
- \*
  - proposals for Community legislation on biotechnology (confinement and deliberate use)
  - development of existing legislation concerning movements of hazardous wastes
  - submission of a report on the application of the directive on the conservation of wild birds
  - proposal for a directive introducing and harmonizing provisions relating to information reports to be drawn up by the Member States under Community directives and regulations concerning the environment

## Consumer protection

50. The Commission will remain committed to the development of consumer protection policy and its integration into other policies, notably as regards improvements in product quality and product safety.

To this end it will expand information systems on product safety and reactivate proposals which have encountered a series of set-backs within the Council. The agreement reached at

the end of last year in the important area of consumer credit offers improved prospects of a successful conclusion to work done in the past.

The main areas in which progress now needs to be made are accidents caused by defective products, accidents to children, rules governing cosmetics and textiles, and consumers' economic interests (guarantees and after-sales service for consumer durables, electronic payment systems, etc.). An awareness campaign will be mounted in the course of the year on the prevention of accidents to children.

## Consumer protection

- Strengthening of internal coordination procedures with a view to the integration of consumer policy into other Community policies
- First progress report on the integration of consumer policy into other Community policies; interim report on implementation of the new Community information system on accidents involving consumer products
- Awareness campaign on the prevention of accidents to children
- \* Report on product safety; proposals for legislation on products intended for children
- \* Amendment of existing rules governing cosmetics and textiles and reactivation of several proposals for regulations on consumers' economic interests (package holidays, electronic payment systems, guarantees and after-sales service for consumer durables, calculation of interest rates for consumer credit, access to the courts, unfair clauses, etc.)

## Energy

51. New Community energy objectives for 1995 were adopted last September. They confirm that reducing the Community's import dependence to a reasonable level is still the focal point of energy policy. The Commission will take all necessary steps, in the light of the economic situation and its possible consequences, to ensure that the process of restructuring the energy balance continues.

In 1987 particular attention will be paid to the convergence of Member States' policies and the extent to which they are in line with these new Community objectives. The Commission will also be mindful of the implications of these objectives for the environment and the less-favoured regions. It will conduct the first periodic review of progress to date and the problems encountered in relation to the priorities implicit in the new Community objectives. To promote greater energy efficiency, the Commission will submit proposals for directives on the certification of the energy characteristics of buildings and the performance of heat generators. It will also consider the possibility of encouraging third-party financing of investment in energy saving.

On the supply side, the Commission will continue to keep a close watch on trends in the refining industry and the international petroleum products market. It will submit proposals to ensure more effective application of the Community's strategic oil stocks scheme. It will continue to analyse supply and demand prospects for natural gas and will present new guidelines to promote the consumption of solid fuels. The Commission also plans to do more to encourage the utilization of new and renewable energy sources.

## Nuclear safety

52. Public acceptability of nuclear energy has been in decline since the Chernobyl accident. The Commission's main concern in 1987 will be to pursue activities undertaken in 1986 to protect workers, the public and the environment. Two communications presented last summer outline the action to be taken in the priority areas of health protection, contamination of products, the safety and safe operation of installations, procedures in the event of an emergency, international action and research.

The crucial issue of the acceptable level of radioactivity in foodstuffs and drinking water will be the subject of an international scientific conference to be held in the spring. The conclusions should make it possible to supplement last year's proposal for a regulation. Once the requisite consultations have taken place, the Commission will propose the setting-up of a Community system for the efficient exchange of information on radioactivity levels in the wake of a nuclear accident and the development of mutual assistance mechanisms within the Community.

The Commission intends to contribute to increased international cooperation in the field of nuclear safety by monitoring implementation of two conventions concluded in September under the aegis of the IAEA. On the question of safeguards the Commission will take steps to ensure that its checks are as effective as possible.

Furthermore, a trilateral safeguards agreement will have to be concluded between Spain, the Community and IAEA at the earliest possible date. The Commission will make every effort to ensure that negotiations are conducted in 1987.

### Energy and nuclear safety

- Attainment of the Community energy objectives for 1995 adopted by the Council in September 1986, and preparations for the detailed periodic review
- Continued implementation of Regulations 3639/85 and 3640/85 on the development and demonstration of new energy technologies and energy planning activities
- Solid fuels: presentation of new guidelines to promote consumption of such fuels, continued analysis of problems arising in this area

- Oil and gas: analyses and follow-up action on the oil market, especially on Community exploration and production, refining, imports of petroleum products and strategic oil stocks; study of supply and demand prospects for natural gas
- Energy efficiency and new and renewable energy sources: proposals on the energy certification of buildings and heat generators; promotion of the utilization of new and renewable energy sources
- Electricity: communication on the role of electricity in energy supply
- Nuclear energy: continuation of post-Chernobyl action along the lines set out in the communications presented last summer; study of developments in the nuclear sector in the Community

## Fisheries

53. The common fisheries policy is now at the third-generation stage. The revision (fleet restructuring and modernization) provided for in the new ten-year structural plan which is due to enter into force this year will provide a single, more diversified legislative framework for future action (exploratory voyages, port equipment, sensitive regions, etc.). Particularly important will be implementation of the specific programmes and establishment of a 'fleet file'.

Now that the Community market in fishery products has become one of the biggest in the world, the market organization will be altered and adjusted to take account of its increased diversity. Surveillance activities will be stepped up on the basis of the new Regulation approved by the Council.

In addition, the negotiations begun with non-member countries in 1986 will continue so that the relevant agreements can be fully integrated into a Community framework in 1987.

## Towards a European society

54. Creation of a frontier-free area will not be enough to make Europe a tangible reality. People need to experience Europe at first hand and see how it affects them, their interests and the society in which they live. To heighten this awareness of Europe the Commission will intensify its efforts in the months ahead in a number of selected areas: health, the anti-drug campaign, civil defence, training programmes and youth exchanges.

The three-year information and education campaign recently proposed under the 'Europe against cancer' programme should lead to a

major offensive in 1988 and 1989 against the scourge of the century. In 1987 the Commission will begin work on the public information campaigns to be mounted over the next few years and on schemes for training health workers, the various activities planned culminating in 'European cancer information year' in 1989. At the same time, work under current R&D projects will be intensified. In response to the concern expressed by the European Council in London last December the Commission will present a first proposal to the Council in May for action against AIDS, the plague which presents such a serious threat to the future.

Several measures will be introduced over the next few years to combat drug abuse. In addition to action on the circulation of drugs to prevent the spread of addiction, the Commission will mount an early awareness and information campaign aimed at the public in general but young people in particular.

The European dimension can be very valuable in the context of natural and technological disasters. In addition to steps already taken in relation to R&D and protection of man and the environment against industrial risks and pollution, the Commission has begun consultations with a view to civil defence, cooperation between the Member States, with particular reference to action to be taken in response to a disaster. A ministerial meeting will be organized in the first half of the year to discuss ways in which Community potential could be used to improve the capacity of individual Member States to respond.

Training will also enter a new phase in 1987. Progress will have to be made this year towards a common vocational training policy, involving schools, the universities and the business world. While considerable impetus will undoubtedly come from the Erasmus and YES programmes for youth and student exchanges and mobility,

further measures will be needed, particularly in the light of the communication recently presented by the Commission on continuing on-the-job training for adults in small and medium-sized firms and the communication about to be presented on training for young people to prepare them for adult life and work. The Commission will also study measures likely to promote and diversify the teaching of foreign languages in the Community following its recent report on the implementation of the conclusions of the 1984 Education Council.

Because symbols are readily understood they can contribute to public perception of Community identity. In 1987 the Commission will therefore present proposals on car registration plates and postage stamps and will ensure a Community presence at sporting events to help people feel that they are part of one and the same community.

### **Culture and communication**

55. The Commission will organize a major symposium in Florence in March to give those in the forefront of current thinking an opportunity

to discuss the relationship between culture, the economy and technological progress. The Commission hopes that the conference will spawn a wide range of ideas which can be used to devise initiatives in this area with a view to evaluating the interaction between these factors, so vital to an awareness of Europe and its riches, and providing a sounder basis for future planning.

Other initiatives will be launched too (audiovisual policy, promotion of a top-quality publication, architectural heritage, etc.).

Under the multiannual information programme adopted by the Commission in 1986, the main themes this year will be the abolition of internal frontiers, reform of the agricultural policy and development aid.

This year marks the 30th anniversary of the signing of the Treaty of Rome. The occasion will be celebrated with a series of events aimed at the general public to be held over a period of several weeks. Information campaigns will also be mounted in four Member States and the image and symbols of the Community (flag, anthem) will be publicized in various ways.

#### **Towards a European society, culture, communication**

- Implementation of three-year information and education campaign (1987/89) as part of the 'Europe against cancer' programme; first proposals for measures to combat AIDS
- Various initiatives at European level in a number of target areas (anti-drug campaign, civil protection, training, etc.)
- Launching of youth exchange and mobility programmes (Erasmus and YES for Europe)
- Launching of a new action programme (1987-91) to train young people for adult and working life
- Presentation of a comprehensive report on teacher training to the European Education Ministers' Conference (Council of Europe) to be held in Helsinki in May
- Organization of a major symposium on the interaction between culture, the economy and technological progress in Florence, 'European City of Culture', in March
- Launching of the preparatory phase of the Media programme to encourage the development of the audiovisual industry, the organization of exchanges of young television journalists, etc.
- Information campaigns on priority topics (abolition of internal frontiers, European Union, reform of the common agricultural policy, etc.)
- Top-level publication giving the views of prominent persons on the Community and its problems
- Series of events throughout Europe to celebrate the 30th anniversary of the signing of the Treaty of Rome
- Sporting events (sailing, cycling, tennis, etc.)
- Preparations for European Cinema and Television Year (1988) in conjunction with the Council of Europe

## V — The Community in the world

56. The Single Act, which combines provisions amending the Treaties establishing the Communities and provisions relating to political cooperation, is evidence of a determination to consolidate the Community's presence in the world. Beginning in 1987, European foreign policy cooperation can therefore be expected to strengthen the Community's position on the international scene. The Commission, which is fully involved in the process, intends to play its role to the full to ensure that future progress in the area of political cooperation keeps pace with developments on the Community front.

57. Despite certain favourable trends (a steady shrinking of inflation and recent interest rate movements) economic growth in 1987 will be on a modest scale in most of the industrialized countries. At the same time, the economies of most of the developing countries will continue to suffer from the effects of high foreign indebtedness and low commodity prices.

Given this outlook, an increase in net Community imports to satisfy stronger internal demand could prove to be a positive contribution to world growth.

In the medium term, increased trade would also help to sustain growth throughout the world. This is why the Commission sees the Uruguay Round as a top priority for the Community, which played a leading role in the preparatory meetings. A successful outcome, leading to a more open world trading system, could make a major contribution to the success of the Community's cooperative growth strategy.

### Multilateral relations

58. The major event of 1987 will be the opening in Geneva of the new round of multilateral trade negotiations agreed last September in Punta del Este. The Commission, as the Community's spokesman, will make its own contribution, promoting and defending the Community's specific objectives and drawing on its experience in GATT to help reconcile opposing positions.

As proceedings gather pace in Geneva, the Commission will recommend appropriate negotiating directives to the Council. It will stress the importance of a consistent, united approach to new subjects and current issues, to give

maximum impact to the Community's position at the negotiations.

59. The OECD ministerial meeting scheduled for the spring will give the Community a further opportunity of playing its multilateral role, having particular regard to the agricultural discussions under way in this forum.

The seventh United Nations Conference on Trade and Development will be held in Geneva in July. It will be the main event of the year as far as North-South relations are concerned. The topics for discussion are of direct concern to the Community (resources for development, commodities and trade). The Commission will play a very active part in the conference, which will coincide with the opening of the Uruguay Round negotiations. More generally the Commission will seek to involve the Community in the debate on international economic policy issues.

The Commission will also endeavour to ensure that the Community's institutional role is recognized.

### Lomé policy

60. Implementation of the third Lomé Convention has begun. In 1987 the Commission's main task will be to put the indicative cooperation programmes negotiated with the 66 ACP States into effect. It will ensure that commitments made by both sides under the aid programmes are honoured with a view to achieving the agreed objectives. To this end emphasis will be placed on continuing dialogue on the spot, utilization of all the instruments provided for in the Convention (traditional projects, rehabilitation operations, sectoral import programmes, etc.), and improved coordination with other donors. The 'programme' approach will be used wherever possible and particular attention will be paid to regional cooperation.

### Relations with Latin America, Asia and the Mediterranean

61. Following the new approach proposed last November, the Commission plans to extend the Community's industrial cooperation with the countries of Latin America, Asia, the Gulf and the Mediterranean in 1987. It will seek ways of encouraging private business, notably small and medium-sized firms, to play a more active part in the economic development of these countries,



for example through the creation of joint ventures and scientific and technical cooperation. It will endeavour to maintain and develop exchanges with these countries on the whole spectrum of their relations with the Community.

62. In the Mediterranean area the Commission hopes that early 1987 will see the completion of the current negotiations with our Mediterranean partners following the enlargement of the Community to include Spain and Portugal and the conclusion of the third generation of financial protocols to replace those which expired in 1986. It will continue to seek a gradual normalization of the Community's relations with Turkey.

As far as Latin America is concerned, the Commission will give high priority to consolidating the Community's relations with the countries concerned, on the basis of the guidelines recently presented to the Council.

With a view to strengthening the Community's relations with the countries of South and South-East Asia, the main task in 1987 will be to implement the recommendations of the high-level group on investment approved at the EEC-Asean ministerial meeting in Jakarta last autumn, the aim being to increase the Community's economic presence in the region.

As far as the Gulf is concerned, the Commission plans to present proposals to the Council by the middle of the year for the negotiation of an economic and commercial cooperation agreement with the member countries of the Gulf Cooperation Council.

Regarding China, the entry into force of the new trade and economic cooperation agreement and China's growing trade deficit with the Community will force the Commission to pay particular attention to the development of closer relations, the expansion of two-way trade and the stepping-up of economic cooperation.

### **Food aid**

63. Following the reform approved last year, the Commission will take steps to ensure that food aid serves as an effective instrument of development, helping directly to combat hunger and guarantee food security. Everything will be done to simplify mobilization and delivery procedures and to adapt management structures accordingly. The reform places special emphasis on the development of a multiannual approach to food aid. The Commission plans to implement this in conjunction with the food

strategies of the recipient countries and rural development operations under the Lomé Convention.

### **Relations with industrialized countries**

64. Relations between the Community and the United States of America, the centre of gravity of the free world, are crucial to the functioning of the international economic system. Bilateral relations in 1987 will operate against a background of a US Administration which no longer has a majority in Congress and a continuing US deficit on current account. The Commission will keep a vigilant eye on any protectionist action by the Administration and any protectionist tendencies emerging in Congress. As in the past, it will remain in close contact with the US Administration with a view to averting or resolving the disputes which are inevitable between two trading powers of the magnitude of the Community and the United States.

65. As far as Japan is concerned, the Commission will pursue the line of action approved and confirmed by the Council in 1986. The basic objective remains the same, namely to extend, strengthen and restore balance to bilateral relations, notably on the trade front. The Community's growing trade deficit with Japan not only feeds tension between the parties but has an adverse effect on the world economy.

In 1987 the Commission will make an even more determined effort to persuade Japan to open up its market and to ensure that Community firms in that country enjoy commercial, industrial and financial terms of access comparable to those enjoyed by Japanese concerns operating in the Community. Discrimination against imports of alcoholic beverages into Japan is a measure of the effort still required to improve market access. The Commission intends to mount further specific campaigns to eliminate barriers to trade still persisting on the Japanese market. The Commission will continue its work in the field of trade promotion and training and will endeavour to encourage closer cooperation between European and Japanese firms, both in the Community and in Japan.

The Maeckawa report made a number of proposals for structural reform, which the Commission has welcomed. It intends to take a keen interest in their implementation by the Japanese authorities.

66. As far as relations with Canada are concerned, the Commission will endeavour to

ensure that an early, satisfactory solution is found to the numerous trade issues under discussion between Canada and the Community. To this end, the Commission's policy will be one of firmness both bilaterally and, if necessary, in the multilateral context. In addition the Commission expects to complete the joint review of the implementation of the Framework Agreement, which will also deal with opportunities for increased cooperation.

67. The Commission will continue its endeavours to intensify the bilateral dialogue with Australia and New Zealand and extend it beyond the traditional agricultural issues. However, agriculture will remain in the forefront, notably in the context of the Uruguay Round, since Australia and New Zealand are members of the Cairns Group of countries which are heavily dependent on agricultural exports.

68. As far as relations with the Community's EFTA neighbours are concerned, the objective

will continue to be the creation of a wider European 'economic space', as envisaged in the Luxembourg Declaration of April 1984, which the Council endorsed last autumn. This will require EFTA countries to coordinate their efforts with progress towards completion of the Community's own internal market.

69. The Commission will press ahead with the process of normalizing relations with the countries of Eastern Europe and the CMEA begun in 1986. It will open negotiations for bilateral agreements with Romania and Czechoslovakia and is awaiting directives for negotiations with Hungary. Exploratory talks with other Eastern European countries will continue, and the Commission will maintain contact with the CMEA with a view to reaching agreement on a joint declaration establishing official relations between the CMEA and the Community.

#### The Community in the world

- Launch of the Uruguay Round
- Preparation for and participation in the OECD meeting
- Implementation of the indicative programmes agreed in 1986 with the 66 ACP countries signatory to the Third Lomé Convention.
- Implementation of the reform approved in 1986 with a view to increasing the effectiveness of food aid as a development instrument, a tool with which to combat hunger and a means to ensure food security.
- Active participation in the seventh United Nations Conference on Trade and Development.
- A new industrial cooperation approach in the context of relations with Latin America, Asia and the Mediterranean.
- USA*: maintenance of a close dialogue, notably with regard to action to combat trade protectionism.
- Japan*: pursuit of efforts to step up and broaden relations and to open up the Japanese market so that European firms have the same access to the Japanese market as Japanese firms have to the European market.
- Canada*: active search for satisfactory solutions to the many trade issues under discussion and review of the Framework Agreement.
- Eastern Europe*: pursuit of the process of normalization of relations with the Eastern European countries and with the CMEA (negotiations with Romania and Czechoslovakia, brief for negotiations with Hungary, continuing exploratory talks with the others and contacts with the CMEA Secretariat with a view to a joint declaration establishing official relations with the Community)
- EFTA*: continuation of the process initiated in Luxembourg in 1984 with a view to the creation of a wider European economic area
- Mediterranean*: negotiation and conclusion of a third generation of financial protocols and continuation of the progressive normalization of relations with Turkey

- Latin America*: strengthening of relations, coordination of official aid (in particular for the least-developed Latin American countries), support for regional integration, macroeconomic consolidation, etc.
- Asean*: implementation of the conclusions of the ministerial meeting of October 1986 with a view to increasing the Community's economic presence in the region
- Gulf States*: negotiation of a trade and economic cooperation agreement with the GCC member countries
- China*: development of economic cooperation within the framework of the Cooperation Agreement which entered into force in autumn 1986.



European Communities — Commission

**The Single Act: A new frontier for Europe**

**Programme of the Commission for 1987**

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*The Single Act: A new frontier for Europe*

The signing and forthcoming entry into force of the Single European Act and the accession to the Community of Spain and Portugal (following that of Greece in 1981) have brought with them fundamental changes in the structure of the Community and the obligations of the Member States. The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion.

If it is to succeed in its new responsibilities, the Community must first complete the reforms undertaken, especially since 1984, with the aim of adapting old policies to new conditions: reform of the common agricultural policy, reform of the structural Funds, and reform of the financing system. Once these reforms have been implemented, the Community will have to be given the resources needed to achieve the objectives of the Single act.

By amending the Treaty of Rome in this way, the Member States have set a new frontier for European integration. They have made a qualitative leap forward which must be turned to good account to equip our economies so that they can meet the challenges from abroad and return to more vigorous, job-creating growth.

For this reason, the Commission feels that it should set out the conditions to be met if this great venture is to succeed. This is the thinking behind the proposals it is laying before the Council and Parliament. They are set in a medium-term context, looking towards 1992, the deadline for completion of the large frontier-free market.

*Programme of the Commission for 1987*

This Supplement also contains the Commission's programme for 1987, as presented to Parliament by Mr Delors in February 1987.



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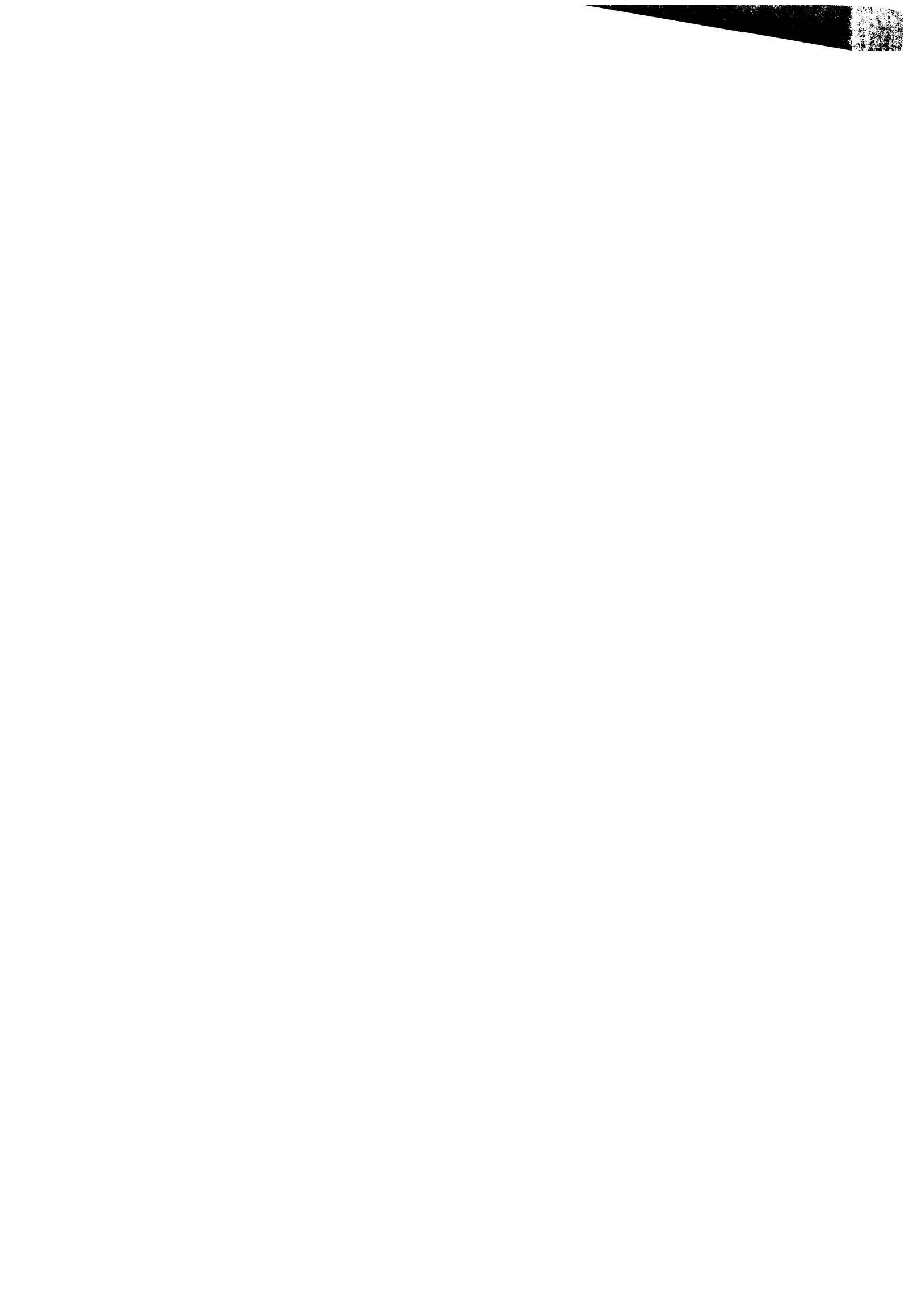
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COMPLETING THE INTERNAL MARKET

White Paper from the Commission  
to the European Council  
(Milan, 28-29 June 1985)

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**Commission of the European Communities**

**COMPLETING THE INTERNAL MARKET**

**White Paper from the Commission  
to the European Council**

**June 1985**

**Document**

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**DECLARATIONS BY THE EUROPEAN COUNCIL  
RELATING TO THE INTERNAL MARKET**

---

"The European Council... instructs the Council :  
- to decide, before the end of March 1983, on the priority  
measures proposed by the Commission to reinforce the  
internal market"

Copenhagen, 3/4 December 1982

"It asks the Council and the Member States to put in hand without  
delay a study of the measures which could be taken to bring about  
in the near future...  
the abolition of all police and customs formalities for  
people crossing intra-Community frontiers..."

Fontainebleau, 25/26 June 1984

"The European Council... agreed that the Council, in its  
appropriate formations :  
... should take steps to complete the Internal Market,  
including implementation of European standards"

Dublin, 3/4 December 1984

"... the European Council laid particular emphasis on the  
following... fields of action :  
a) action to achieve a single large market by 1992 thereby  
creating a more favourable environment for stimulating  
enterprise, competition and trade ; it called upon the  
Commission to draw up a detailed programme with a specific  
timetable before its next meeting".

Brussels, 29/30 March 1985



## INTRODUCTION

1. "Unifying this market (of 320 million) presupposes that Member States will agree on the abolition of barriers of all kinds, harmonisation of rules, approximation of legislation and tax structures, strengthening of monetary cooperation and the necessary flanking measures to encourage European firms to work together. It is a goal that is well within our reach provided we draw the lessons from the setbacks and delays of the past. The Commission will be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic and binding timetable."
2. In such terms did the Commission define its task in the "Programme of the Commission for 1985" which was presented to the European Parliament on 6 March. On 29 and 30 March, the European Council in Brussels broadly endorsed this view and  
"laid particular emphasis on ... action to achieve a single market by 1992 thereby creating a more favourable environment for stimulating enterprise, competition and trade ; it called upon the Commission to draw up a detailed programme with a specific timetable before its next meeting".
3. This White Paper is designed to spell out the programme and timetable. Given the European Council's clear and repeated commitment to the completion of the common market, the Commission does not intend in this Paper to rehearse again the economic and political arguments that have so often led to that conclusion. Instead the Commission, which wholeheartedly shares the Council's commitment and objective, sets out here the essential and logical consequences of accepting that commitment, together with an action programme for achieving the objective.
4. The Treaty clearly envisaged from the outset the creation of a single integrated internal market free of restrictions on the movement of goods; the abolition of obstacles to the free movement of persons, services and capital; the institution of a system ensuring that competition in the common market is not distorted; the approximation of laws as required for the proper functioning of the common market; and the approximation of indirect taxation in the interest of the common market.
5. In the early days attention concentrated on the common customs tariff, which was established eighteen months ahead of the 12-year programme set out in the Treaty. It was a remarkable achievement - one that we can look back on with pride and one from which we can derive inspiration for the future. That task achieved, attention turned to indirect taxes. The high water mark was perhaps the adoption - unanimously by the Council - of the 6th VAT directive in 1977. But thereafter momentum was lost partly through the onset of the recession, partly through a lack of confidence and vision.

6. The recession brought another problem. The Treaty specifically required not simply the abolition of customs duties as between the Member States, but also the elimination of quantitative restrictions and of all measures having equivalent effect. Originally it was assumed that such "non-tariff barriers", as they are commonly called, were of limited importance compared with actual duties. But during the recession they multiplied as each Member State endeavoured to protect what it thought was its short term interests - not only against third countries but against fellow Member States as well. Member States also increasingly sought to protect national markets and industries through the use of public funds to aid and maintain non-viable companies. The provision in the EEC Treaty that restrictions on the freedom to provide services should "be progressively abolished during the transitional period" not only failed to be implemented during the transitional period, but over important areas failed to be implemented at all. Disgracefully, that remains the case.
7. But the mood has begun to change, and the commitment to be rediscovered : gradually at first, but now with increasing tempo. The Heads of State and Governments at the European Council meeting in Copenhagen in 1982 pledged themselves to the completion of the internal market as a high priority. The pledge was repeated at Fontainebleau in June 1984; at Dublin in December of that year; and, most recently, in Brussels, in March 1985. The time for talk has now passed. The time for action has come. That is what this White Paper is about.
8. The case for the completion of the internal market has been argued elsewhere: and, as the communiqués at successive European Councils have indicated, it has been accepted by the Heads of State and Governments of the Member States. But it is worth recalling that the objective of completing the internal market has three aspects :
  - First, the welding together of the ten, soon to be twelve, individual markets of the Member States into one single market of 320 million people ;
  - Second, ensuring that this single market is also an expanding market - not static but growing ;
  - Third, to this end, ensuring that the market is flexible so that resources, both of people and materials, and of capital and investment, flow into the areas of greatest economic advantage.
9. Whilst, therefore, the discussion in this Paper will be directed primarily to the first of these objectives there will be a need to keep the other two objectives constantly in mind and to ensure that the measures taken contribute to those ends.
10. For convenience the measures that need to be taken have been classified in this Paper under three headings :

- Part one : the removal of physical barriers
- Part two : the removal of technical barriers
- Part three : the removal of fiscal barriers.

11. The most obvious example of the first category are customs posts at frontiers. Indeed most of our citizens would regard the frontier posts as the most visible example of the continued division of the Community and their removal as the clearest sign of the integration of the Community into a single market. Yet they continue to exist mainly because of the technical and fiscal divisions between Member States. Once we have removed those barriers, and found alternative ways of dealing with other relevant problems such as public security, immigration and drug controls, the reasons for the existence of the physical barriers will have been eliminated.
12. The reason for getting rid entirely of physical and other controls between Member States is not one of theology or appearance, but the hard practical fact that the maintenance of any internal frontier controls will perpetuate the costs and disadvantages of a divided market ; the more the need for such controls diminishes - short of total elimination - the more disproportionate become the costs, expenses and disadvantages of maintaining the frontiers and a divided market.
13. While the elimination of physical barriers provides benefits for traders, particularly through the disappearance of formalities and of frontier delays, it is through the elimination of technical barriers that the Community will give the large market its economic and industrial dimension by enabling industries to make economies of scale and therefore to become more competitive. An example of this second category - technical barriers - are the different standards for individual products adopted in different Member States for health or safety reasons, or for environmental or consumer protection. Here the Commission has recently launched a major new initiative which has been welcomed and endorsed by the Council. The barriers to the freedom to provide services could perhaps be regarded as a separate category; but these barriers are analogous to the technical barriers which obstruct the free movement of goods, and they are probably best regarded as part of the same category. There is an additional merit in such an approach since the traditional dichotomy between "goods" and "services" has fostered an attitude in which "services" are somehow regarded as inferior and relegated to the bottom of the queue. Technical barriers are technical barriers whether they apply to goods or services and all should be treated on an equal footing. The general thrust of the Commission's approach in this area will be to move away from the concept of harmonisation towards that of mutual recognition and equivalence. But there will be a continuing role for the approximation of Member States' laws and regulations, as laid down in Article 100 of the Treaty. Clearly, action under this Article would be quicker and more effective if the Council

were to agree not to allow the unanimity requirement to obstruct progress where it could otherwise be made.

14. The removal of fiscal barriers may well be contentious and this despite the fact that the goals laid down in the Treaty are quite explicit and that important steps have already been taken along the road of approximation. This being so, the reasons why approximation of fiscal legislation is an essential and integral element in any programme for completing the internal market are explained in detail in Part Three of this Paper. Approximation of indirect taxation will raise severe problems for some Member States. It may, therefore, be necessary to provide for derogations.
15. We recognise that many of the changes we propose will present considerable difficulties for Member States and time will be needed for the necessary adjustments to be made. The benefits to an integrated Community economy of the large, expanding and flexible market are so great that they should not be denied to its citizens because of difficulties faced by individual Member States. These difficulties must be recognised, to some degree they must be accommodated, but they should not be allowed permanently to frustrate the achievement of the greater progress, the greater prosperity and the higher level of employment that economic integration can bring to the Community.
16. Last year, the Commission submitted a Consolidation Programme<sup>(1)</sup> identifying a series of proposals to be adopted by the Council in 1984 and 1985. This White Paper pursues this effort in a wider perspective and with a view to completing the Internal Market by 1992. It therefore comprises the essential items of last year's paper without expressly repeating the Consolidation Programme which still remains valid.
17. This White Paper is not intended to cover every possible issue which affects the integration of the economies of the Member States of the Community. It focusses on the Internal Market and the measures which are directly necessary to achieve a single integrated market embracing the 320m people of the enlarged Community. There are many other matters - all of them important in their own way - which bear upon economic integration, indirectly affect the achievement of the Internal Market and are the subject of other Community policies.
18. For example, it is a fact that in order to facilitate the key role which the internal market can play in the policy for the recovery of industrial structures, the suspension of internal borders must be accompanied by actions which strengthen research and the technological base of the Community's industry. Such actions will allow firms to benefit from the size of the single market. It is within this context that the present work of strengthening the Community's technological base should be seen.

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(1) COM(84) 305 final of 13 June 1984.

19. Similarly, the strengthening of coordination of economic policies and the EMS will be essential factors in the integration of national markets. However, any action taken to ensure the free movement of factors of production must necessarily be accompanied by increased surveillance by the Commission in the field of competition rules to ensure that firms and Member States adhere to these rules. In particular, a strong and coherent competition policy must ensure that the partitioning of the internal market is not permitted to occur as a result of protectionist state aids or restrictive practices by firms. Moreover the commercial identity of the Community must be consolidated so that our trading partners will not be given the benefit of a wider market without themselves making similar concessions.
20. There are many other areas of Community policy that interact with the Internal market in that they both affect its workings and will benefit from the stimulus that will be provided by its completion. This is particularly true of transport, social, environment and consumer protection policy. As far as social aspects are concerned, the Commission will pursue the dialogue with governments and social partners to ensure that the opportunities afforded by completion of the Internal Market will be accompanied by appropriate measures aimed at fulfilling the Community's employment and social security objectives.
21. The Commission is firmly convinced that the completion of the Internal Market will provide an indispensable base for increasing the prosperity of the Community as a whole. The Commission is, however, conscious that there may be risks that, by increasing the possibilities for human, material and financial services to move without obstacle to the areas of greatest economic advantage, existing discrepancies between regions could be exacerbated and therefore the objective of convergence jeopardized. This means that full and imaginative use will need to be made of the resources available through the structural funds. The importance of the funds will therefore be enhanced.
22. Although this White Paper will touch on these matters where they have a direct bearing on the working of the Internal Market, it will not attempt to cover them in full and in detail as they represent considerable areas of study in their own right and merit separate and fuller consideration elsewhere. The existence of these problems does not mean that the frontiers and other frontier controls should not be abolished. On the contrary the task we face is to find solutions to the problems on the basis that the frontiers will have been abolished.
23. A detailed timetable for implementing the Commission's proposed programme of measures for the removal of physical, technical and fiscal barriers is to be found in the Annex to this Paper.

**PART ONE : THE REMOVAL OF PHYSICAL BARRIERS**

---

**I. INTRODUCTION**

24. It is the physical barriers at the customs posts, the immigration controls, the passports, the occasional search of personal baggage, which to the ordinary citizen are the obvious manifestation of the continued division of the Community - not the "broader and deeper Community" envisaged by the original Treaties but a Community still divided. These barriers are equally important to trade and industry, commerce and business. They impose an unnecessary burden on industry flowing from the delays, formalities, transport and handling charges, thus adding to costs and damaging competitiveness.
25. There is therefore a double reason for removing the physical barriers - an economic reason and a political reason. The setting up of the ad hoc Committee on a People's Europe at the Fontainebleau European Council (the Adonnino Committee) is ample testimony to the importance of the political concept. There is no area in which progress, where it can be made, would be more visible or more directly relevant to the aims, ambitions and vision of the Community.
26. Under the Treaty, customs duties and quantitative restrictions in intra-Community trade have been abolished. Customs posts at internal frontiers have, however, continued to exist as a convenient point at which to check compliance with national indirect taxation rules. Use has also been made of this continued official presence to enforce national protective measures relating to for example terrorism, drugs, other prohibited goods and immigration. Measures adopted by the Community itself have led Member States to use internal frontier posts for controlling aspects of common policies (agriculture and steel) and for applying safeguard clauses.
27. Our objective is not merely to simplify existing procedures, but to do away with internal frontier controls in their entirety. In some cases this will be achieved by removing the underlying causes which give rise to the controls. In others it will be a matter of finding ways and means other than controls at the internal frontiers to achieve comparable levels of protection and/or information.
28. Where the underlying causes consist partly of national policies and partly of common policies which are not yet fully developed, achieving our objective will require national policies either to be progressively relaxed and ultimately abandoned where they are no longer justified, or replaced by truly common policies applicable to the Community as a whole. Community policies which are not yet fully developed and at present give rise to internal frontier

controls will have to be amended so as to obviate the need for controls. It follows that once these barriers have been removed, the reasons for the existence of controls at internal frontiers will have been eliminated.

29. The Commission recognises, however, that certain national protective measures do not in all their aspects fall within the scope of the Treaty. Two very important examples are measures against terrorism and the illicit trade in drugs. The Commission shares the legitimate concerns of the Member States about the need to control drugs and terrorism and is well aware of the role of internal frontier posts in this respect. It needs to be stressed, however, that frontier controls are by no means the only or indeed the most effective measures in this regard. If the objective of abolishing all internal frontier controls is to be met, alternative means of protection will need to be found or, where they exist, strengthened. Obvious examples are improving controls at the external frontiers of the Community ; using spot-checks at the internal frontiers and inland ; and further enhancing cooperation between the national authorities concerned.
30. Internal frontier controls are made on both goods and individuals and are motivated by fiscal, commercial, economic, health, statistical and police considerations. Individuals and their personal property are usually checked by customs and police or immigration officials, and goods by customs and sometimes more specialised authorities.
31. The customs authorities' primary role at internal frontier posts - or within the Member State where formalities and checks take place inland - is to ensure that the indirect taxation system of the Member State in question (VAT, excise duties) continues to operate. It therefore follows that, from the customs viewpoint, the problem of removing physical controls is largely related to that of removing fiscal barriers. This latter problem is dealt with in detail in Part Three of this Paper.
32. The considerations which apply to goods and individuals are very different. We therefore examine them separately.

## II. CONTROL OF GOODS

33. To date Community action has concentrated on alleviating internal frontier formalities and facilitating the movement of goods. To this end and in accordance with Articles 12, 30 and 95 of the EEC-Treaty, the Commission has ensured and will continue to ensure that the customs authorities observe the principles of non-discrimination and proportionality. The Community transit procedure and the single administrative document are concrete examples of the achievements reached by means of Community legislation ; they can and should be improved further in the medium term (for example by renouncing the Community transit guarantee). Where appropriate, there should be increased use of electronic data transmission

systems, on the basis of common standards. In addition, the implementation of the fourteenth VAT directive would greatly simplify internal frontier formalities by shifting the collection of VAT to inland tax offices ; but it will not in itself eliminate the need for customs checks at frontiers either on entry into the importing country or, with greater reason, from the exporting country in order to provide proof of actual export.

34. In order to provide a suitable foundation for further progress, the Commission will at an early stage seek a commitment from the Member States that no new or more stringent controls or formalities relating to goods are introduced. With cooperation between Member States, further simplification at internal frontiers might be achieved by avoiding duplication of controls on both sides of the frontier (so-called "banalisation"). For example, it might be possible for the exporting Member State to obtain proof of actual export of goods or statistical data on exports from the customs office of entry in the importing Member State importation. But the fact remains that to shift from the alleviation to the elimination of internal frontier controls requires a major and qualitatively different approach. To do this we need to find ways of abolishing the barriers which give rise to the need for the different controls imposed on goods.

#### Commercial and economic policy

35. Commercial policy measures affecting Member States individually (residual import quotas maintained by some Member States ; import measures taken by the Community but limited to one or several Member States only ; individual import quotas for Member States as part of a Community-wide measure or of an agreement coordinated by the Community) may lead the Commission on the basis of Article 115 of the EEC Treaty to authorise a Member State to exclude the product under protection from free movement within the territory of the Community. National measures stemming from authorisation by the Commission necessarily involve formalities at internal frontiers. It is worth noting that it is the absence of or failure to apply a common policy which give rise to such action. It follows that, until the powers transferred by the Treaty to the Community are fully exercised and the common commercial policy has been strengthened in such a way that all national protection measures and all regional quotas set up by the Community can be abolished, there will be a continuing need for some form of control. The Commission takes the view that it is not an unreasonable aim to achieve this abolition of national and regional quotas by 1992. Nevertheless we recognise that there may well be considerable problems to be overcome.
36. If Article 115 were no longer to be applicable, any import restrictions would have to be applied on a Community-wide basis. The enforcement of such quotas, which relies to a large extent on the administrations of Member States, would require intensive cooperation between national administrations and the Commission. Should it prove impossible to eliminate all individual quotas for



Member States by 1992, internal frontier controls could no longer be the instrument of their application. Alternative ways of applying quotas would need to be found.

37. The case is different for the use of clauses to cope with imbalances giving rise to serious threat of balance-of-payments difficulties. It is not possible realistically to set out a precise timetable for progressive restriction of the use of Article 108, in view of the direct link between this Article and economic situations of individual Member States. But if the aim of eliminating internal frontier controls by 1992 is to be achieved, measures applicable at internal frontiers will need to be renounced by then.
38. Certain mechanisms applying to trade in agricultural products also require controls at internal frontiers. For example, monetary compensatory amounts are applied to trade in certain commodities on export and import ; countervailing charges under Article 46 can be applied to trade in commodities where no common organisation has yet been agreed ; certain taxes and other mechanisms can be needed in other commodity sectors. Clearly these requirements must be abolished through the development of the relevant parts of the Common Agricultural Policy. It would further require the automatic adjustment of agricultural prices in the case of monetary realignment, preferably within the EMS ; the setting-up of common organisations for agricultural products not so far covered, with the aim of removing the possibility of recourse to Article 46 ; and adaptation of other market organisations. Trade in steel too is subject to additional controls stemming from the Common Steel Policy and environmental policy (control of transport of dangerous and toxic wastes). Steps will also have to be taken to cope with the consequences for these policies of the elimination of internal frontier formalities.

#### Health

39. As regards health protection, the internal frontier posts are often used for making veterinary and plant health checks. These controls stem from differences in national public health standards, which give national authorities grounds for checking that imported products conform to national requirements. The Community has, therefore, set out to implement a programme for the harmonisation of essential health requirements, a technically complex and procedurally slow process. But even where there is harmonisation, internal frontier controls have not always been eliminated because Member States still insist on carrying out their own checks. Some steps have been taken to transfer inland the checks on veterinary and plant health certificates. But there are gaps in these measures: their general adoption will depend upon mutual acceptance by Member States that the checks on goods have been properly applied by the exporting State.
40. As a further early step towards the objective of abolishing internal frontier controls by 1992, all veterinary controls (live

animals and animal products) and plant health controls will have to be limited to the places of departure, and controls of veterinary and plant health certificates made at the places of destination (together with control of products if there are reasons to assume fraudulent or negligent practices).

41. To facilitate this, more common standards will have to be established for trade between Member States and for imports from third countries for those live animals and animal products where they are still lacking. Animal products conforming to these standards would receive a Community mark. In addition supervising authorities in the country of origin would have to check goods for consumption in other Community countries, in accordance with coordinated procedures. Mutual trust would be enhanced by the appointment of Community inspectors to check that controls were being correctly carried out. Furthermore, Member States should cooperate in fighting fraudulent practices in the Community framework, and rules of liability in cases of damage resulting from fraudulent or negligent practices would need to be established.
42. Certain import restrictions and quarantine measures would still be justified on grounds of protection of plant and animal health, in line with common standards. In order to harmonise as far as possible such restrictions, common policies designed to fight disease would have to be strengthened.
43. In order to meet the objective of 1992, a major effort at Community and at Member States level will be needed to achieve common levels and policies for veterinary and plant health and to align national standards to common standards as much as possible. To the extent that this can be achieved, the role of the veterinary and phytosanitary certificate could be drastically reduced and specific restrictions only needed for disease emergencies. For animal products, use of the health mark would be sufficient.

#### Transport

44. Other internal frontier controls are aimed at the carriage of goods and have to do either with the administration of transport policy or with safety requirements. Most intra-Community transport operations are subject to quotas, for which vehicles must carry transport authorisations. The authorisations and the books of record sheets are mostly checked at the frontier. If these controls are to be abolished, the transport quotas themselves must be progressively relaxed and abolished. Goods - particularly dangerous products - may also be checked for safety reasons. Moreover, vehicles are increasingly being checked at the frontier for compliance with national requirements; this is particularly true in the case of motor coaches. Systematic safety controls at internal frontiers will need to be eliminated. Road vehicles which enter a Member State would however remain liable to check under the same conditions as apply nationally to road vehicles. The adoption and proper enforcement of common safety standards would greatly facilitate this process.

### Statistics

45. Systematic formalities are carried out for statistical purposes ; the statistics are required not only by the Member States but also by the Community. The introduction of the single administrative document will initially simplify frontier formalities, but additional harmonisation or elimination will be needed if the different statistical data are to be presented in a uniform way by 1992. Furthermore, statistical data will have to be collected not on the basis of documents accompanying goods, but from firms in the way that statistics on internal activities are collected at present. Modern methods of data collection, including sampling techniques, will help to ensure that accurate and comprehensive trade statistics can be compiled.

### Conclusion and timetable

46. Given the technical complexities of the measures to be adopted and the major legislative task which will fall to Community institutions, the Commission intends that this work should be planned in two stages. In the first stage, the emphasis should be to shift, where possible by 1988, controls and formalities away from the internal frontiers. In the second stage, the aim would be to coordinate policies and approximate legislation so that the internal frontier barriers and controls are eliminated in their entirety by 1992.

### III. CONTROL OF INDIVIDUALS

47. The formalities affecting individual travellers are a constant and concrete reminder to the ordinary citizen that the construction of a real European Community is far from complete.
48. Even though these controls are often no more than spot checks, they are seen as the outward sign of an arbitrary administrative power over individuals and as an affront to the principle of freedom of movement within a single Community.
49. This prompted the Fontainebleau European Council to give the Adonnino Committee the task of examining the measures to be taken to bring about "the abolition of all police and customs formalities for people crossing intra-Community borders". The Committee thought this aspect to be so important that it presented an interim report in March of this year.
50. The formalities in question are, in normal circumstances, of two different kinds : police checks relating to the identity of the person concerned and the safety of personal effects being carried; and tax checks relating to personal effects being carried. We concentrate here on the police checks. The removal of fiscal barriers and controls is covered in Part Three.

51. The Commission's efforts and initiatives in this area have been aimed at making checks at internal frontiers more flexible, as they cannot be abolished altogether until, in line with the concerns expressed by the European Council, adequate safeguards are introduced against terrorism and drugs.
52. Agreement has already been reached on the Commission's proposal for a common passport testifying to the individual's position as a citizen of a Member State. As an additional step towards abolition of physical controls the Commission has proposed the introduction of a means of self-identification which would enable the authorities to see at a glance that the individual is entitled to free passage - the Green Disc. This proposal is at present before the Council and should be adopted forthwith.
53. As noted in the introduction to this Part, police checks at internal frontiers are bound up with the legitimate concerns of the political authorities in the fight against terrorism, drugs and crime. Consequently, they can only be abolished as part of a legislative and administrative process whereby they are transferred to the strengthened external frontiers of the Community and cooperation between the relevant national authorities is further enhanced.
54. The Commission will at an early stage seek a commitment from the Member States that no new or more stringent controls or formalities affecting individuals are introduced at internal frontiers. The Commission will as a next step be proposing measures to eliminate completely by 1988 checks on leaving one Member State when entering another. This type of check has already been virtually abolished in practice at internal frontier crossings by road. This step would entail administrative cooperation between the police authorities and the information transmission networks to enable the police in the country of entry to carry out checks on behalf of the police in the country of departure. A system of this kind would provide continuing protection in the combat against terrorism. Moreover, such a system would not preclude security - as opposed to identity - checks being carried out in airports.
55. By 1992, the Commission wishes to arrive at the stage whereby checks on entry are also abolished for Community citizens arriving from another Community country. To this end, directives will be proposed concerning:
  - The approximation of arms legislation; the absence of checks must not provide an incentive to buy arms in countries with less strict legislation. A proposal will be made in 1985 with the target of approval in 1988 at the latest;
  - The approximation of drugs legislation: proposals will be made in 1987, for adoption in 1989 ;
  - Non-Community citizens: the abolition of checks at internal frontiers will make it much easier for nationals of non-

Community countries to move from Member State to another. As a first step, the Commission will propose in 1988 at the latest coordination of the rules on residence, entry and access to employment, applicable to nationals of non-Community countries. In this regard problems may arise over the question of the change of residence of non-Community citizens between the Member States, and these will need to be looked at. Measures will be proposed also in 1988 at the latest on the right of asylum and the position of refugees. Decisions will be needed on these matters by 1990 at the latest;

- Visa policy: the freedom of movement for non-Community nationals, which visas provide, may undermine the agreements which Member States have with non-member countries. It will therefore be necessary to go further than the existing collaboration in the context of political cooperation and develop a Community policy on visas. This would need to strike the right balance between national foreign policy prerogatives and preserving the effectiveness of existing bilateral agreements. The requisite proposals should be made in 1988 for adoption by 1990. There will also be a need to fix common rules concerning extradition policy. The necessary proposal, to be made in 1989, should be adopted by 1991.

56. The adoption of these measures by the Council, accompanied by a redeployment of resources to strengthen controls at the external frontiers, and enhanced cooperation between police and other relevant agencies within the Member States, should enable police checks at internal frontiers to be eliminated by 1992.

**PART TWO : THE REMOVAL OF TECHNICAL BARRIERS**

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57. The elimination of border controls, important as it is, does not of itself create a genuine common market. Goods and people moving within the Community should not find obstacles inside the different Member States as opposed to meeting them at the border.
58. This does not mean that there should be the same rules everywhere, but that goods as well as citizens and companies should be able to move freely within the Community. Subject to certain important constraints (see paragraph 65 below), the general principle should be approved that, if a product is lawfully manufactured and marketed in one Member State, there is no reason why it should not be sold freely throughout the Community. Indeed, the objectives of national legislation, such as the protection of human health and life and of the environment, are more often than not identical. It follows that the rules and controls developed to achieve those objectives, although they may take different forms, essentially come down to the same thing, and so should normally be accorded recognition in all Member States, not forgetting the possibilities of cooperation between national authorities. What is true for goods, is also true for services and for people. If a Community citizen or a company meets the requirements for its activity in one member State, there should be no valid reason why those citizens or companies should not exercise their economic activities also in other parts of the Community.
59. The Commission is fully aware that this strategy implies a change in habits and in traditional ways of thinking. What is needed is a radical change of attitude which would lead to new and innovative solutions for problems - real or apparent - which may appear when border controls no longer exist.

**I. FREE MOVEMENT OF GOODS**

60. Whilst the physical barriers dealt with in Part One impede trade flows and add unacceptable administrative costs (ultimately paid by the consumer), barriers created by different national product regulations and standards have a double-edged effect: they not only add extra costs, but they also distort production patterns; increase unit costs; increase stock holding costs; discourage business cooperation, and fundamentally frustrate the creation of a common market for industrial products. Until such barriers are removed, Community manufacturers are forced to focus on national rather than continental markets and are unable to benefit from the economies of scale which a truly unified internal market offers. Failure to achieve a genuine industrial common market becomes increasingly serious since the research, development and commercialisation costs of the new technologies, in order to have a realistic prospect of

being internationally competitive, require the background of a home market of continental proportions.

The need for a new strategy

61. The harmonisation approach has been the cornerstone of Community action in the first 25 years and has produced unprecedented progress in the creation of common rules on a Community-wide basis. However, over the years, a number of shortcomings have been identified and it is clear that a genuine common market cannot be realised by 1992 if the Community relies exclusively on Article 100 of the EEC Treaty. There will certainly be a continuing need for action under Article 100; but its role will be reduced as new approaches, resulting in quicker and less troublesome progress, are agreed. At least, as far as veterinary and phytosanitary controls are concerned, Article 43 makes possible qualified majority voting : the Council however has regularly used Article 100, which requires unanimity, as an additional legal base. The Commission does not think this position is justified. Where Article 100 is still considered the only appropriate instrument, ways of making it operate more flexibly will need to be found. Clearly, action under this Article would be quicker and more effective if the Council were to agree not to allow the unanimity requirement to obstruct progress where it could otherwise be made.
62. The new strategy must be coherent in that it will need not merely to take into account the objective of realizing a common market per se, but also to serve the further objectives of building an expanding market and a flexible market. It must aim not simply to remove technical barriers to trade, but to do so in a manner which will contribute to increasing industrial efficiency and competitiveness, leading to greater wealth and job creation.
63. In principle, therefore, given the Council's recognition (Conclusions on Standardization, 16 July 1984) of the essential equivalence of the objectives of national legislation, mutual recognition could be an effective strategy for bringing about a common market in a trading sense. This strategy is supported in particular by Articles 30 to 36 of the EEC Treaty, which prohibit national measures which would have excessively and unjustifiably restrictive effects on free movement.
64. But while a strategy based purely on mutual recognition would remove barriers to trade and lead to the creation of a genuine common trading market, it might well prove inadequate for the purposes of the building up of an expanding market based on the competitiveness which a continental-scale uniform market can generate. On the other hand experience has shown that the alternative of relying on a strategy based totally on harmonization would be over-regulatory, would take a long time to implement, would be inflexible and could stifle innovation. What is needed is a strategy that combines the best of both approaches but, above all, allows for progress to be made more quickly than in the past.

### The chosen strategy

65. The Commission takes into account the underlying reasons for the existence of barriers to trade, and recognises the essential equivalence of Member States' legislative objectives in the protection of health and safety, and of the environment. Its harmonization approach is based on the following principles :
- a clear distinction needs to be drawn in future internal market initiatives between what it is essential to harmonize, and what may be left to mutual recognition of national regulations and standards ; this implies that, on the occasion of each harmonisation initiative, the Commission will determine whether national regulations are excessive in relation to the mandatory requirements pursued and, thus, constitute unjustified barriers to trade according to Article 30 to 36 of the EEC Treaty ;
  - legislative harmonisation (Council Directives based on Article 100) will in future be restricted to laying down essential health and safety requirements which will be obligatory in all Member States. Conformity with this will entitle a product to free movement ;
  - harmonisation of industrial standards by the elaboration of European standards will be promoted to the maximum extent, but the absence of European Standards should not be allowed to be used as a barrier to free movement. During the waiting period while European Standards are being developed, the mutual acceptance of national standards, with agreed procedures, should be the guiding principle.
66. The creation of the internal market relies in the first place on the willingness of Member States to respect the principle of free movement of goods as laid down in the Treaty. This principle allows the Commission to require the removal of all unjustified barriers to trade. But it is not sufficient when barriers are justified under the Treaty. Similarly, there will be cases where the introduction of common standards, particularly in the high technology sectors, will encourage and increase the international competitiveness of Community industries.

### Harmonisation - a new approach

67. Article 100 of the Treaty empowers the Council, acting unanimously on a proposal from the Commission, to legislate by Directive for the approximation of the laws, regulations and administrative actions of Member States which directly affect the establishment or the functioning of the common market. However, a number of shortcomings have been recognized in the procedures established for the implementation of Article 100.
68. The practice of incorporating detailed technical specifications in Directives has given rise to long delays because of the unanimity required in Council decision making. Henceforth, in those sectors



where barriers to trade are created by justified divergent national regulations concerning the health and safety of citizens and consumer and environmental protection, legislative harmonization will be confined to laying down the essential requirements, conformity with which will entitle a product to free movement within the Community. The task of defining the technical specifications of products which will be deemed to conform to legislated requirements, will be entrusted to European Standards issued by the Comité Européen de la Normalisation (CEN) or by sectoral European Standards in the electrical and building sectors such as CENELEC, UEAtc or RILEM, acting on qualified majority votes.

69. The Commission is taking steps to strengthen the capacity of these European Standards bodies and also, in the telecommunications sector, of CEPT. This is seen not only as a necessary adjunct to the "new approach", but as an essential ingredient in the gradual replacement of national standards by European Standards in all areas.
70. The Council generally should off-load technical matters by making more use of its powers of delegation as recommended by the European Council. Article 155 of the EEC Treaty makes express provision for this possibility and opens the way to a simplified legislative procedure. This procedure has already been used successfully in customs matters and with the adaptation of existing directives to technical progress. The encouraging results suggest that this procedure should be extended.
71. This general policy will put particular emphasis on certain sectors : these include information technology and telecommunications, construction and foodstuffs.
  - in the information technology and telecommunications sector, the Commission wants to establish specific rules which take account of the requirement for much greater precision and more rapid decision-making so as to ensure compatibility, intercommunication and interworking between the users and operators throughout the Community. This sector is usually the responsibility of public authorities and particularly the PTT'S. In this context it is important that this task be undertaken as much as possible on a common basis, and that the resulting specifications (and corresponding tasks and certification procedures) be mutually recognised from the start. Recent Commission proposals as well as the agreement concluded in July 1984 with CEPT have been in keeping with this tendency;
  - because of the existence of a wide range of products in the field of construction, the Commission will proceed to establish European codes concerning buildings in such a way as to ensure compatibility between components and the structures in which they will be used. The Commission considers that such action will of itself contribute to deregulation efforts;

- in the foodstuffs sector, Community legislative action has been concentrated, and will continue to be concentrated, on issuing "horizontal" directives governing the use of food additives, labelling regulations etc., where the essential need to protect the health and safety of consumers is involved. In line with the "new approach", and in line with the recommendations of the Dooge Committee, the Commission will propose more efficient procedures for the implementation of Article 100 harmonisation in this sector. This approach will be based on the principle of delegating to the Commission, advised by the Scientific Committee for Food, the task of drawing up and managing the more detailed and technical aspects of these directives, leaving the Council free to concentrate on the essential safety and health criteria which must be observed. To this end, the Commission will submit a communication to the Council and to the European Parliament before the end of 1985, and it will propose the extension of Directive 83/189/EEC to the food sector.

72. The Commission considers it essential that in all programmes designed to achieve a unified internal market, the interests of all sections likely to be affected e.g. both sides of industry, commerce and consumers, are taken into account. It further considers that such interests should be incorporated in the policy on the health and safety of workers and consumers. That is why arrangements have been made to ensure the participation of consumer representative bodies in the work of CEN and CENELEC ; and the Commission, with the assistance of the Consultative Consumers Committee, will take further steps to ensure that consumer interests are consulted.
73. Moreover, the Commission will review all pending proposals in order to withdraw such proposals as are considered to be non-essential or which are not in line with the new strategy.

#### Preventing creation of new obstacles

74. Experience shows that a State's membership of the Community is not always sufficiently reflected in the attitudes and outlook of its administrations. When Member State Governments deem new acts or regulations to be necessary for national purposes, they do not always or automatically, in drafting their national instruments, take account of the Community dimension or of the need to minimise the difficulties for relations between Member States. Opportunities are thus lost for making simple and inexpensive improvements.
75. In order to prevent the erection of new barriers, Directive 83/189/EEC now obliges Member States to notify the Commission in advance of all draft regulations and standards concerning technical specifications that they intend to introduce on their own territory. A standstill on adoption must then be instituted by the notifying Member State, during which the draft can be considered by the Commission and the other Member States in order to determine whether it contains any elements likely to create barriers to trade and, if so, to start remedial action under Articles 30 or 100.

76. This new "information" procedure which came fully into force on 1.1.1985, constitutes a major step forward and has already been successful in pre-empting a number of potential obstacles to the free movement of goods between Member States. It is necessary therefore that this procedure, which does not yet cover all industrial products, be extended to cover for example the food and pharmaceutical sectors. In the field of environmental protection a comparable improvement could easily be achieved by making obligatory the gentleman's agreement on notification which has existed since 1973.

#### Mutual recognition

77. Following the rulings of the Court of Justice, both the European Parliament and the Dooge Committee have stressed the principle that goods lawfully manufactured and marketed in one Member State must be allowed free entry into other Member States. In cases where harmonisation of regulations and standards is not considered essential from either a health/safety or an industrial point of view, immediate and full recognition of differing quality standards, food composition rules, etc. must be the rule. In particular, sales bans cannot be based on the sole argument that an imported product has been manufactured according to specifications which differ from those used in the importing country. There is no obligation on the buyer to prove the equivalence of a product produced according to the rules of the exporting State. Similarly, he must not be required to submit such a product to additional technical tests nor to certification procedures in the importing State. Any purchaser, be he wholesaler, retailer or the final consumer, should have the right to choose his supplier in any part of the Community without restriction. The Commission will use all the powers available under the Treaty, particularly Articles 30-36, to reinforce this principle of mutual recognition.
78. In the specific area of testing and certification procedures, a major initiative will soon be launched to bring about within the Community mutual recognition of tests and certification so as to avoid the wasteful duplication of tests which in some sectors is the rule rather than the exception. This initiative will involve the drawing up of common conditions and codes of practice for implementation by laboratories and certification bodies. These codes will be based on existing codes of Good Laboratory Practice and Good Manufacturing Practice which are already in wide use.
79. The net long term effect of adopting and implementing this new strategy will be to reduce the regulatory burden on enterprises wishing to operate on a Community wide basis. In those (henceforth more limited) areas where harmonisation of regulations will still be required, enterprises will only have to meet a single set of harmonised rules rather than 10 or 12 different sets in order for their products to enjoy free circulation throughout the Community. Similarly the application of the new approach to standardisation and the move towards the principle of mutual recognition in an increasing number of other areas will speed up the decision-making

process and avoid the need for a further layer of Community rules to be super-imposed on national rules.

### Nuclear materials

80. Because of the special nature of nuclear material, transfers of such material between Member States are subject to specific conditions. In November 1984, the Commission proposed a revision of Chapter VI of the Euratom Treaty. Inter alia, this proposal would ensure both the unity of the internal nuclear market and the validity of such conditions under Community law.

## II. PUBLIC PROCUREMENT

81. Public procurement covers a sizeable part of GDP and is still marked by the tendency of the authorities concerned to keep their purchases and contracts within their own country. This continued partitioning of individual national markets is one of the most evident barriers to the achievement of a real internal market.
82. The basic rule, contained in Article 30 et seq. of the EEC Treaty, that goods should move freely in the common market, without being subject to quantitative restrictions between Member States and of all measures having equivalent effect, fully applies to the supply of goods to public purchasing bodies, as do the basic provisions of Article 59 et seq. in order to ensure the freedom to provide services. Specific provisions seeking to terminate discriminatory practices in the supply of goods were laid down in Directive 70/32/EEC, whilst Directive 77/62/EEC intends to open the awarding procedures to Community-wide competition. Equally, as far as public works contracts are concerned, Directive 71/305/EEC coordinates the awarding procedures in order to make the awarding process transparent to potential bidders in the whole of the Community. Directive 71/304/EEC concerns the freedom to provide services in this field.
83. Statistics however indicate a minimal application of the Directives; less than 1 ECU in 4 of public expenditure in the areas covered by the co-ordination Directives is the subject of publication in the Official Journal and thus, even theoretically, of Community-wide competition.
84. The Commission will open discussions with Member States and through them with the awarding entities on the application of the Directives. Such discussions have to be based on detailed studies of the Directives' transposition and application in each Member State, concentrating on a number of key areas such as procedural details (splitting of contracts, use of single tendering), particular entities (Defence, Health, Regional Government), and products (computers, vehicles, medical equipment and supplies). In addition further action will be taken to improve the quality and speed of the publication of notices to tender and especially to

develop the electronic publishing system TED (Tenders Electronic Daily).

85. In order to stimulate a wider opening up of tendering for public contracts, there is a serious and urgent need for improvement of the Directives to increase transparency further. Priority should be given to a system of prior information ; to publication of the intention to use single tender procedures ; to publication of the awards of contracts ; and to improved quality and frequency of statistics. Moreover, in view of the high volume of contracts falling below the present levels of the threshold where the Directives apply, a review of these levels would seem appropriate. Besides, more visible action by the Commission in policing compliance with existing law will increase the credibility of the Community's efforts to break down the psychological barriers to crossing frontiers.
86. Four major sectors - energy, transport, water and (in the case of supply contracts) telecommunications - are at present not covered by Directives. Whilst it is clear that enlargement of coverage must be realised before 1992, additional action is required to take account of the fact that some of the awarding entities in these sectors fall under public law, while others are private bodies. Possible options are an approximation approach by way of Directives and/or a competition approach based on Articles 85, 86 and 90 of the EEC Treaty, sometimes combined with an initially more pragmatic approach, such as has been tried in the telecommunications sector. The Commission will submit proposals before the end of 1987.
87. Community-wide liberalisation of public procurement in the field of public services is vital for the future of the Community economy. Article 58 of the EEC Treaty fully applies but, at present, only construction contracts are covered by Directive 71/305/EEC ; the supply of goods may include incidental services only to the extent that the value of the latter does not exceed that of the products themselves. This limitation should be removed so that access to publicly financed service contracts such as the services associated with the construction industry are also opened up to suppliers from other Member States. There are also certain services in the new technology area (see paragraphs 113 - 123 below) which need a large market of continental dimensions in order to realise their full potential. An example would be data processing in all its forms, a sector where possible procurement policies have a major impact. Furthermore, the transformation of contracts to purchase into contracts for the supply of services is already having an impact on the coverage of the supplies Directive, mainly in the field of computers. The Commission will submit proposals before 1987 which should lead to Council action in 1988 by the latest.

**III. FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS : A NEW INITIATIVE IN FAVOUR OF COMMUNITY CITIZENS**

88. The Commission considers it crucial that the obstacles which still exist within the Community to free movement for the self-employed and employees be removed by 1992. It considers that Community citizens should be free to engage in their professions throughout the Community, if they so wish, without the obligation to adhere to formalities which, in the final analysis, could serve to discourage such movement.
89. In the case of employees, it should be noted that such free movement is almost entirely complete and the rulings of the Court of Justice restrict the right of public authorities in Member States to reserve posts for nationals. Certain problems still exist, however, and the Commission intends to make the necessary proposals which will eliminate the last obstacles standing in the way of the free movement and residence of migrant Community workers. Furthermore the Commission will take measures in order to remove cumbersome administrative procedures relating to residence permits. The Commission has already submitted a proposal concerning the taxation of these workers and their families. The main problem in this case is the taxation of wage-earners who reside in one Member State and earn their income in another (this affects mainly frontier workers).
90. The Commission will also make further efforts to bring about the adoption and swift implementation of its proposal concerning the comparability of vocational training qualifications aimed at ensuring that vocational proficiency certificates are more easily comparable. In practical terms, this objective should be achieved by 1988 so that the second phase can be launched before 1990. This second phase would involve the introduction of an European "vocational training card", serving as proof that the holder has been awarded a specific qualification.
91. In the field of rights of establishment for the self-employed, little progress has been made, the main reason being the complexities involved in the endeavour to harmonize professional qualifications. However these endeavours have resulted in a considerable degree of freedom of movement for those engaged in the health sector. The European Council, owing to the hold-ups previously experienced in this sphere, indicated its desire to promote measures that would offer tangible improvements in the everyday life of Community citizens. In particular, during the meeting in Fontainebleau it called for the creation of a general system for the mutual recognition of university degrees. In line with the same philosophy, the Commission believes that there should be mutual recognition of apprenticeship courses.
92. The Adonnino Committee submitted a preliminary report in March this year which contains some guidelines on this subject, and the Commission has been requested to put them into concrete form.
93. For this reason, with the aim of removing obstacles to the right of establishment, the Commission - which approved the conclusions of the Adonnino report - will submit to the Council a draft framework

Directive on a general system of recognition in the course of this year. The main elements in this system will be : the principle of mutual trust between the Member States; the principle of the comparability of university studies between the Member States; the mutual recognition of degrees and diplomas without prior harmonization of the conditions for access to and the exercise of professions ; and the extension of the general system to salary earners. Lastly, any difference, notably as regards training, between the Member States would be compensated by professional experience.

94. Finally, measures to ensure the free movement of individuals must not be restricted to the workforce only. Consequently, the Commission intends to increase its support for cooperation programmes between further education establishments in different Member States with a view to promoting the mobility of students, facilitating the academic recognition of degrees and thus diplomas, and helping young people, in whose hands the future of the Community's economy lies, to think in European terms. At the end of this year, it will make new proposals on this subject, notably concerning a Community scholarship scheme of grants for students wishing to pursue part of their studies or the acquisition of relevant professional experience in another Member State.

#### **IV. A COMMON MARKET FOR SERVICES**

95. In the Commission's view, it is no exaggeration to see the establishment of a common market in services as one of the main preconditions for a return to economic prosperity. Trade in services is as important for an economy as trade in goods. The diversity of activities which can be classed as "services" and the fact that the providers of services seem unaware of their common interests in the sector are two of the reasons why their role and importance have been undervalued for so long. Another reason has been the fact that, in the past, many services were provided by industry itself whereas now there is a trend to create specialist companies or at least specialist units for service activities. Despite the provisions of Articles 59 and 62 of the Treaty, progress on the freedom to provide services across internal frontiers has been much slower than the progress achieved on free movement of goods. This is particularly regrettable, since in recent years specialisation and the rapid development of new types of services has done much to demonstrate the potential for growth and job creation in the service sector as a whole.
96. Two examples should suffice to illustrate this potential, and to point out the risk that the Community might lose ground to its main trading competitors if it fails to take sufficiently far-reaching action.
97. First, in 1982 market services and non-market services already accounted for 57% of the value added to the Community economy while industry's contribution has dropped to less than 26%. Secondly, a

comparison of employment prospects in the different sectors between 1973 and 1982 reveals that there has been a steady decline in employment in industry, which became even more rapid after 1979/1980. By contrast, over the same period, more than 5 million jobs were created in the Community's market services sector. This figure, while impressive in absolute terms, looks less so relative to the equivalent figures for the USA (13.4 million) and even Japan (6.7 million). Another cause for concern is that in the Community, unlike in our main competitors, this trend has tailed off since 1980 as a result of the recession.

98. Although freedom to provide services in the Community has been directly applicable since the end of the transitional period as the Court of Justice recognized in the Van Binsbergen judgement, firms and individuals have not yet succeeded in taking full advantage of this freedom.
99. For these reasons, the Commission considers that swift action should be taken to open up the whole market for services. This applies both to the new service areas such as information marketing and audiovisual services ; and to the so-called traditional (but rapidly evolving) services such as transport, banking and insurance which, if properly mobilised, can play a key supporting role for industry and commerce.

#### "Traditional" Services

100. Of prime importance - because the Community has been depriving itself of the potential benefits for far too long - is the need to open up the cross-border market in the traditional services, notably banking and insurance and transport. The Commission would emphasize here that proposals necessary to open up these two sectors have already been made but still await Council's decision. The Council should, therefore, take the appropriate decisions as indicated in the timetable to be completed by 1990.

#### Financial services

101. The liberalisation of financial services, linked to that of capital movements, will represent a major step towards Community financial integration and the widening of the Internal Market.
102. The accent is now put increasingly on the free circulation of "financial products", made ever easier by developments of technology. Some comparison can be made between the approach followed by the Commission after the "Cassis de Dijon" judgements with regard to industrial and agricultural products and what now has to be done for insurance policies, home-ownership savings contracts, consumer credit, participation in collective investment schemes, etc. The Commission considers that it should be possible to facilitate the exchange of such "financial products" at a Community level, using a minimal coordination of rules (especially on such matters as authorisation, financial supervision and reorganisation, winding up, etc) as the basis for mutual



recognition by Member States of what each does to safeguard the interests of the public.

103. Such harmonisation, particularly as regards the supervision of ongoing activities, should be guided by the principle of "home country control". This means attributing the primary task of supervising the financial institution to the competent authorities of its Member State of origin, to which would have to be communicated all information necessary for supervision. The authorities of the Member State which is the destination of the service, whilst not deprived of all power, would have a complementary role. There would have to be a minimum harmonisation of surveillance standards, though the need to reach agreement on this must not be allowed further to delay the necessary and overdue decisions.
104. The implementation of these principles in the field of credit institutions (especially banks) is being pursued actively, in particular on the following lines :
- the standards of financial stability which credit institutions must live up to and the management principles which they must apply (concerning, for instance, their own funds, the solvency and liquidity ratios, the monitoring of large exposures) are being thoroughly coordinated ;
  - the rules contained in the fourth and seventh company law Directives on annual accounts and consolidated accounting are being adapted to the sector of credit institutions ;
  - furthermore, the conditions which must be fulfilled by institutions seeking access to the markets as well as the measures to be taken at Community level when it comes to reorganising or winding up an institution in case of crisis are being coordinated;
  - to name a more specific area, the Commission is working towards the mutual recognition of the financial techniques used by mortgage credit institutions and of the rules applying to the supervision of such institutions.
105. As regards insurance undertakings, directives adopted in 1973 (non-life) and 1979 (Life) to facilitate the exercise of the right of establishment already coordinate rules and practices for the supervision of insurers and particularly of their financial stability. Moreover, close cooperation between supervisory authorities has been in existence for a long time. The ground is thus prepared for freedom of services across frontiers, which should therefore not present insurmountable problems, especially since the Directive of 11 May 1960 liberates capital movements with regard to premiums and payments in respect of all forms of insurance. It must nevertheless be noted that a Directive intended to facilitate the exercise of freedom of services in non-life insurance by spelling out the part to be played by the various supervisory authorities in cross-frontier operations has not yet

been adopted by the Council. It will furthermore be necessary in the near future to examine closely those aspects of freedom of services which are peculiar to life assurance.

106. In the securities sector, the coordination of rules applicable to undertakings for collective investment in transferable securities (UCITS) is aimed at providing equivalent safeguards for investors in respect of the units issued by UCITS, irrespective of the Member State in which the UCITS is situated. Once approved by the authorities in its home Member State, a UCITS will be able freely to market its units throughout the Community, without permitting additional controls to be introduced. Thus this directive would be an example of the principle of "home country control". Mutual recognition will be made possible by the coordination of the safeguards offered by the financial product in question.
107. Apart from the UCITS proposal, other work still remains to be done to ensure that securities markets operate satisfactorily and in the best interests of investors. Work currently in hand to create a European securities market system, based on Community stock exchanges, is also relevant to the creation of an internal market. This work is designed to break down barriers between stock exchanges and to create a Community-wide trading system for securities of international interest. The aim is to link stock exchanges electronically, so that their members can execute orders on the stock exchange market offering the best conditions to their clients. Such an interlinking would substantially increase the depth and liquidity of Community stock exchange markets, and would permit them to compete more effectively not only with stock exchanges outside the Community but also with unofficial and unsupervised markets within it.

#### Transport

108. The right to provide transport services freely throughout the Community is an important part of the Common Transport Policy set out in the Treaty. It should be noted that transport represents more than 7 % of the Community's g.d.p., and that the development of a free market in this sector would have considerable economic consequences for industry and trade. The recent decision of the Court in the case brought by the European Parliament against the Council for failure to act in the field of the common transport policy (Case 13/83) highlights the necessity of making rapid progress in this area.
109. In addition to the measures already mentioned in the context of the elimination of frontier checks in road haulage traffic, the completion of the internal market requires the following actions in the transport sector :
- for the transport of goods by road between Member States, the phasing out of quantitative restrictions (quotas) and the establishment of conditions under which non-resident carriers may

operate transport services in another Member State (cabotage) will be completed by 1988 at the latest.

- for the transport of passengers by road, freedom to provide services will be introduced by 1989.
  - for the international transport of goods by inland waterway, freedom to provide services where this is not yet the case will be introduced. Where necessary, conditions will be established under which non-resident carriers may operate inland navigation services in another Member State (cabotage). Both measures should come into effect by 1989.
  - the freedom to provide sea transport services between Member States shall be established by the end of 1986 at the latest, though with the possibility of a limited period for phasing out certain types of restrictions.
  - in the air transport sector, it is necessary to provide by 1987 for greater freedom in air transport services between Member States. This will involve in particular changing the system for the setting and approval of tariffs, and limiting the rights of Governments to restrict capacity and access to the market.
110. Implementation of common policy measures in the transport sector by the dates mentioned above will require decisions by the Council by December 1985 (air fares and some aspects of maritime transport) ; by June 1986 (remaining aspects in the aviation and maritime sectors) ; and by December 1986 (road haulage, inland waterways, coach services).
111. If the Council fails to make progress towards the adoption of proposed Regulations concerning the application of competition rules to air and to sea transport, the Commission intends to take Decisions recording existing infringements and authorising Member States to take measures as determined by the Commission according to Article 89 of the EEC Treaty.
112. All these measures form only part of the common transport policy which extends to other measures (e.g. state aid policy, improvement of railway financing, harmonization in the road sector, infrastructure planning and investment) which are not of direct relevance to the internal market but which are an essential element of this policy.

#### New technologies and Services

113. The development of new technologies has led to the creation and development of new cross-border services which are playing an increasingly important role in the economy. However, these services can develop their full potential only when they serve a large, unobstructed market. This applies equally to audiovisual services, information and data processing services and to computerized marketing and distribution services.

114. In addition, the Commission would stress that a market free of obstacles at Community level necessitates the installation of appropriate telecommunication networks with common standards.
115. In the field of audiovisual services, the objective for the Community should be to seek to establish a single Community-wide broadcasting area. Broadcasting is an important part of the communications industry which is expected to develop very rapidly into a key sector of the Community economy and will have a decisive impact on the future competitiveness of Community industries in the internal market.
116. In accordance with the Treaty objective of creating a common market for services, all those who provide and relay broadcast services and who receive them should be able, if they wish, to do so on a Community-wide basis. This freedom goes hand in hand with the right of freedom of information regardless of frontiers.
117. As a result of the development of broadcasting within essentially national frameworks, legal obstacles, actual and potential, lie in the path of those seeking to develop broadcasting activities across the borders of Member States. These obstacles consist mainly of different limitations on the extent to which broadcast programmes may contain advertising ; as well as of the rights of owners of copyright and related rights to authorise retransmission by cable of broadcasts for each Member State separately. On the basis of the Commission's Green Paper, adopted in May 1984, on the establishment of the common market for broadcasting, especially by satellite and cable, a number of measures are necessary to realise a single Community-wide broadcasting area. As a first step towards this objective, the Commission will submit appropriate proposals in 1985. The Council should take a decision before 1987.
118. The information market is also undergoing far reaching changes as a result of the application of new information technologies. These changes are mainly due to :
- the almost exponential growth of the amount of information available ;
  - the growing speed with which new information becomes obsolete ;
  - the strong tendency of information to flow across borders; and
  - the application of new information technologies.
119. Information itself and information services are becoming more and more widely traded and valuable commodities, and in many respects primary resources for industry and commerce. The opening of the market for it is therefore of increasing importance. Moreover, the functioning of markets for other commodities depends upon the transmission and availability of information. As a commodity, however, it has unique and difficult properties.
120. The information market has been supported by a series of programmes decided by the Council on 27 July 1981 and 27 November 1984. The current one is due for mid-term evaluation in the course of this year. But a satisfactory internal market requires more. It

requires, as the European Council has recognized, a common policy and strategy within which a transparent regulation and transparent conditions can be built. The Commission has issued a general discussion paper on this subject and intends to follow it up with appropriate proposals and guidelines in the period 1985-1987.

121. The European marketing and distribution system will also undergo a thorough technological transformation. Home videotex will permit the ordering of products direct from the manufacturer, thus revolutionizing traditional distribution channels, while ensuring greater market transparency. These new technologies, which will bring in their wake a need for adequate consumer protection, could lead to increased commercial activity within the Community, particularly in the mail-order sector.
122. Electronic banking too will promote information and commercial transactions. The new payment cards (memory cards, on-line cards) will tend to replace existing cheques and credit cards. Although an agreement already exists on the compatibility of videotex equipment in the Community, there is no similar agreement for the production of the new cards.
123. The Commission intends to make proposals to help define common technical features of the machines used to produce the new payment cards, so that they can be identical throughout the Community. It will also seek to encourage, in conformity with Community competition rules, the conclusion of agreements at European level between banks, traders, producers and consumers on the compatibility of systems, networks linkage, user rules and/or rates of commission.

#### **V. CAPITAL MOVEMENTS**

124. Greater liberalisation of capital movements in the Community should serve three aims.
125. First, the completion of a large internal market inevitably involves a financial dimension. The free movement of goods, services and persons must also mean that firms and private individuals throughout the Community have access to efficient financial services. The effectiveness of the harmonisation of national provisions governing the activities of financial intermediaries and markets would be greatly reduced if the corresponding capital movements were to remain subject to restrictions.
126. Secondly, it must be stressed that monetary stability, in the sense of the general level of prices and exchange rate relations, is an essential precondition for the proper operation and development of the internal market. In this regard, action to achieve greater freedom of capital movements would need to move in parallel with the steps taken to reinforce and develop the European Monetary System. Exchange-rate stability and convergence of economic policies help the gradual removal of barriers to the free

movement of capital; conversely, greater financial freedom leads to greater discipline in the conduct of economic policies.

127. Thirdly, the decompartmentalisation of financial markets should boost the economic development of the Community by promoting the optimum allocation of European savings. The task is to set up an attractive and competitive integrated financial system for both Community and non-Community business circles.
128. A number of Member States have had to make use of the protective clauses provided for in the Treaty (Articles 73 and 108(3)) to maintain or reintroduce restrictions on capital movements which are in principle liberalised under Community law. From now on the Commission's attitude towards the use of safeguard clauses will be governed by the following criteria :
- authorization to apply protective measures should be for a limited period;
  - measures should be continually reviewed and gradually abolished as the difficulties which originally justified them diminish;
  - agreement should be reached not to apply the protective clauses to capital movements which are so short term as to be classified as speculative and which are most directly linked to the free movement of goods, services and persons.
129. Generally speaking, however, capital now moves more freely in the Community than at the end of the 1970s. The United Kingdom removed all exchange controls in 1979 and the arrangements applied in Denmark now comply with the Community rules in force. In December 1984, the Commission authorised France, Italy and Ireland to retain, according to the above criteria, in varying degrees, restrictions on certain capital movements. These decisions took into account the measures taken on this occasion by the French and Italian authorities to relax such restrictions. These derogations have been renewed for a limited period.
130. Unlike the Treaty provisions relating to free trade in goods and services, the principle of freedom of capital movements does not apply directly. All progress towards such freedom involves an extension, by way of Directives, of the Community obligations last laid down in 1960 and 1962. The following two aims must be pursued in view of this extension :
- as an accompaniment to measures to coordinate the conditions under which financial intermediaries operate and thus to promote the development of a common market in financial services. To this end, a proposal for a Directive concerning the liberalisation of transactions in the units issued by collective investment undertakings for transferable securities is currently being discussed by the Council. A similar liberalizing proposal will be necessary in due course in the mortgage lending field;

- in order to adapt Community obligations to changes in financial techniques and so improve the arrangements for operations which have grown substantially in importance. Action will have to be taken at Community level to liberalise operations such as the issue, placing and acquisition of securities representing risk capital, transactions in securities issued by Community institutions and long-term commercial credit.

131. In addition to the responsibility which Community bodies have for creating and administering a legislative framework for the liberalisation of capital movements they will have to take action with a view to gradually liberalizing all operations of Community interest.
132. The Commission intends to step up its monitoring of any exchange control measures which, while not infringing Community obligations to liberalise capital movements, nevertheless constitute a potential obstacle to payments relating to normally liberalised trade in goods, services or capital. Following the "Luisi-Carbone" judgement of 31.1.1984, the Commission has already informed Member States about the limits to the controls which Member States may apply. From 1992 onwards, any residual currency control measures should be applied by means other than border controls.

#### **VI. CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COOPERATION**

133. The removal of internal boundaries and the establishment of free movement of goods and capital and the freedom to provide services are clearly fundamental to the creation of the internal market. Nevertheless, Community action must go further and create an environment or conditions likely to favour the development of cooperation between undertakings. Such cooperation will strengthen the industrial and commercial fabric of the internal market especially in the case of small and medium sized enterprises, which are particularly sensitive to their general environment precisely because of their size.
134. In spite of the progress made in creating such an environment, cooperation between undertakings of different Member States is still hampered by excessive legal, fiscal and administrative problems, to which are added occasional obstacles which are more a reflection of different mental attitudes and habits. It is, however, the Commission's function to take steps to deal with any distortion of competition arising from the partitioning of markets by means of agreements on business practices or undisclosed aid from public funds. The Commission will also continue to apply competition rules by authorizing cooperation between undertakings which can promote technical or economic progress within the framework of a unified market.
135. The Commission will also seek to ensure that Community budgetary and financial facilities make their full contribution to the development of greater cooperation between firms in different

Member States. It will seek to guide future research programmes in this direction, both at the precompetitive research stage and at the stage of pilot or demonstration projects. The ESPRIT and BRITE programmes now underway have already had a very positive impact on European firms in terms of the opportunities for cooperation which they represent. The Regional Fund must also be enabled to contribute to greater cooperation between firms.

**Creation of a legal framework facilitating cooperation between enterprises.**

136. 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 numerous potential joint projects failing to get off the ground. The Community is now, for the first time, setting the stage for a new type of association to be known as the "European Economic Interest Grouping" that will be governed by uniform Community legislation and will make it easier for enterprises from different Member States jointly to undertake specific activities.
137. Also, it is worth noting that a Council decision is still awaited on the proposed statute for a European Company. The Commission is conscious that the creation of an optional legal form at Community level holds considerable attraction as an instrument for the industrial cooperation needed in a unified Internal Market. A decision on the proposed statute will clearly be needed by 1992. In the interim period, the Commission intends to concentrate on measures to approximate national laws and does not preclude the possibility of amending its European Company proposal in order to build on results achieved in discussions of approximation measures.
138. The small number of one-man businesses apart, enterprises are generally organised in the form of companies or firms, and the Community rule on non-discriminatory treatment applies to them when formed in the Community. This rule is of prime importance where the acquisition of shareholdings is concerned.
139. There is a case, however, for making better use of certain procedures such as offers of shares to the public for reshaping the pattern of share ownership in enterprises, since the rules currently in force in this sphere vary a great deal from one country to another. Such operations should be made more attractive. This could be done by requiring minimum guarantees, particularly on the information to be given to those concerned, while it would be left to the Member State to devise procedures for monitoring such operations and to designate the authorities to which the powers of supervision were to be assigned. A proposal will be made in 1987 and the necessary decisions should be taken by 1989.
140. As and when the internal market is developed further, enterprises incorporated in the form of companies or firms will become more and more involved in all manner of intra-Community operations, resulting in an ever-increasing number of links with associated



enterprises, creditors and other parties outside the country in which the registered office is located. To keep pace with this trend, a series of measures have already been taken or are under discussion aimed at coordinating Member States laws, especially those governing limited companies, which, in economic terms, constitute the most important category.

141. Admittedly, this approximation of legislation is designed to secure equivalent protection for those concerned but these are, to a very large extent, enterprises too. In point of fact, by improving the legal relationship between enterprises, the coordination of company law has at the same time improved cooperation between them.
142. Nevertheless, a company constituted under a specific national law does not enjoy the same facilities as a natural person when it comes to moving from one Member State to another. The traditional ways of setting up in another Member State involve the establishment of subsidiaries or branches, for which non-discriminatory treatment is expressly laid down in the Treaty of Rome. As things stand now, however, the legal position of branches set up by companies from other Member States is far from satisfactory throughout the Community. Thus, to the extent that certain matters affecting the corporate sector have already been harmonised, branches established in the Community and forming an integral part of an enterprise should also reap the benefits of such harmonisation under a legislative policy of deregulation. With this in mind, the obligation, say, to publish accounts relating only to the activities of a branch established in the Community should be dispensed with in all cases, provided a copy of the parent company's accounts is filed with the registration body responsible for the branch. A proposal will be made in 1986 to permit a decision by the Council in 1988.
143. If it is to satisfy the needs of a genuine internal market, the Community cannot concentrate simply on the arrangements for creating subsidiaries or branches in order to make it easier for enterprises to set up in other Member States. Enterprises must also be able to engage in cross-border mergers within the Community. This facility could constitute the last stage in a process of cooperation beginning, for example, with the straightforward acquisition of a shareholding. On the face of it, adoption of the Commission's proposal for a tenth Directive seems to pose fewer difficulties especially as it could, to a very large extent, settle the matter by reference to the rules already in force on internal mergers.
144. In practice, cooperation will result more often than not in the creation of a group of legally separate but associated enterprises. This development is already the subject of coordination in the field of consolidated accounts. However, is it possible to stop there? The fact is that the transparency of the group is not the only issue at stake. A fair balance must also be struck between the interests of the group as a whole and its members, especially minority shareholders and creditors of subsidiaries. However,

there are serious gaps in most Member States' legislation on the matter, which is still too closely modelled on the idea of company autonomy, an idea largely overtaken, it would seem, by the degree of concentration that now exists. Depending on the outcome of current consultations, the Commission is considering making a proposal to this end.

#### Intellectual and industrial property

145. Differences in intellectual property laws have a direct and negative impact on intra-Community trade and on the ability of enterprises to treat the common market as a single environment for their economic activities.
146. It will be necessary, as a first step, to reach a decision on the Community Trademark proposal and on the proposal approximating national trade mark laws. Considerable advantages will flow from this which will enable undertakings to adapt their activities to the full scale of the Community by making it possible for them to obtain on a single application one trade mark covering all the Member States. In order to allow the Community trade mark system to be adopted by the Council, the Commission will make the necessary supplementary proposals (i.e. the rules implementing the regulation; the fees regulation; the siting of the Community Trade Mark office and its working language; the rules of procedure of the Boards of Appeal). The Council should decide on these matters by 1987.
147. The picture has recently been further complicated by the need to adapt existing trademark systems to technological change in a number of areas including computer software, microcircuits and biotechnology. In order to create a firm legal foundation for investment in new techniques, the systems must be adapted in a convergent manner so that these changes will not weaken an already imperfect intellectual property market.
148. In the patent field, the Luxembourg Convention on the Community Patent signed in 1975 which will offer important advantages to industry, has not yet entered into force. The Commission favours a solution whereby the Convention enters into force immediately, at least amongst those Member States who are in a position to ratify it.
149. The Commission accordingly intends to propose to the Council measures concerning patent protection of biotechnological inventions and the legal protection of microcircuits, the latter as a matter of urgency, in 1985. In addition, problems in the field of copyright and related rights will be examined in a consultative document to be published in 1985 with a view to establishing priorities. In this context, the introduction of a Community framework for the legal protection of software will be given particular attention.

### Taxation

150. The Commission intends to publish, by the end of 1985, a White Paper on the taxation of enterprises in the Community. This will serve the purpose of fitting the various proposals already pending before Council into a general framework. It will also be an opportunity for assessing the need for further common action in this field. There is, indeed, a widespread feeling in private enterprise in Europe that our fiscal environment for risk capital and for innovation compares badly with that of our major competitors.
151. In the meantime the Commission will urge the Council to complete ongoing work on a group of proposals which aim at removing obstacles to cooperation between European firms (on tax treatment of parents and subsidiaries, on taxation of mergers and on avoidance of double taxation), and to give high priority to harmonizing indirect taxes on transactions in securities as well as to the proposal which will allow wider use of carry forward and backward of losses in all Member States.

## VII. APPLICATION OF COMMUNITY LAW

### Infringements

152. The Community's political and legislative efforts to create an expanded home market for the people and the industries of the Community, will be in vain if the correct application of the agreed rules is not ensured. Unfortunately, under the pressure of economic crisis, Member States have not always withstood the temptation to yield to protectionist measures, and the large volume of complaints that the Commission has received has prevented it from dealing with them within a reasonable period. There is no reason why Member States, whose Heads of State and Government are committed to the completion of the Internal Market, should not expect and welcome the knowledge that the Commission will carry out its duties of enforcing the rules that make such a completion possible, even if such enforcement is likely sometimes to affect them directly and individually.
153. Of the total number of complaints received by the Commission, some 60 %, i.e. on average 255 each year, relate to Articles 30-36 of the Treaty, but because of the lack of resources it can, in a given year, settle only one hundred cases. The resulting delays and backlogs benefit the infringing States, impede systematic action, lead to political and economic disequilibria of infringement proceedings, and frustrate the confidence of industry as well as that of the man in the street. Measures have to be taken to remedy the situation.
154. Moreover, the Commission will continue its general action of improving and rationalising its internal procedures in order to correct violations rapidly and effectively. It will closely combine

its actions of prevention and cure, and it will consider the possible introduction of sanctions ; and will explore all possibilities for interim measures to suspend the enforcement of any national legislation which manifestly infringes Community law.

#### Transparency

155. Elimination of unjustified trade barriers is traditionally done on a case-by case basis by individual infringement proceedings. Given the practical shortcomings of piecemeal proceedings, the Commission will have to take more systematic action, by publishing general communications setting out the legal situation particularly in regard to Articles 30 to 36 for the whole of an economic sector or in relation to a particular type of barrier. These communications would serve as a guide for public authorities regarding their obligations, as well as for Community citizens regarding the rights which they enjoy.
156. The Commission intends to publish before 1988 communications on motor-cars, foodstuffs, pharmaceuticals, and chemical products as priority sectors. The Commission will gradually establish a definite link between its proposals for harmonisation of laws and its communications setting out the impact of Articles 30 to 36. In any case, it is understood that, in the event of approximation lagging behind the agreed schedules, the Council's inaction cannot relieve the Commission of its obligation to take whatever measures are necessary to ensure free movement of goods within the Community under conditions which are consistent with the aims of the Treaty and the deadline of 1992.

#### Competition policy and state aids

157. A strong competition policy will play a fundamental role in maintaining and strengthening the internal market. It will contribute to an improved allocation of resources and to reinforcement of the efficiency and competitiveness of European companies. As the Community moves to complete the Internal Market, it will be necessary to ensure that anti-competitive practices do not engender new forms of local protectionism which would only lead to a re-partitioning of the market.
158. In this context, it will be particularly important that the Community discipline on state aids be rigorously enforced. There are tendencies to spend large amounts of public funds on state aids to uncompetitive industries and enterprises. Often, they not only distort competition but also in the long run undermine efforts to increase European competitiveness. They represent a drain on scarce public resources and they threaten to defeat efforts to build the internal market. As the physical and technical barriers inside the Community are removed, the Commission will see to it that a rigorous policy is pursued in regard to state aids so that public resources are not used to confer artificial advantage to some firms over others. An effective Community discipline will make it possible to ensure that available resources are directed away from

non-viable activities towards competitive and job creating industries of the future.

159. The Commission is drawing up an inventory of state aids and will publish by 1986 a report setting out the implications for future state aids policy.

### **PART III - THE REMOVAL OF FISCAL BARRIERS**

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#### **I. INTRODUCTION**

160. Fiscal checks feature prominently among the functions carried out at the Community's internal frontiers. Consequently, the removal of frontier controls is bound to have inescapable implications for the Member States as far as indirect taxes are concerned. The adjustments that will be needed to solve these practical problems are also very much in line with the terms of the commitment undertaken by those who signed the Treaties and with historical developments since then.
161. When the Customs Union was achieved in 1968, it was already apparent that the mere removal of tariffs would not enable a true common internal market to be created; and that differences in turnover taxes in particular were the source of serious distortion and hence a serious obstacle to the completion of the Internal Market. That such a situation might arise was foreseen in the Treaty itself. Article 99 specifically provided that the Commission should make proposals for the approximation of indirect taxation when this was needed for the completion of the internal market; and Article 100 provided the legal means for so doing.
162. Accordingly, in 1967, the Member States decided that the existing turnover taxes must be replaced by a Value Added Tax levied on a common basis. It was recognized from the outset that the imposition of such a tax on a common basis would raise many difficulties for Member States and would have to be phased in over a period of years. But it is clear from both the First and the Second VAT Directives which gave effect to this decision that a common basis was not only intended but was regarded as essential.
163. The adoption of a harmonized VAT was given further impetus by the Council Decision in 1970 that the Community should be financed through "own resources". A significant element in this new "own resources" regime was the allocation to the Community of the yield of part (not to exceed a rate of 1 per cent) of the harmonized VAT. It is clear from the Directives that what was in mind was not a notional calculation but the allocation of a specific share of an actual harmonized tax. The following year (1971) saw the adoption of a Council Resolution confirming its intention to create an area within which goods, services and capital could circulate freely and without distortions of competition. Not only was a common tax base regarded as essential to achieve this end, but common tax rates as well were contemplated. In the words of the Resolution: "Before the end of the first stage, the Council will deliberate on the studies undertaken, and on the proposals made, by the Commission concerning the approximation of rates of value added tax and of excise duties."
164. The broad principles of the harmonized common tax base for VAT were laid down in outline in the Second VAT Directive dated 11 April 1967. This was followed after a period of intensive consideration and discussion, by the Sixth VAT Directive, adopted in 1977 which set out in great detail the provisions of the common base. Because

of the problems involved in reaching agreement on a number of difficult and contentious issues, the Sixth Directive contains a number of lacunae as well as special schemes, derogations and transitional provisions. At the same time, Article 35 of the Directive specifically provided that these derogations and special arrangements should ultimately be brought to an end. Nowhere is the general philosophy set out more succinctly than in the preamble to the Directive. This declares :

"Whereas account should be taken of the objective of abolishing the imposition of tax on the importation and the remission of tax on exportation in trade between Member States; whereas it should be ensured that the common system of turnover taxes is non-discriminatory as regards the origin of goods and services, so that a common market permitting fair competition and resembling a real internal market may ultimately be achieved".

Since 1977 a number of supplementary Directives have been adopted and a number await the Council's decision.

165. Soon after the first steps were taken to harmonize turnover taxes, the Community turned its attention to excise duties. As a first step the Commission identified tobacco, alcoholic drinks and hydrocarbon oils as the products on which excises should be levied - a choice which coincides with the coverage adopted by most Member States.
166. In the case of tobacco, a limited degree of harmonization has already been achieved. The basic directive adopted in 1972 defined the structures of excise duty on cigarettes; provided for harmonization in successive stages; and defined a range of relationships between the specific duty and the total duty. In the case of alcoholic drinks and hydrocarbon oils, little progress has been made despite the presentation by the Commission of a whole range of directives. At the same time, however, a limited degree of progress has been made as a result of judgements by the European Court which have compelled Member States to abandon tax arrangements which benefited domestic producers to the detriment of producers in other Member States.
167. It is clear from what has been said above that the harmonization of indirect taxation has always been regarded as an essential and integral part of achieving a true common market. Momentum has been lost in recent years but this was due essentially to the impact of the recession on the economic policies of Member States and preoccupation with other problems. But progress is being resumed and now we must proceed vigorously if we are to achieve the target date of 1992 for the completion of the Internal Market.
168. If goods and services and people are to move freely from one member State to another in just the same way as they can move within a member State, it is essential that frontier controls be abolished. Since these are primarily designed to ensure that each member State can collect the revenue in the form of indirect taxation to which it feels entitled, there are clear implications for the indirect taxation policies of individual Member States. Let us be quite clear that we are talking here not in terms of frontier facilitation, i.e. simplifying frontier procedures in the way that

the Directive on the Harmonization of Frontier Procedures and the Single Administrative Document aim to do, but in terms of removing the frontiers altogether as only in this way is it possible to achieve the stated objective of free movement of goods and of people.

169. Indirect taxes, whether in the form of VAT or excises, enter more or less directly into the final price of the goods or services on which they are imposed. Different levels of taxation are therefore reflected in different price levels. If the differences in level are substantial, the differences in final prices will also be substantial, though small differences can often be absorbed either in margins or by consumer indifference. Given the relationship between prices and levels of taxation, we need to consider whether or not it would be practically possible, in the absence of frontier controls, for Member States to charge significantly different levels of indirect taxation.
170. The considerations which apply to commercial traffic and to the individual traveller are not the same. They are therefore treated separately in the following paragraphs : the VAT dimension is examined first ; the analysis is then widened to include the excises.

#### Commercial Traffic and Value Added Tax

171. The starting point must be the 14th VAT Directive and the system of postponed accounting which shifts the accountancy procedures for VAT from frontiers to inland tax offices. The strongest point in favour of the 14th VAT Directive is that it embodies a tried and proven system, operated by Belgium, the Netherlands and Luxemburg, and previously by Ireland and the United Kingdom. For a variety of reasons, none of them convincing in the Commission's view, the Directive has not yet been adopted by the Council, and this despite the fact that the system it incorporates has the solid backing of practical experience behind it. Adoption of the 14th VAT Directive would unquestionably represent a valuable step forward in simplifying procedures and speeding the flow of commercial traffic. It would not, however, result in the complete abolition of frontier controls since documentation would still have to be provided at the frontier and Member States would still wish to retain the power to check movements of goods as a protection against fraudulent transactions which would deprive them of revenue.
172. If, therefore, frontiers and with them frontier controls are to be abolished, a satisfactory Community procedure will need to be found by which sales and purchases across borders would be treated in exactly the same way as similar sales and purchases within the borders of the Member States. In other words, the sale would be taxable in the hands of the vendor and the VAT incurred by the purchaser would be deductible irrespective of the Member State in which it has been charged. It would then be necessary to set up a Community "Clearing House System" to ensure that VAT collected in the exporting Member State and deducted in the importing Member State was reimbursed to the latter. Computerisation of procedures will play an important role in this context.



173. In principle the Clearing House System described above would create a situation for taxable persons within the borders of the Community identical to that which exists within the borders of the individual Member States. But in practice the present widely divergent rates and coverage of VAT would expose the system to the risk of heavy and systematic fraud and evasion. Apart from other devices it would be all too easy for traders in high rate Member States to obtain supplies from low rate Member States and omit them from their records. Not only would this be a loss of revenue, but such practices would result in serious distortion of trade between low rate and high rate Member States. No one would pretend that fraud and evasion do not occur at present and would not continue even if tax rates and coverage were approximated. But the scale on which it could occur after the abolition of frontier controls without approximation would be unacceptably large.
174. Furthermore, the Clearing House System could not deal with the problem of the small trader not registered for VAT who could legitimately shop across the border and would do so where significant differences in taxation and corresponding differences in prices existed.
175. The only conclusion that can be drawn from this analysis is that no means exists of removing the frontier controls and thus the frontiers if there are significant tax and corresponding price differences between the Member States.

#### The Individual Traveller

176. The fact that tax levels vary greatly from one member State to another results in considerable differences in prices and creates a powerful incentive for people living in high tax countries to cross the border and shop in low-tax countries. It needs to be remembered that many land frontiers in the Community cross heavily populated areas. The Benelux countries, France and Germany come together in a geographical knot where cross-border shopping is easy and increasingly customary. Similar active cross-border shopping trade is found between Denmark and Germany and between the adjacent areas of Ireland and Northern Ireland.
177. It would not be possible without the introduction of a whole range of new and offensive controls to discriminate between "genuine" travellers and those who crossed frontiers to go shopping. It has equally already been recognised that it is unacceptable to attempt to collect tax from every individual traveller carrying dutiable goods in however small quantities. For these reasons, and to facilitate travel within the Community, a system of "travellers' allowances" has been developed. First adopted in 1969, they now stand at goods worth 280 ECU plus modest prescribed quantities of cigarettes and alcoholic drink. Because of the problems of cross-border shopping, increasing difficulty has been experienced in obtaining the agreement of Member States to even modest increases in the travellers' allowances. While an increase to 350 ECU may be agreed shortly, this is below what even in the present circumstances the Commission and the Parliament would consider to be reasonable.

178. The very existence of travellers' allowances, their modest amounts and the disproportionate difficulty in obtaining agreement to limited increases all demonstrate that it would be impossible to dismantle the fiscal frontiers unless there were a considerable measure of approximation of indirect taxation.

#### Excises

179. As far as the individual traveller is concerned, the position in relation to excises does not greatly differ from that relating to VAT. This analysis concentrates therefore on the considerations affecting commercial traffic.
180. At present, so far as the trade is concerned, goods subject to excise duties are usually kept in bonded warehouses under control of the authorities, the tax being suspended. The tax is then charged when goods are taken from the bonded warehouse for consumption, that is, delivered to a distributor, or direct to a customer. When goods are exported, they are usually exported "in bond" i.e. duty is suspended and cancelled after proof of export. This in itself requires a check at the frontier. Correspondingly, checks are made and the potential liability is duly established at the point of entry into the importing country. Unless the goods are imported into bond, duty then has to be paid. Alternatively, the goods may be received into a bonded warehouse and duty is then charged in the importing country only when the goods are about to go into consumption, i.e. when they are delivered from the bonded warehouse to a distributor or direct to the customer. While this system ensures that tax is charged only in the country where the goods are ultimately consumed, and at the rates of tax chargeable in that country, it presupposes the maintenance of existing thorough frontier formalities.
181. It already open to the Council to produce the first simplification of existing frontier procedures by adopting the directives on common structures for the excises which are already before it. A further streamlining could be achieved by linking national systems of excise suspension. Goods could then go from their place of production or from a bonded warehouse in the exporting country and, with a minimum of control, cross the frontier to a bonded warehouse in the importing country. The excise due would not be calculated and charged until the goods were taken out of "bond" in the country of destination. But though this system would indeed simplify controls at the frontiers, it would not in itself mean that they could be abolished.
182. If frontier controls were dismantled while the present wide differences in excise taxation persisted, the system would be exposed to fraud and evasion. This situation would allow excised goods to be routed through a bonded warehouse in a low rate country, taken out of "bond" there and shipped on for consumption in a high rate country. There would also be a strong incentive for those traders in high rate countries who were not covered by the bonded warehouse system to obtain their goods in low rate countries. The only way of dealing with these problems would be to impose frontier controls, the very thing we are seeking to abolish.

183. We conclude that there is no way of removing frontier controls for goods subject to excise duties whilst the present significant differentials in coverage and rates continue to exist.
184. Whether from the point of view of commercial traffic or of the individual traveller, we conclude that the removal of frontiers together with the associated controls will require for practical reasons not only the setting up of a Community Clearing House System for VAT and a linkage system for bonded warehouses for excised products, but also a considerable measure of approximation of indirect taxes. We wish to make it clear that complete harmonization, which has come to imply absolute identity in every respect, is not essential and for this reason we should now use the term "approximation".

## II. APPROXIMATION

185. The first question that has to be answered is how close does approximation have to be. The short answer is that it must be sufficiently close that the operation of the common market is not affected through distortions of trade, diversion of trade and effects on competition. In this connection, American experience is instructive. In the United States there are no fiscal frontiers as such, nor is there complete harmonisation of retail taxes as between the individual states. American evidence therefore suggests that some variations can be accommodated; but, in order to take account of market forces, these need to be limited in scale, with differences of upto 5% even between neighbouring states co-existing without undue adverse effects. Transposing this experience into the Community context would suggest a margin of  $\pm 2 \frac{1}{2}$  per cent either side of whatever Target Rate or Norm is chosen. In the case of VAT, this would be a very significant degree of flexibility. Thus, for example, if the Norm for the standard rate were  $16 \frac{1}{2}$  per cent, actual rates adopted by Member States could be in the range of 14 per cent to 19 per cent. These figures are inserted purely as an illustration although as a matter of interest the range of 14 per cent to 19 per cent encompasses the standard rates imposed by six of the nine Member States with VAT. In the case of excises, the indicative range of  $\pm 2 \frac{1}{2}$  per cent would be less significant as excises frequently account for a large proportion of the retail price.
186. Retail markets are often tolerant of quite significant differences in retail prices. Distance, convenience, service, image and a host of other factors enter into consumer choice; price is only one. But where competition is severe, prices do tend to move to a common level. In such circumstances minor differences in tax levels tend to be absorbed by the trade, leaving the ultimate retail price to the consumer little affected. The pressures thus exerted on the trade will be transmitted to government. Thus market forces will themselves create pressures to achieve a degree of approximation and in one case have already done so in the Community.

**The Broad Picture**

187. It will require a great deal of statistical and econometric work before specific proposals can be put forward. Much of this work can only be done by or in association with Member State administrations. Indeed it would be surprising if many Member States had not, as a matter of routine, already made such studies. This White Paper therefore confines itself to a general analysis which will enable the broad picture to be seen and leave the detailed studies to be undertaken as part of the preparatory work on the draft directives which will be required.
188. Table 1 sets out the total yield of indirect taxation, subdivided into VAT and Excises, as a proportion of GDP in each of the Member States in 1982.
189. The point which emerges immediately is that for most Member States there are no very significant differences from the average in the total yield of indirect taxation.

**TABLE 1 - Indirect taxation as percentage of the GDP (1982)**

Per cent	VAT	EXCISES		VAT AND EXCISES
		total	Big five(1)	
Belgium	7.67	2.39	2.29	10.06
Denmark	9.84	5.87	3.27	15.71
Germany	6.34	2.70	2.58	9.04
France	9.19	2.22	2.12	11.41
Ireland	8.22	8.91	7.63	17.13
Italy	5.48	2.84	2.72	8.32
Luxembourg	6.04	4.24	3.75	10.28
Netherlands	6.83	2.36	1.92	9.19
United Kingdom	5.22	4.58	4.35	9.79
Weighted EC Average (2)	7.05	3.63	3.37	10.68

(1) Tobacco products, beer, wine, spirits and mineral oil products  
 (2) Excluding Greece, where the necessary statistics were not available

190. Looked at in this way approximation presents a manageable budgetary problem for most Member States and it would not seriously disturb the existing relationship between direct and indirect taxation. The exceptions are Denmark and Ireland both of which rely heavily on indirect taxation and where the present level measured as a percentage of GDP is 50 per cent or more above the Community average.

191. When one looks at the yield of the VAT and of the excises separately, bigger differences appear. In the case of the VAT a preponderance of Member States have a yield around 6 per cent of GDP (i.e. within the range 6 per cent +/- 1 per cent) but four States have yields higher than this, of which two exceed 9 per cent. In the case of the excises, there are five Member States with yields between 2 per cent and 3 per cent of GDP, three Member States with yields of around 5 per cent and one member State, Ireland, with a yield of no less than 8.9 per cent.
192. To sum up, the problem in most Member States is not so much the total yield of indirect taxation but the composition of that yield - the division between VAT and the excises and within the excises the differences in tax burden between different sectors and different products. But given adequate time and flexibility for spreading the change over a period of years, and given the necessary political will, the approximation could be realized and it could be handled with no greater difficulty than many Member States have encountered in determining their domestic tax policy.

#### Value Added Tax

193. There are three questions to be addressed in the case of VAT :

- (1) the common base or coverage;
- (2) the number of rates; and
- (3) the level of the rate or rates, and particularly of the main or standard rate.

All these issues are interlocking : the extent of the coverage has an important bearing on the number of rates; and the level of rates is linked both to the number and to the coverage.

194. The 2nd VAT Directive introduced the main principles and the 6th VAT Directive went a long way to fill in the necessary details of a common VAT base in the European Community. In some areas it was not possible, however, to achieve unanimity. As a result certain gaps were left to be covered by subsequent directives, and a number of derogations were included.
195. Three of the supplementary directives stemming from the 6th Directive have already been adopted by the Council (the 8th Directive concerning arrangements for the refund of VAT to taxable persons established in another member State; a directive on VAT exemptions for final importation of certain goods; and the 10th Directive on VAT on the hiring out of movable tangible property).
196. Eight other draft Directives are still pending before the Council. Together with three forthcoming proposals they aim at carrying forward the work of achieving the common VAT base. After their approval the main outstanding problem in this area will be the remaining derogations. They will have to be tackled by subsequent proposals. The principal areas where substantial differences in coverage still exist are: food; second-hand goods; fuel and transport; and the treatment of small traders and farmers. Some of the most important derogations are connected with zero-rating of food and other goods and services in Ireland and UK. This is why

VAT coverage is as low as 35 per cent of private consumption in Ireland and 44 per cent in the United Kingdom whereas most Member States cover about 90 per cent. The high rates of tax imposed in Ireland and the comparatively low yield in the United Kingdom are both a reflection of this restricted coverage. A move towards a more uniform basis would therefore be helpful in both these respects.

197. Table 2 shows the rates of VAT in force in the Member States as at 31 March 1985.

198. As far as the number of rates is concerned, seven out of the nine Member States at present impose VAT at a reduced rate or rates in addition to the standard rate and three of these also impose a higher rate. This would suggest that a common system would be likely to have more than one rate. Nevertheless, despite the present predominance of multiple rate systems, there are strong arguments in favour of a single rate.

TABLE 2 - POSITIVE RATES OF VAT IN MEMBER STATES (1): As at March 1985

VAT Rates				
	lower	standard	higher	VAT as percentage of GDP
Belgium	6 and 17	19	25 (2)	7.67
Denmark	-	22	-	9.84
Germany	7	14	-	6.34
France	5.5 and 7	18.6	33.3	9.19
Ireland (3)	10	23	-	8.22
Italy	2 and 9	18	38	5.48
Luxembourg	3 and 6	12	-	6.04
Netherlands	5	19	-	6.83
United Kingdom(3)	-	15	-	5.22

(1) Greece has not yet introduced VAT.

(2) An additional luxury tax of 8 per cent is charged on certain products.

(3) Ireland and the United Kingdom apply zero rates to a wide range of goods and services.

199. As regards the level of rates, it is of more than passing interest that approximation within a range of 14 per cent to 19 per cent for the standard rate (i.e. a Norm of 16 1/2 per cent +/- 2 1/2 per cent) would encompass six of the nine Member States which have a VAT. A range of 15 per cent to 20 per cent (a norm of 17 1/2 per

cent +/- 2 1/2 per cent) would encompass five Member States out of the nine. It must be stressed that these are only illustrative examples : specific proposals must await more detailed study. The Commission will in due course publish the results of these studies as a basis for further discussions.

**Excises**

200. In the case of the excises, Member States have fairly common coverage as regards the excise duties on manufactured tobacco, alcoholic beverages and hydrocarbon oils. The main exception is wine. No duty is charged on wine in Italy or Greece, it is charged only on sparkling wine in Germany and only on imported wine in Luxembourg. Likewise certain hydrocarbon oil products are exempted from duty in some Member States: for example, heavy fuel oil in Belgium, domestic heating oil in Belgium and Luxemburg, and lubricants in Belgium, France and the Netherlands.
201. In view of the large number of excisable products (for example 28 alcoholic beverages, 7 mineral oils) it is not practicable to show all the rates for the Member States. Table 3 does, however, give a representative picture of comparative excise duty levels in the Community.

**TABLE 3 - EXAMPLES OF EXCISE DUTIES IN MEMBER STATES - AS AT MARCH 1985**

ECU per	20 cigar- ettes	1 litre of beer	1 litre of wine	0.75 Lit of 40% spirits	1 lit of premium petrol	Revenue from these excises in per cent of GDP (1)
Belgium	0.73	0.13	0.33	3.78	0.25	2.29
Denmark	1.96	0.65	1.35	9.58(2)	0.28	3.27
Germany	1.02	0.07	0.00	3.43	0.23	2.58
France	0.31	0.03	0.03	3.37	0.36	2.12
Greece	0.28	0.22	0.00	0.16	0.29	n.a
Ireland	1.14	1.14	2.74	7.84	0.36	7.63
Italy	0.57	0.18	0.00	0.75	0.49	2.72
Luxembourg	0.54	0.06	0.13	2.54	0.20	3.75
Netherlands	0.74	0.23	0.33	3.79	0.28	1.92
United K.	1.25	0.70	1.60	7.70	0.29	4.35

(1) 1982 figures

(2) estimated average

202. For cigarettes the rates vary from 0.28 ECU per packet of 20 (Greece) to 1.96 ECU (Denmark). The striking feature of the figures for beer, wine and spirits is that in each case the heaviest taxation is to be found in Denmark, Ireland and the United

Kingdom. Since the excise duties represent an extremely high proportion of the retail price (up to 69 per cent for cigarettes, 52 per cent for petrol), such wide discrepancies in excise taxation are bound to have significant effects on market prices and hence on the markets themselves.

### **III. THE COMMISSION'S PROPOSALS**

203. The broad approach must now be for the Council to agree that ways must be found to ensure that the adjustment that will be required when internal frontier controls are abolished in 1992 is not too abrupt and that the interim period be put to the best possible use. A good start would be provided by Council agreement to intensify efforts at completing work on the VAT base and the structure of the excises, mainly on the basis of proposals already presented by the Commission. Simultaneously the Commission will put forward a standstill proposal to ensure that existing differences with respect to the number of VAT rates and the coverage of excises are not widened.
204. A next step which we would hope could be taken in 1986 will be for the Commission to present Target Rates or Norms together with proposed ranges of variation. Member States will then have the option of moving a given indirect tax immediately or in a series of shifts towards the common rate band. During the same period further consideration will need to be given to existing derogations which have distorting effects on the Internal Market to see whether they need to be continued. The administrative arrangements necessitated by the new proposals will need to be put into place.
205. The following paragraphs set out the specific measures the Commission proposes should be taken together with reasonable target dates. VAT and excises are examined separately and in turn.

#### **Value Added Tax**

206. Work on the common VAT base should now be taken forward by the approval of proposals already presented by the Commission to the Council. They cover subjects like works of art, antiques and used goods, the import of second hand goods by final consumers (including the problem of double taxation) and the temporary importation of goods other than motor cars etc; and some limited moves towards abolition of derogations provided for in the 6th VAT Directive.

There are eight draft directives involved. Considerable work has already been done by the Council on a number of the draft directives and they should all be approved by the end of 1986.

207. Three proposals will be presented by the Commission in 1985, dealing with the special schemes for small businesses, for flat-rate farmers and for passenger transport. These should then be approved in the course of 1986.



208. While this work is proceeding in the Council, the Commission will, in the course of this year, put forward proposals for a "standstill". It will not be possible at this stage to define this in terms of rates, but provisions should be adopted which will exclude the proliferation of VAT rates in Member States, or the widening of the gap between VAT rates, since this would make subsequent adjustment more difficult.

209. Work on the next decisive stage, the approximation of rates, would commence after the Commission had presented the proposals. These will cover :

- the rate structure, i.e. whether the common VAT system has one, two or even more rates; if more than one rate is to be adopted the proposals must indicate which goods and services should be charged at each of the rates;

- the Target Rate(s) or Norm(s), i.e. the central rate or rates, together with the permitted ranges of variation around them.

The proposals for the rate band or bands should be accompanied by a standstill provision, under which Member States would undertake not to move away from, but only towards, the common goal.

210. On the basis of these proposals, the necessary adjustment of rates can then go forward. Member States would have a period of some years, following the adoption of the directives, in which to complete approximation by the end of 1992.

211. During the same period outstanding problems on the coverage of VAT will need to be resolved. They include VAT derogations with distortive effects, such as significant differences in taxation between Member States of the same goods or services. The Commission will put forward the necessary proposals as soon as it is clear what the future objectives for rates will be as these are decisive factors in assessing the risk or extent of distortion.

212. The final element on the VAT side will be the new arrangements for treating sales and purchases across borders in the same way as those within Member States, with the sale taxable in the hands of the vendor and the VAT incurred by the purchaser deductible irrespective of the Member State in which it had been charged. The only formality which would be required of the taxable purchaser would be to include the deductible VAT in the box in his tax return which corresponds to his supplier's Member State. A Clearing House System would have to be set up between the Member States so that the VAT collected in the exporting Member State and deducted in the country of import could be credited to the latter. With modern information technology such a Clearing House System would not demand heavy resources. But it would require mutual confidence between Member States' VAT collecting authorities. The Clearing House System could be brought into operation before the process of rate approximation had been completed. This would achieve a decisive simplification for commercial transactions before the full new tax structure came into force by the end of 1992.

### Excises

213. In the case of the excises, Council negotiations on the structure of the duties on alcoholic drinks are now far advanced, and a package solution should be achieved before the end of 1985. Next in line, for approval before the end of 1986, will be the excise structure for mineral oil products, and the third stage of the common cigarette duty structure. The relevant proposals are already before the Council. The next step will be for the Commission to table proposals for the final stage of the cigarette duty structure and for a common structure for the excises on other manufactured tobacco. These proposals should in their turn be approved in the course of 1987.
214. In framing proposals for common rates it is necessary to look at the VAT and excises together. The reason for this is that high yields from VAT often tend to be counterbalanced by low yields from the excises and vice versa. In short the figures to be adopted for the excise rates are dependent to some extent on the rates adopted for VAT. The two sets of proposals must be presented together. The Commission proposals for excise rate bands will therefore be presented alongside the similar VAT proposal during 1986. There will be a proposal for a rate band for each of the excises to be retained (tobacco products, beer, wine, intermediary products, spirits and mineral oil products). These will need to be accompanied by a "standstill", whereby Member States would undertake to avoid moving away from the common bands.
215. During the subsequent period up to the end of 1992, Member States will need to carry out the adjustments required to the coverage of their excises and the approximation of rates. The changes in coverage will include the extension or introduction of a wine excise in some Member States and the abolition or reduction of all excises other than the common ones, where these would create distortions in the operations of the Common Market. Examples are excises on tradeable goods, such as coffee or tea.
216. Finally, it will be necessary to introduce a system to link together the bonded warehouse systems in individual Member States in order to allow intra-Community transactions in excised goods to take place without frontier controls. Proposals for such a linked system will be tabled as the approximation of rates goes forward. It will be possible for this to be done separately for each group of excises, probably with mineral oils, where present deviations are smallest, as the forerunner.

### Enforcement

217. It is not, of course, enough simply to pass Community legislation. One must also ensure that the rules of the Treaty and of the derived legislation adopted under it are implemented and enforced. In the fiscal as in the other spheres, pursuit of infringements of the existing Community law must go hand in hand with positive legislative measures. The Commission has a duty not only to propose legislation under Article 99 of the Treaty, but also to seek respect of the principles of non-discrimination laid down in Article 95. It will continue to carry out that duty as an essential

element of the drive to eliminate all barriers to the completion of the Internal Market.

**Derogations**

218. It has already been made clear in the Introduction to this White Paper that the Commission recognises that the approximation of indirect taxation will give rise to considerable problems for some Member States ; and that as a consequence it may be necessary to provide for derogations. There are areas of considerable political sensitivity which may have to be accommodated in this way. Nevertheless it is in the general interests of the Community that such derogations should be kept to the minimum.

### CONCLUSION

219. Europe stands at the crossroads. We either go ahead - with resolution and determination - or we drop back into mediocrity. We can now either resolve to complete the integration of the economies of Europe; or, through a lack of political will to face the immense problems involved, we can simply allow Europe to develop into no more than a free trade area.
220. The difference is crucial. A well developed free trade area offers significant advantages : it is something much better than that which existed before the Treaty of Rome; better even than that which exists today. But it would fail and fail dismally to release the energies of the people of Europe; it would fail to deploy Europe's immense economic resources to the maximum advantage; and it would fail to satisfy the aspirations of the people of Europe.
221. The free movement of goods is an important, valuable and possibly indispensable step which has to be taken before economic integration can be achieved. But it is not the ultimate goal; at best it is the indispensable precursor. This philosophy is clearly reflected in the Treaties themselves. The Customs Union was the first objective of the Treaty of Rome. But that it was by no means intended as the last is clearly demonstrated by the fact that what the Treaty established was the European Economic Community. The preamble to the Treaty starts with the declaration :
- "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".
222. Just as the Customs Union had to precede Economic Integration, so Economic Integration has to precede European Unity. What this White Paper proposes therefore is that the Community should now take a further step along the road so clearly delineated in the Treaties. To do less would be to fall short of the ambitions of the founders of the Community, incorporated in the Treaties; it would be to betray the trust invested in us; and it would be to offer the peoples of Europe a narrower, less rewarding, less secure, less prosperous future than they could otherwise enjoy. That is the measure of the challenge which faces us. Let it never be said that we were incapable of rising to it.



**Annex to the White Paper**

**TIME TABLE FOR COMPLETING  
THE INTERNAL MARKET BY 1992**



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## INTRODUCTION

The Commission's White Paper sets out the essential and logical consequences of accepting the European Council's repeated commitment to completing the Internal Market by 1992, together with an action programme of the measures needed to meet that objective. This Annex to the Paper sets out the detailed timetable for implementing the Commission's proposed programme.

The timetable is set out in tabular form and is divided into Parts which correspond to the Parts of the main body of the Paper. Within each Part of the timetable, the specific measures proposed by the Commission are separated into two periods, 1985 to 1986 and 1987 to 1992, according to the year in which the Commission's proposal will be made. However, the timetable for the period 1985 to 1986 also includes measures which, though not necessarily mentioned in the body of the Paper, have already been proposed to the Council and remain an essential part of the Commission's Programme for completing the Internal Market.

The specific measures set out in the timetable aim to eliminate barriers of all kinds (physical, technical and fiscal). They would have an impact directly or indirectly, on the lives of all Community citizens and on the functions of Community enterprises of all kinds. By 1992, Community citizens would for the first time be free to move within the Community without systematic checks on their identity or personal belongings; goods would be freed of all controls at internal frontiers; Community manufacturers would be able to market freely their goods on the basis of mutually agreed standards throughout the Community; and enterprises would be relieved of the current obstacles to providing cross-border services.

Clearly, the Internal Market cannot be completed at a stroke. The interim period leading up to 1992 must be put to the best possible use to ensure that the adjustments needed to cope with the final dismantling of internal frontiers are not too abrupt. Progress towards the objective needs to be discernable at an early stage, and will be so, provided that the proposed timetable is respected.

When will Community citizens and enterprises see tangible evidence of the effect of the measures proposed? The following milestones along the path to completion of the Internal Market give some indication of the progress and benefits the Commission would wish to see.

For Community citizens, and in particular, travellers, the first evidence would be the further easing of border controls and the introduction of increased duty free allowances by 1986; by 1988, checks on individuals leaving one Member State for another would be eliminated; and by 1992, all systematic checks on the movement of citizens within the Community would disappear.

As far as the control of goods is concerned, controls on the amount of fuel carried by commercial road vehicles would be abolished by 1985; controls on transport authorisations will be eliminated by 1986; by 1988 veterinary controls will be limited to places of departure and controls on veterinary and plant health certificates to the places of destination;

also by 1988 controls of road transport quotas would be abolished; by 1992, further harmonisation of veterinary and plant health standards and the use of the Community health mark for animal products would eliminate the need for frontier controls.

Community manufacturers would benefit progressively between now and 1992 from the Commission's proposed new approach to technical harmonisation and standards policy and from the approximation of national laws. The Commission's specific proposals will cover a very wide range of products, such as motor vehicles, tractors and agricultural machines, food, chemical, and pharmaceutical products. Progress towards the elimination of barriers to trade will vary from sector to sector, but in the pharmaceutical sector, for example, all obstacles to the free circulation of pharmaceutical products would be removed by 1990.

Further benefits to Community manufacturers and suppliers will accrue from the opening up of tendering for public contracts. By 1988, four major sectors (energy, transport, water and telecommunications) would be included in the system of prior information and publicity.

In the financial services field, greater freedom to provide services in insurance other than life insurance would be achieved as early as 1986; by 1989, there would be freedom to supply services in the motor liability insurance sector; and by 1991, obstacles to the supply of life insurance would be eliminated.

Early evidence of progress would be seen in the transport sector. The freedom to provide sea transport services between the Member States would be established by the end of 1986; there would be similar achievements in the air transport sector by 1987 and in the road transport of goods sector by 1988. The transport of passengers by road would be liberalised by 1989.

Significant landmarks in harmonising intellectual and industrial property laws would be the creation in 1987 of a Community Trade Mark and the entry into force in the same year of the Luxembourg Convention on the Community Patent.

**TIMETABLE FOR COMPLETING  
THE INTERNAL MARKET BY 1992**

- The present time table has been drawn up in such a way as to allow at least one year for the Member States to implement the measures concerned.
- Asterix denotes existing proposals mentioned in last years consolidation programme COM(84)305 final of 13.6.1984.
- Two asterixs denote proposals made after presentation of consolidation programme.

**PART ONE : THE REMOVAL OF PHYSICAL BARRIERS**

**I. CONTROL OF GOODS**

<u>Subject</u>	<u>Doc n°</u>	<u>Date of Commis- sion's proposal</u>	<u>Expected date for adoption by Council</u>
<b><u>1. Various controls</u></b>			
<b><u>PERIOD 1985-1986</u></b>			
Simplification of Community transit procedure : discontinuance of presentation of transit advice note and guarantee*	COM(79)456	1979	1986
Duty free admission of fuel contained in the fuel tanks of commercial motor vehicles*	COM(84)171	1984	1985
Road transport : Abolition of control of quotas at border crossings		1985	1986
Transport of travellers : abolition of border controls related to transport authorisations		1985	1986

<sup>1</sup> Period 1985-86 lists existing proposals (one or two asterixs) to be adopted by the Council within this period and new proposals to be presented in 1985 and 1986.

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
**Accession of Spain and Portugal : technical adaptation		Act of legislation 85-86	
*Single Administrative Document (SAD) follow up	COM(82) 401	1985	1985
Introduction of common border posts ("banalisation")		1986	1986
Abolition of customs presentation charges		1985	1986

**PERIOD 1987-1992**

Completion of work leading to full abolition of all remaining import formalities and controls on goods between Member States :			
- statistical harmonisation		1987	1990
- elimination of all national protective measures and all regional quotas, in line with the Community's commercial policy		1989	1989
- Tax approximation on V.A.T. and excise duties (see Part Three).		1987-1989	1988-1990

**2. Veterinary and phytosanitary controls**

**PERIOD 1985-1986**

- live animals of the bovine species: amended eradication directives to provide for final eradication of tuberculosis, brucellosis and leukosis in all Member States including Portugal and Spain		1985	1986
- live animals of the porcine species : modify, intensify and prolong Directives on eradication of classical swine fever in the Community as a whole and of African swine fever in Sardinia, Spain and Portugal		1986	1987
- creation of a special veterinary fund to finance the above mentioned eradication programmes and provide financial assistance in relation to control and eradication of other diseases which may arise		1986	1987

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
- production and trade in milk*	COM(71)64+ COM(71)1012+ COM(72)884	1971	1985
- production and trade in medicated feeding stuffs*	COM(81)795	1981	1985
- hormone growth promoters	COM(84)295	1984	1985
- microbiological controls (meats poultry, red meat)*	COM(81)500+ COM(84)439	1981	1985
- boar meat*	COM(83)655	1983	1985
- medical examination of personnel*	COM(84)337	1984	1985
- personnel responsible for inspection*	COM(81)504	1981	1985
- minced meat and similar			1985
- antibiotic residues*	COM(81)	1981	1985
- control of residues**	COM(85)192	1985	1985
- pedigree of bovine animals*	COM(79)649	1979	1986
- pedigree of porcine animals			1986
- imports of meat products from third countries (animal and public health)	COM(84)530	1984	1986
- swine fever	COM(84)900	1984	1985
- control of foot and mouth disease	COM(82) + COM(83)584		1985
- Aujeszky disease and swine vesicular disease	COM(82)529		
- semen of animals	COM(83)512	1983	1985
- modification of Directives 72/461/EEC and 72/462/EEC	COM(84)500	1984	1985
- modification of Directive 77/99/EEC on meat products		1985	1986
- first revision of the safeguard clause concerning the veterinary sector: the exporting Member State takes the appropriate measures subject to Community decision		1986	1987

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
- formulation of directives concerning animal health problems relating to trade in : <ul style="list-style-type: none"> <li>. live poultry, poultry meat and hatching eggs</li> <li>. dogs and cats</li> </ul>		1986	1987
- Live animals of the bovine and porcine species : amend Directive 64/432 to provide for inspection and certification in herd of origin and, when necessary, re-inspection at place of destination		1986	1987
- products of animals of the bovine and porcine species and of poultry; amend Directives 72/461/EEC, 80/215/EEC and 71/118/EEC to provide for inspection and certification at the place of production and re-inspection, in the case of suspicion of fraud at the place of destination		1986	1987
- reinforcement of Community checks of application by on-the-spot Commission inspectors; budget proposal		1986	1987
- reinforcement of arbitration of disputes		1986	1987
- application of a Community veterinary action programme to control irregularities and fraud in the movement of animals and animal products		1986	1987
- modification of the rules of frontier controls relating to welfare of animals in international transport in order to realise the free circulation		1986	1987
Proposal to amend Directive 77/93 (plant health)*	COM(84)288	1984	1985
Definition of role of Community plant health inspectorate (amending Directive 77/83)		1985	1986
Amendments to Art. 15 of Directive 77/93 (improvements to the operation of safeguard provisions)		1985	1986

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
Further alignment of additional plant health standards set up by Member States in respect of third country products (amending Directive 77/93)		1985	1986
Budget proposal enabling establishment of Community plant health inspectorate		1986	1987 Budget
Proposal for a Directive concerning the fixing of guidelines for the evaluation of additives used in animal foodstuffs		1986	1987
Proposal for fixing maximum levels for pesticide residues in foodstuffs of animal origin*	COM(80)14	1980	1985
Proposal for fixing maximum levels for pesticide residues in feeding-stuffs*	COM(77)377	1977	1986
Proposal for the modification of directive 76/895/EEC (maximum levels for pesticide residue in fruit and vegetable)		1986	1987
Proposal to amend the annex of directive 76/895/EEC concerning residues of pesticides in and on fruit and vegetables (ethoxyquin and diphenylamine)*	COM(82)883	1983	1985
Proposal to amend directive 79/117 on the prohibition of certain plant protection products (ethylene oxide)*	COM(82)712	1982	1985
Proposal for the placing of plant protection products on the market*	COM(76)427	1976	1986
Proposal for the improvement of Community systems of certification of seeds		1985	1986
Proposal for a system of certification of reproductive materials in fruit plants		1986	1988
Proposal for 4 years research programme into effective methods of controlling certain harmful organisms		1986	1987



SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
<b>PERIOD 1987-1992</b>			
- live animals of the bovine species formulate directives for eradication of contagious bovine pleuropneumonia in Portugal and Spain and for Blue Tongue on Greek Islands		1987	1988
- embryos of farm animals : Directive for trade		1987	1988
- formulation of Directives concerning animal health problems relating to trade in: <ul style="list-style-type: none"> <li>. live animals of equine species</li> <li>. live animals of bovine and caprine species</li> <li>. live fish and fish products</li> </ul>		1987	1988
Proposals limiting inspections to places of departure and proposals concerning the checking of plant health certificates at the places of destination		1987	1988
- establishment of certain rules of liability in respect of plant health		1987	1988
- brucellosis in small ruminants		1988	1989
- echinocolissis		1988	1989
- formulation of directives concerning veterinary inspection problems relating to trade in animals and animal products not covered by existing Directives		1988	1989
- harmonised health conditions for production and trade in : <ul style="list-style-type: none"> <li>. shellfish and crustaceans and preparation</li> <li>. fish and fish products</li> <li>. game meat, products and preparations</li> </ul>		1988	1989
		1988	1990
		1988	1990
- pedigree animals not covered by existing Directives		1988	1989

SUBJECT	Doc.n <sup>o</sup>	Date of Commis- sion's proposal	Expected date for adoption by Council
- simplification of annexes in Directive 77/93 (plant health)		1989	1990
- alignment of national standards and intra-Community standards in plant health		1989	1990
- reduction in role of phytosanitary certificate in intra-Community trade		1990	1991
- proposal for a system of certification in reproduction materials for decorative plants		1989	1990
harmful organisms especially in seed potatoes and in fruit plant reproductive material		1987	1989
Revision of labelling rules for food, drawn up in view of a uniform EEC label		1987	1988
Guidelines for checking requirements in connection with the approval of plant protection production		1987	1988
- extension of application Directives 66/401/EEC, 70/437/EEC and 70/458/EEC seedlings		1987	1988
- proposal for creation of a European law on plant breeders		1987	1877
- harmonisation of control of foot and mouth disease		1990	1992
- harmonised health conditions for production and trade in food products of animal origin not covered by existing legislation e.g.		1990	1992
- second revision of the safeguard clause concerning the veterinary sector: the exporting Member State takes the appropriate measures in order to avoid specific measures in intra-Community trade.		1991	1992
- pathogens in feedingstuffs		1991	1992

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
- application of health standards to national products		1991	1992
- suppression of veterinary certificates of animal products and simplification of certificates for live animals.		1991	1992
- suppression of plant health certificates		1991	1992

## II. CONTROL OF INDIVIDUALS

### PERIOD 1985-1986

Sixth Directive relative to exemptions in international travel : increase to 400 ECU*	COM(83)117	1983	1985
Seventh Directive relating to exemptions in international travel : tax-free sales*	COM(83)166	1983	1986
Tax reliefs to be allowed on the importation of goods in small consignments of a non-commercial character*	COM(83)730	1983	1985
Directive on the easing of controls at intra-Community Borders**	COM(85)224 COM(85)749	1985	1985
Directive on the approximation of arms legislation		1985	1988
Directive concerning abolition of police controls when leaving one Member State to enter another (intermediary stage)		1986	1988

### PERIOD 1987-1992

Directive on the approximation of drugs legislation		1987	1989
Directive on the coordination of rules concerning the status of third country nationals.		1988	1990
Directive on the coordination of rules concerning the right of asylum and the status of refugees		1988	1990

SUBJECT	Doc.n°	Date of Commis- sion's proposal	Expected date for adoption by Council
Directive on the coordination of national visa policies		1988	1990
Directive on the coordination of rules concerning extradition		1989	1991

SUBJECT	Doc.n°	Date of Commis- sion's proposal	Expected date for adoption by Council
<b><u>PART TWO : THE REMOVAL OF TECHNICAL BARRIERS</u></b>			
<b><u>I. FREE MOVEMENT OF GOODS</u></b>			
<b><u>1. New approach in technical harmonisation and standards policy</u></b>			
<b><u>PERIOD 1985-1986</u></b>			
Proposal for the extension of information procedures on standards and technical rules (amendment of directive 83/189/EEC)		1986	1987
Standardisation in the advanced manufacturing equipment sector		1986	No formal decision needed
Certification : index of bodies		1986	No formal decision of the Council needed
Recognition of tests and certificates		1986	In principle no formal decision of the Council needed
Construction sector : - specific index of bodies - Eurocodes : adoption of EC1, EC2, EC3 and EC8 - Recognition of tests and decisions		1986	No formal decision of the Council needed
<b><u>PERIOD 1987-1992</u></b>			
Proposals to be made for machine safety, pressure vessels, road making equipment, electrical interferences, lifting equipment in order to implement the new approach		1987	1987-1988
Electromedical equipment		1988	1989

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
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## 2. Sectoral proposals concerning approximation of laws

### 2.1. Motor vehicles

#### PERIOD 1985-1986

- gaseous emissions passenger cars		1985	1985
- gaseous emissions		1985	1986
- diesel particulates		1985	1986
- speed limits		1985	1986
- revision of framework Directive 70/156/EEC		1986	1987
- revision of breaking Directive		1986	no decision needed

#### PERIOD 1987-1992

Revision of European test procedure for gaseous emissions		1987	1987
Revision of limit values for gaseous emissions of cars below 1400 cc		1987	1987
Global assessment of protective characteristics of passenger cars in frontal and lateral impact		1987	1988
Implementation of EEC type approval scheme for other motor vehicles (buses and coaches, motorcycles)		1989	1990
Adaptation of existing Community Regulations		1987-90	No decision needed

### 2.2 Tractors and Agricultural machines

#### PERIOD 1985 to 1986

Implementation Directive 74/150/EEC (weight and dimensions, driveshaft, engine stopping device, windscreen wipers foot rest)		1986	1987
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SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
<b>PERIOD 1987-1992</b>			
Adaptation of existing Community Regulations		1987-90	No decision needed
<b>2.3. Food Law</b>			
<b>PERIOD 1985-1986</b>			
General Directive on food additives (in part modification of existing directives)		1985	1986
General Directive on materials and articles in contact with food (amendment)		1985	1986
General Directive on food for particular nutritional uses (amendment)		1985	1986
General Directive on food labelling (amendment)		1985	1986
General Directive on food inspection		1986	1987
General Directive sampling and methods of analysis	COM(84)39	1984	1985
General Directive on quick frozen food	COM(84)489	1984	1985
Management of existing vertical Directives (procedure)		1985	1986
Flavourings*	COM(80)286 COM(82)166	1980	1985
Extraction solvents*	COM(83)626 COM(85)79	1983	1986
Preservatives* (modification)	COM(81)712	1981	1985
Emulsifiers (modification)	COM(84)4	1984	1985
Infant formulae and follow-up milk (dietetic foods)*	COM(84)703	1984	1986
Cocoa and chocolate consolidation*	COM(85)787	1984	1986

SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
Coffee extracts chicory extracts (modification)	COM(84)138	1984	1985
Obligation to indicate ingredients and alcoholic strength*	COM(82)626	1982	1985
Claims in the labelling of foodstuffs*	COM(81)159	1981	1985
Simulants (plastic materials in contact with foodstuffs)*	COM(84)152	1984	1985
Modified starches*	COM(84)733	1984	1986
Fruit Juices etc... (modification)		1985	1986
Jams etc (Modification)		1985	1986
Proposal for a Directive amending Directive 79/581/EEC on consumer protection in the indication of the prices of foodstuffs	COM(84) 23	1984	1985
<b><u>PERIOD 1987-1992</u></b>			
General Directive on irradiation of foodstuffs		1987	1988
General Directive on new foodstuffs obtained by a biotechnological process		1987	1988
Additional labelling requirements (Nutrition labelling)		1989	1990
Adaptation of directives on technical progress		1987-1989	1988-1990
<b><u>2.4. Pharmaceuticals and high-technology medicines</u></b>			
<b><u>PERIOD 1985-1986</u></b>			
Proposals for Directive concerning the placing on the market of high-technology medicinal products incl. those derived from biotechnology*	COM(84)437	1984	1986
Proposal amending Directive 75/318/EEC concerning the testing of medical specialities	Idem	1984	1986



SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Proposal amending Directive 81/852/EEC concerning veterinary medicinal products	Idem	1984	1986
Proposal for a Council Recommendation concerning tests relating to the placing on the market of medical specialities	Idem	1984	1986
Proposal for a Council Directive amending Directive 65/65/EEC concerning medical specialities	Idem	1984	1986
Price transparency in prices of medicines and social security refunds		1986	1988
Membership of the European Pharmacopoeia		1986	1987
<b><u>PERIOD 1987-1992</u></b>			
Extension of Directives to medicinal products not already included		1987	1989
Amendment to the Directive on veterinary medicines		1987	1989
Pharmaceutical products : - completion of work eliminating obstacles to free circulation of pharmaceutical products		1989	1990
Harmonisation of condition of distribution to patients		1990	1991
Information of doctors and patients		1990	1991
<b><u>2.5. Chemical products</u></b>			
<b><u>PERIOD 1985-1986</u></b>			
Council Directive relating to restrictions on the marketing and use of PCBs (polychlorinated biphenyls)	COM(84)513	1984	1985
Council Directive relating to "Restrictions on the marketing and use of asbestos"	COM(79)419 COM(83)556	1979 1983	1985

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Commission Directive adapting the Directive 67/548/EEC "Dangerous substances"		1985	No decision needed
Commission Directive relating to "Ammonium nitrate"		1985	No decision needed
Non-ionic detergents (modification of the existing directive)	COM(85)217	1985	1986
Classification, packaging and labelling of dangerous preparations		1985	1986-1987
Membership of the European Agreement on detergents	COM(85)63	1985	1986
Liquid fertilizers		1986	1988
<b>PERIOD 1987-1992</b>			
Secondary fertilizers		1987	1989
- Oligo-elements in fertilizers		1988	1990
- Method of analysis for secondary fertilizers and oligo-elements		1989	1991
<b>2.6. <u>Construction and construction products</u></b>			
<b>PERIOD 1985-1986</b>			
Directive on safety of buildings (resistance to earthquakes, other accidental damage, prevention of progressive collapse)		1985	1986
Directive on reliability (fitness for purpose) and durability of buildings (responsibility of designers, builders)		1985	1986
Directive on test methods for reaction to fire and resistance to fire of building materials and components		1986	1986

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Directive to prohibit the introduction of new or modified building regulations at local government levels for a period of 5 years		1985	1986
Revolving cranes		1978	1986
<b>PERIOD 1987-1992</b>			
Revision of Directives on safety reliability and durability of buildings in light of new Eurocodes EC 4, 5, 6, 7		1988	1989
Directive on fire safety in public buildings and hotels		1978	1988
Directive on insulation products (protection of health of building workers and occupants).		1987	1988
Development and introduction of a Model Code for building regulations (based on UN-EC models)		1990	1992
Directive on safety and reliability of special structures (masts, towers, long bridges, drilling platforms, water-retaining structures)		1990	1992
<b>2.7 Other items</b>			
<b>PERIOD 1985-1986</b>			
Household appliances : airborne noise*	COM(81)811	1981	1985
Safety of toys*	COM(83)323	1983	1985
Measuring instruments and methods of metrological control : electronic devices (amending 71/316/EEC)	COM(78)766	1978	1986
- tyre pressure gauge	COM(80)850	1980	1985
- carbon monoxide measurement	COM(80)850	1980	1986
Chemical properties of toys		1985	1986
Proposal for a Council directive on electrical toys		1986	1987
Hydraulic diggers (noise)	5.10.81	1981	1986

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Protection of hotels against fire (proposal for a recommendation)	21.2.84	1984	1986
Metrology certification		1986	1988
Individual protective devices equipment:			
. helmets for motorcycle drivers (result of notification on the basis of 189/83 directive)		1986	1987
. safety boots and shoes (idem)		1986	1987
Proposal for a revision of Chapter 6 of the Euratom Treaty concerning nuclear materials	COM(84)606	1984	1987
Proposal for a Directive on consumer protection in respect of the indication of prices for non-food products	COM(83)754	1983	1985
General Council Directives on cosmetics (amendment)		1986	1988
<b>PERIOD 1987-1992</b>			
Proposal for general Directive in textiles		1987	1988
Proposal for a Directive on flammability		1988	1989
Individual protective devices :			
- eye protective devices		1987	1988
- respiratory protective devices		1988	1990
- industrial safety belts		1988	1990
- protective clothing		1989	1991
Metrology completion of work		1987	1989
<b>II. PUBLIC PROCUREMENT</b>			
<b>PERIOD 1985-1986</b>			
Improvement of Directives on public procurement		1985	1987

SUBJECT	Doc.n <sup>o</sup>	Date of Commis- sion's proposal	Expected date for adoption by Council
<b><u>PERIOD 1987-1992</u></b>			
Improvement of Directives on public procurement		1987	1988
Extension of Directives to excluded sectors - telecommunications and energy		1987	1988
Public procurement in the field of services ; opening up of markets for priority sectors		1987	1989
Public work procurement : additional harmonisation of procedures		1989	1990
Public procurement of services : other sectors		1989	1991
Extension of Directives to excluded sectors: electricity or water		1989	1990
Implementation of Directives 1990-1992			

SUBJECT	Doc.n <sup>o</sup>	Date of Commis- sion's proposal	Expected date for adoption by Council
<b>III. FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS</b>			
<b>PERIOD 1985-1986</b>			
Proposal allowing the elimination of remaining obstacles related to the movement and residence of migrant Community workers**	COM(85)48 Final	1985	1987
Proposal concerning the harmonization of income taxation provisions with respect to freedom of movement for workers within the Community	COM(79)737 Final	1979	1985
Proposal concerning the comparability of vocational training-qualifications	COM(83)482 COM(84)406	1983 1984	1985
Proposals for promoting student mobility and cooperation between further education establishments in different Member States		1985	1986
Proposal for the development of cooperation programmes between Member States for apprentices undergoing vocational training		1986	1987
Proposal for the development of youth exchanges in the Community including young people in vocational training and voluntary work abroad.		1985	1986
Proposals for cooperation between higher education and industry for advanced training relating to new technologies (COMETT)		1985	1986
Proposal for a Directive concerning transitional measures for access to activities in the technical field and for their exercise*	COM(69)934	1969	1985
Proposal for a Directive concerning the coordination of provisions in respect of training of engineers*	COM(69)934	1969	1985

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Proposal for a Directive on the coordination relating to commercial agents*	COM(76)670	1976	1985
	COM(78)773	1978	
Proposal for a Directive concerning the coordination of provisions in respect of certain activities in the field of pharmacy*	COM(81)4	1981	1985
Amended proposal for a Directive concerning the mutual recognition of diplomas in pharmacy**	COM(84)15	1984	1985
Proposal for a Council Directive on specific training in general medical practice**	COM(84)654	1984	1986
Right of Establishment: Proposal for a Directive setting up a general system of mutual recognition of higher education diplomas		1985	1987
Right of residence for nationals of Member States not yet or no longer employed*	COM(79)215 COM(80)358 COM(80)649	1979	1985
<b>PERIOD 1987-1992</b>			
Proposal concerning the elimination of cumbersome administrative procedures relating to residence permits		1987	1988
Proposal concerning the introduction of a European "vocational training card" proving the qualification of its holder		1989	1990
Assessment on the functioning of the general system of mutual recognition and eventual proposal in order to improve it		1990	1991

SUBJECT	Doc.n <sup>o</sup>	Date of Commis- sion's proposal	Expected date for adoption by Council
<b>IV. COMMON MARKET FOR SERVICES</b>			
<b>1. FINANCIAL SERVICES</b>			
<b>1.1. Banks</b>			
<b>PERIOD 1985-1986</b>			
Proposal for a Directive on the accounts of banks	COM(81)84 COM(84)124	1984	1987
Proposal for a Directive on the accounts of foreign branches of banks		1985	1987
Proposal for a Directive on the freedom of establishment and the freedom to supply services in the field of mortgage credit	COM(84)730	1985	1988
Proposal for a Directive on reorganisation and winding-up of credit institutions		1985	1987
Proposed Recommendation on the harmonization of the concept of own funds		1985	1986
Proposed Recommendation on the establishment of a guarantee system of deposit within the Community		1986	1987
Proposed Recommendation on the control of large exposures by credit institutions		1986	1988
<b>PERIOD 1987-1992</b>			
Proposal for a Second Directive on coordination of credit institutions		1987	1989



SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
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1.2. Insurance

PERIOD 1985-1986

Proposal for a Directive to facilitate freedom to provide services in insurance other than life insurance	COM(75)516 COM(78)63	1978	1986
Proposal for a Directive on coordination of laws relating to legal expenses insurance	COM(79)396 COM(82)43	1979	1987
Proposal for a Directive concerning credit insurance	COM(79)459 COM(82)255	1979	1988
Proposal for a Directive on insurance contracts	COM(79)355 modified COM(80)854	1979	1988
Proposal for a Directive concerning the winding-up of insurance companies		1986	1989
Proposal for a Directive on the accounts of insurance undertakings		1986	1989
Proposal for a 3rd Directive concerning motor liability insurance		1986	1989

PERIOD 1987-1992

Proposal for a Directive on freedom to supply services in the motor liability insurance sector		1987	1989
Proposal for a Directive for freedom to supply services in the field of life insurance		1987	1991

1.3. Transactions in securities

PERIOD 1985-1986

Proposal for a Directive for the coordination of laws, regulations, and administrative provisions regarding collective investment undertakings for transferable securities	COM(76)152 COM(77)227	1976	1985
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SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
Proposal for a Directive concerning information to be published when major holdings in the capital of a listed company are acquired or disposed of		1985	1988
Proposal for a Directive coordinating the requirements for the drawing up, scrutiny and distribution of the prospectus to be published when securities are offered for subscription or sale to the public	COM(80)893 modified COM(82)441	1981	1988
<b>PERIOD 1987-1992</b>			
Proposal for a Directive concerning investment advisors		1987	1989
<b>2. TRANSPORT</b>			
<b>PERIOD 1985-1986</b>			
(see control of goods) Road transport, abolition of border controls related to transport authorisations.			
*Air transport : fares	COM(81)396 COM(84)72	1981	1985
*Air transport : bilateral agreements, arrangements and memoranda of understanding between Member States	COM(84)72	1984	1986
*Air transport : application of Article 85 EEC	COM(84)72	1984	1987
*Community quota for the carriage of goods by road between Member States : final stage	COM(83)340 REG 3621/84	1983	1986 1988
*Access to the inland waterway freight market	COM(67)722	1967	1989
*Non-resident carriers : national transport services	COM(82)816	1982	1988

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
*Maritime transport (freedom to provide services in the sea transport sector)	COM(85)90	1985	1986
Liberalisation of coach services		1985	1989

### 3. NEW TECHNOLOGIES AND SERVICES

#### PERIOD 1985-1986

Proposal for a Directive in order to coordinate certain aspects of the national laws regulating advertising on radio and television		1985	1987
Proposal for a Directive in order to coordinate certain aspects of the national laws regulating copyrights in simultaneous cable transmission of programmes		1985	1987
Proposals concerning the gradual opening up of the market in information services		1986	1987
Proposal concerning the definition of common technical features of the machines used to produce the new payment cards		1986	1987
Proposals encouraging the conclusion of agreements between banks, traders, producers and consumers on the compatibility of system networks, linkage user rules and/or rates of commission		1986	1987

### V. CAPITAL MOVEMENTS

#### PERIOD 1985-1986

Liberalisation of units in collective investment undertakings for transferable securities	COM(78)63 COM(79) 328	1979	1985
Proposal for a Directive concerning the liberalisation of transactions concerning mortgages		1986	1987

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Proposals for the liberalisation of operations such as the issue, placing and acquisition of securities representing risk capital, transactions in securities issues by Community institutions and long-term commercial credit		1986	1987

## VI. CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COOPERATION

### 1. Company law

#### PERIOD 1985-1986

Proposals for a Regulation for an European Economic Interest Grouping	COM(73)2046 COM(78)139	1973 1978	1985
Proposal for a Fifth Company Law Directive (structure of public limited companies)	COM(72)887 COM(83)185	1973 1983	1988
Proposal for a Tenth Directive concerning cross-border mergers	COM(84)727	1985	1987
Proposal for an Eleventh Company Law Directive to dispense branches of companies from publishing separate accounts		1986	1988

#### PERIOD 1987-1992

Proposal for a Directive on the liquidation of companies		1987	1989
Proposals for a Directive on take over bids		1987	1989
Proposal for a Directive on the relationship of undertakings in a group		1988	1990

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Amendment to proposal for a Regulation on the Statute for a European Company		1970	
	COM(70)600	1975	
	COM(75)150	1988	1990

## 2. Intellectual and industrial property

### PERIOD 1985-1986

Amended proposal for a Regulation on Community trade marks	COM(80)635	1980	
	COM(84)470	1984	1987
Amended proposal for a First Directive to approximate the laws of the Member States relating to trade marks	COM(80)635	1980	
		1985	1987
Proposal for a Regulation on the rules needed for implementing the Community trade mark regulation		1985	1987
Proposal on the site of the Community trade mark office and its working language		1986	1987
Proposal for a Regulation on the rules of procedure for the Boards of Appeal of the Community trade mark's Office		1986	1987
Proposal for a Regulation on the fees to be paid to the Community Trade Mark Office		1986	1987
Proposal for a Directive on legal protection of micro-circuits		1985	1987
Amended Convention on the Community Patent		Signature by Member States in 1986	Entry into force in 1987
Creation of a Community Patent's Appeal Court (COPAC)		Signature by Member States in 1986	Entry into force in 1987

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
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**PERIOD 1987-1992**

Proposal for a Directive on legal protection of biotechnological inventions		1987	1989
Proposal for a Directive to protect computer programs		1987	1989

**3. Taxation** (Removing tax obstacles to cooperation between enterprises in different Member States:)

**PERIOD 1985-1986**

Arbitration procedure concerning the elimination of double taxation*	COM(76)611	1976	1985
Common system of taxation applicable to parent companies and their subsidiaries*	COM(69)6	1969	1985
Common system of taxation of mergers, divisions and contributions of assets*	COM(69)5	1969	1985
Harmonization of taxes on transactions in securities	COM(76)124	1976	1986

**VII. APPLICATION OF COMMUNITY LAW**

**1. Transparency**

**PERIOD 1985-1986**

Communication of the Commission in relation to Article 30 of the Treaty on price fixing and on sickness insurance concerning pharmaceuticals		1985	No decision needed
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**PERIOD 1987-1992**

Communication of the Commission in relation to Article 30 of the Treaty on the conditions of allowing on the market of foodstuffs		1987	No decision needed
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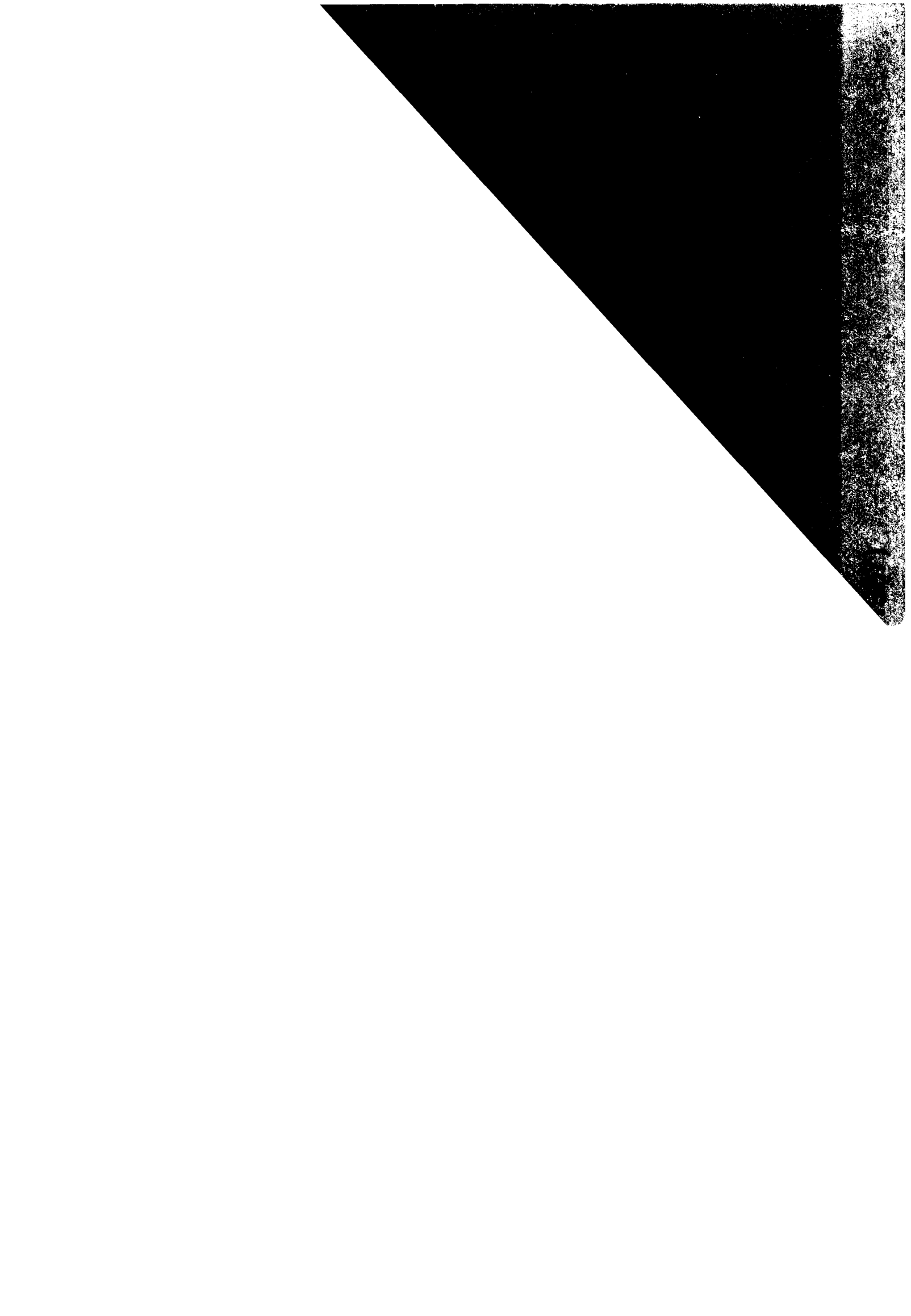
SUBJECT	Doc.n°	Date of Commis- sion's proposal	Expected date for adoption by Council
Communication of the Commission in relation to Article 30 of the Treaty on the elimination of controls and formalities on goods		1989	No decision needed
<b>2. <u>Competition policy and state aids</u></b>			
<b><u>PERIOD 1985-1986</u></b>			
Inventory of State aids and report setting out the implications of future state aids policy		1986	No decision needed

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
<b>PART THREE: REMOVAL OF FISCAL BARRIERS</b>			
<b>I. V.A.T.</b>			
<b>PERIOD 1985-1986</b>			
Proposal for a Council Decision providing for a standstill ensuring: - no proliferation of VAT rates in Member States - no widening of the gap between VAT rates in each Member State		1985	1986
14th V.A.T. Directive concerning deferred payment on importation*	COM(82)402	1982	1985
Proposal on flat rate farmers		1985	1986
Proposal on passenger transport		1985	1986
Proposal on special schemes for small business		1985	1986
7th V.A.T. Directive works of art, collectors' items, antiques and used goods*	COM(77)735 COM(79)249	1978	1986
12th V.A.T. Directive concerning expenditure on which tax is not deductible*	COM(82)870 COM(84)84	1983	1986
13th V.A.T. Directive concerning tax refunds to persons not established in the Community*	COM(82)443 COM(83)413	1982	1986
16th V.A.T. Directive concerning imports by final consumers of goods which have already borne tax in another Member State*	COM(84)318	1984	1986
17th V.A.T. Directive concerning the temporary importation of goods other than means of transport*	COM(84)412	1984	1985
18th V.A.T. Directive concerning the abolition of certain derogations (Article 28(3) of Directive 77/388/CEE	COM(84)649	1984	1986
19th V.A.T. Directive : miscellaneous supplementary and amending provisions of Directive 77/388/EEC	COM(84)643	1984	1986



SUBJECT	Doc.n°	Date of Commission's proposal	Expected date for adoption by Council
Directive on the stores of ships, aircraft and international trains*	COM(79)794	1980	1986
Proposal concerning the rate structure (number of rates)		1986	1987
Proposal fixing the common rate(s) and corresponding standstill arrangement		1986	1987
<b>PERIOD 1987-1992</b>			
Proposal concerning abolition of derogations with distortive effects		1987	1988
Proposal concerning the establishment of a V.A.T. Clearing House System		1989	1990
<b>II. EXCISE DUTIES</b>			
<b>PERIOD 1985-1986</b>			
Proposal for a Council Decision providing for a standstill ensuring no introduction of new excise duties which give rise to border formalities		1985	1986
Proposals concerning harmonization of the structure of excise duties on alcoholic drinks*	COM(72)225 Final	1972	1985
	COM(82)153 Final	1982	1985
	COM(85)150 Final	1985	1985
	COM(85)151 Final	1985	1985
	COM(85)151 Final	1985	1985
Proposal for an excise duty on wine	COM(72)225 Final	1972	1986
Proposal concerning the introduction of a third stage concerning the harmonization of the structure of cigarette duty*	COM(80)69	1980	1986
Proposal concerning the harmonization of the structure of excises on mineral oils	COM(73)1234	1973	1986

SUBJECT	Doc.n <sup>o</sup>	Date of Commission's proposal	Expected date for adoption by Council
Proposal concerning the harmonization of the structures of excise duties on other manufactured tobacco		1986	1987
Proposal concerning the final stage of the harmonization of the structure of cigarette duty		1986	1987
Proposals on common rate bands for all harmonized excise duties and corresponding standstill arrangement		1986	1987
<b>PERIOD 1987-1992</b>			
Proposals concerning the gradual abolition or reduction of excises not covered by the Common system and giving rise to border formalities		1987-1989	1988-1989-1990
Proposal concerning the introduction of a linkage between national bonded warehouses for excise goods		1989	1990





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PLEASE CHECK AGAINST DELIVERY

ADDRESS BY THE RIGHT HONOURABLE LORD COCKFIELD

VICE-PRESIDENT

COMMISSION OF THE EUROPEAN COMMUNITIES

TO THE

BRITISH CHAMBER OF COMMERCE IN BELGIUM

-0-

"THE INTERNAL MARKET: PROGRESS SINCE THE WHITE PAPER"

BRUSSELS, TUESDAY 24 MARCH, 1987



ADDRESS TO THE BRITISH CHAMBER OF COMMERCE  
INTRODUCTION - OUR OBJECTIVES

1. Our objective is the economic integration of Europe. We need to create within the Community a single economic unit.

The most important step in that direction is the completion of the Internal Market.

This is now clearly defined by the Single European Act as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured."

The completion of the Internal Market is not the only measure needed for the economic integration of Europe.

But it is the most important of all. And it is the policy on which all the other policies are built. Whether these are policies in the field of science and research, employment, cohesion or politics.

In this sense the completion of the internal market is not only important, it is fundamental in the proper sense of the word.

If we fail in this policy we will fail in all the other policies as well.

2. Recent developments in the European and in the World economy give greater, not less, importance to the programme for the Completion of the Internal Market. With economic activity in Europe not growing as fast as we had hoped and with a slow-down in the world economy and in international trade, it becomes more and more important that the competitive edge of industry in the Community should be sharpened. The only way that this can be done is if the people of Europe can draw upon their united strength; if they deploy the full resources and opportunities of an internal market of 320 million people; and if they remove internal barriers and restrictions which divide them and impose wholly unnecessary and avoidable additional costs.

3. The cornerstone of any community is mutual dependence and support. This is not only true of the European Community, it goes to the very heart of what the Community means and what it really stands for.

The reaction of the Member States to the oil induced recessions of the 1970's was perverse. The economic, fiscal and monetary policies adopted were wrong and exacerbated rather than contained the recession. But worst of all was the growth of economic nationalism in the Member States themselves. We are today still paying the price for these errors not least in the 16 or 17 million unemployed in the Community.

The most important lesson we must learn from that unfortunate period in our history is that salvation does not come by turning in upon ourselves. It will only come from a realization of our interdependence: upon a determination to reinforce and profit from that interdependence: and to achieve through the solidarity of the Community the progress and the prosperity we cannot achieve singly, separately, on our own.

4. The European Community is the largest trading bloc in the world. 50% of the external trade of the Member States is done with other Member States of the Community. The prosperity of one affects the prosperity of all. If Germany is prosperous, that prosperity spreads to other Member States through their trade with Germany. If France is prosperous that prosperity spreads to the other Member States. And so it is with all the Member States of the Community. The prosperity of one is the prosperity of all: the failure of one is the failure of all. The future of Europe depends upon the realization of this interdependence of the Member States of the Community. It is to enable us to profit from that interdependence, to exploit the opportunities it offers, that the programme for the completion of the Internal Market is directed.

#### Progress on the White Paper Programme

5. How do we now stand? The history of the programme is so well known that it is necessary to refer to it only in the briefest outline. The White Paper programme of 300 proposals was approved by the Heads of Government meeting in Milan in June 1985. That endorsement was repeated at Luxembourg and at the Hague and is now specifically incorporated in the European Single Act. The political will is clearly there. The challenge lies in translating that political will into positive action.

We realized that this would be so right at the outset. That is why the White Paper contained a timetable. That timetable imposes a framework of discipline on the Community institutions. It provides a realistic yardstick by which progress can be measured and shortcomings identified. It is supplemented and reinforced by the Annual Progress Report the Commission now produces. The first Report was published in May of last year: our next Report will appear very shortly.

6. I do not propose giving you a detailed preview of that Report. Of course, the organizers of any Seminar need to be allowed a modicum of poetic licence - indeed I sometimes quote the better poets myself - but I must challenge the statement in the programme for this seminar that:

"The Commission's outline programme for completion of the internal market by the end of the eighties is running seriously behind".

The facts simply do not support this statement. We have not progressed as rapidly as we would have hoped. But less than two years have passed since the White Paper was published and we are still in the early stages of a programme extending over nearly eight years. Moreover, the White Paper programme was - deliberately - front-end loaded. It was essential to do this. All programmes have a start-up period during which procedures have to be devised and improved. There must in effect be a "contingency reserve" to allow for unexpected events and to provide the opportunity for catching up if slippage occurs. A programme which is so inflexible and so tightly drawn that the unexpected can drive it off course with no opportunity for retrieval is not a good programme. We did not fall into that trap.



Clearly I would have been happier had there been no unforeseen problems - the delay in the ratification of the Single Act is one such example - but the verdict must be that on the whole we have come through the start-up period successfully. There are clear signs that momentum is now growing. Our task now is to sustain and increase that momentum.

7. When we are assessing progress, we would expect that the Commission would be well ahead of the Council, given the lengthy legislative process in the Community. This is indeed the position.

The Commission has tabled some 170 out of the 300 proposals set out in the White Paper. A small number have been withdrawn as further examination has shown them to be unnecessary. In all we have dealt with nearly 60% of the total. This represents good progress towards the ultimate objective - even though we would have liked to have been somewhat further ahead. Our original target was to have submitted 200 proposals by now. The only area where the Commission is significantly behind is in the veterinary and plant health sector - and this is due to staff shortages and an understandable preoccupation with other matters, such as the reform of the C.A.P. The Commission is taking steps which should put this sector back on track before too long.

8. Up to date the Council of Ministers has actually adopted 57 of the proposals tabled by the Commission. We would have liked to see them do much better than that. The Council does after all still have on its table some 112 White Paper proposals on which a decision is required. The pace of work in the Council has improved. The United Kingdom Presidency in the second half of last year did remarkably well in getting the Council to adopt 23 White Paper proposals. This was the product of political determination at the very top backed up by action below - Mrs. Thatcher personally intervened with her fellow Heads of Government and arranged for UK Ministers to tour capitals to iron out differences between their opposite numbers.

9. I will give you just two striking examples of what the Council can achieve when it has a mind to. First, in 1986 the Council adopted a Commission proposal on the legal protection of micro-circuits just over 12 months after we put it forward. Second, at its meeting in December 1986, the Council agreed a proposal on public procurement which we had tabled only six months previously. These achievements are in stark contrast to the 17 years which it took the Council to adopt the proposal on architects and the 16 years which passed before it adopted the proposal on pharmacists.

10. The coming into force of the Single Act once it is ratified will ultimately enable much faster progress to be made. But there are two caveats to enter. First there will be some initial delays due to the coming into force of the new cooperation procedure with the Parliament. Second, the effectiveness of the majority voting provisions will depend on their being implemented in the spirit as well as in the letter.

11. All in all the verdict on the Council can best be expressed in the words of the schoolmaster's report on the wayward pupil:

"Tries hard: but could do better."

12. Our annual progress report which, as I have said, will be published in the coming weeks will set out in detail the proposals tabled by the Commission and those adopted by the Council. Let me give you a few important examples which I hope will illustrate both the wide scope of the measures adopted or under consideration and the developing tempo of the work.

13. First, standards or norms. The Commission in 1986 submitted to the Council and the Parliament three proposals applying the new approach to standards, that is on pressure vessels, toys and construction products. We would hope to see the directive on pressure vessels which awaits the Parliament's opinion, adopted shortly. Work is under way in preparing similar proposals on machine safety - a crucially important area for industry - and on electrical interferences. These proposals will be put forward during the present year.

In 1986, the Commission also submitted two proposals to extend the scope of directive 83/189/EEC. That Directive obliges Member States to notify the Commission in advance of all draft regulations and standards concerning technical specifications that they intend to introduce on their own territory. The new proposals we have now introduced would extend this procedure to cover certain agricultural products, products intended for human and animal consumption, medicines and cosmetics.

Standards are of crucial importance in the field of new technology. In 1986 the Council agreed a series of measures which aim to bring about greater standardisation in the information technology and telecommunications sectors. The Council also adopted a directive establishing European standards for television equipment. And only last month the Commission submitted proposals which would create a European-wide mobile telephone network.

14. Success has also been achieved in the rapidly expanding and vitally important field of high technology medicines. In 1986 the Council adopted a batch of four directives and one recommendation which will facilitate the development and marketing of biotechnology medicines on a Community-wide basis: and will protect high technology medicines not safeguarded by patent rules.

15. One of the areas of greatest activity since publication of the White Paper has been that of public procurement. The importance of this field - and the deleterious effects of Member States' success in keeping contracts in this field largely for the benefit of their own nationals - cannot be exaggerated. In 1986, the Commission put forward a draft Directive to open up to Community-wide competition the award by public authorities of contracts for supplies. This directive which again awaits the opinion of the Parliament is close to adoption.

A further draft Directive dealing with public works has now been forwarded to the Council and the Parliament. And only last week,

the Commission adopted a programme of further important measures in this field.

In particular we propose a new Directive on enforcement procedures and later this year we will be coming forward with proposals to open up a number of important areas in which at present the tendering procedures are closely-guarded national preserves. These are the so-called excluded areas of telecommunications, transport, energy and water.

16. Progress has been made in the past year in liberalising capital movements within the Community. The first phase of the Commission's new programme which covers transactions in a range of financial assets including long-term commercial credits, listed and unlisted securities and unit trusts, was approved by the Council in November 1986 and has now come into force - another example of speed where the will to make haste quickly exists.

As a result, companies established in the Community can now issue or buy bonds and shares in any Member State, and restrictions on long-term business financing across internal frontiers have been greatly reduced. The Commission will be putting forward the second phase of its proposals later this year.

17. Other proposals have been made in the field of food law: to facilitate freedom of movement of both goods and people; and the freedom of practice of the professions.

18. To complete the picture I should mention the key role the Parliament plays in the decision-taking process. The pace at which the Parliament delivers its opinions is already influencing the progress of work in the Council. This influence will become greater in the future for two reasons. First, because the number of proposals sent to the Parliament for its opinion will increase and second, because of the entry into force of the cooperation procedure. At present there are 36 White Paper proposals before the Parliament awaiting its opinion. Of these, 23 are slated to be adopted this year on the basis of the White Paper timetable.

#### Conclusion

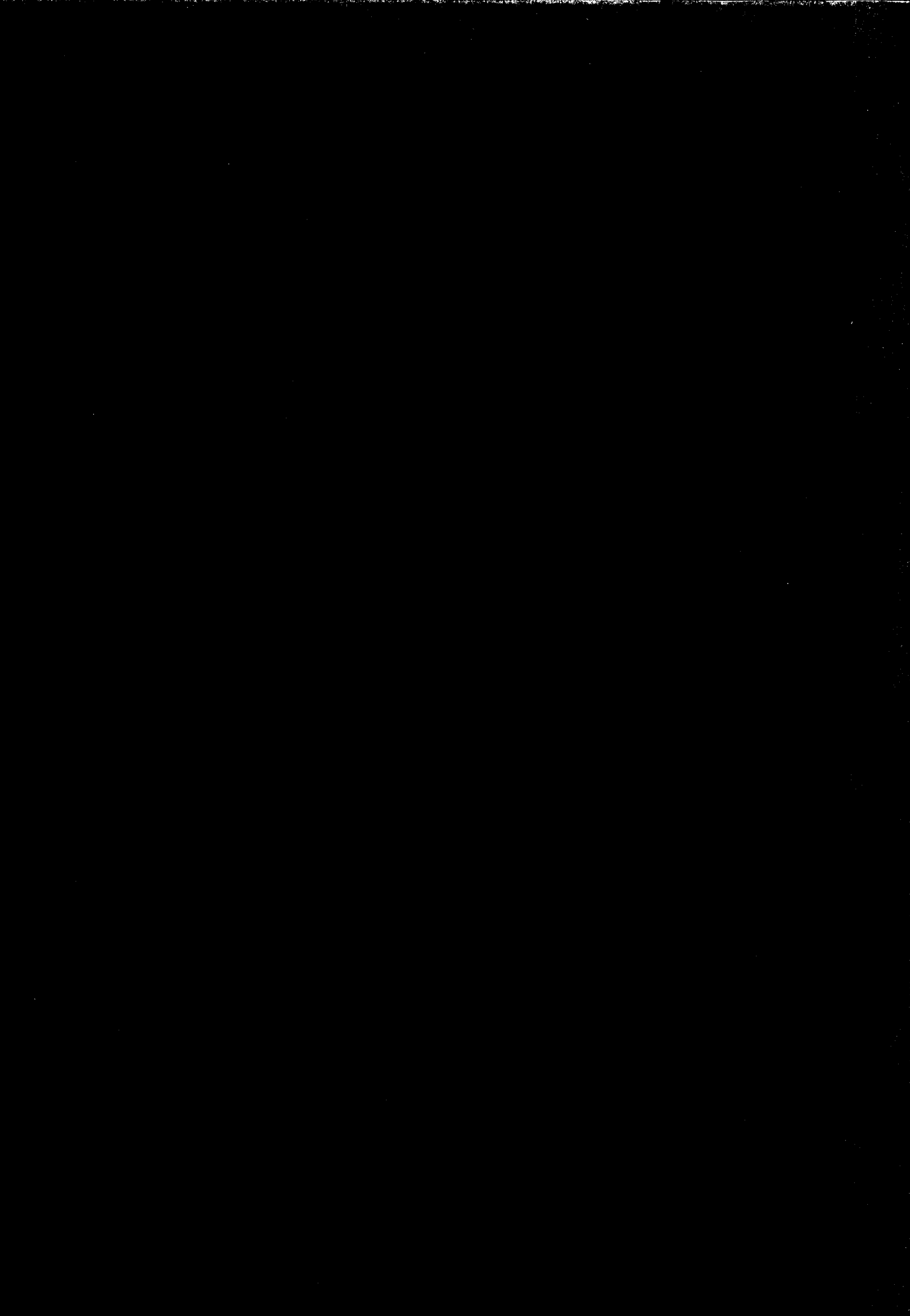
19. Having spoken at some length about the past, I would like now to say a few words about the future.

20. The successful completion of the internal market will be the Community's greatest single achievement since the Community came into being. Together with the Customs Union it will complete the fabric of economic unity which the Treaty of Rome set out to create. In the 30 years which have passed since the Treaty was signed, further important objectives have been added, but the pre-eminence of the Internal Market remains.

21. Success depends upon two things. It depends upon political will; and on the ability to translate that political will into practical achievement.

The Single European Act and the declarations made by the Heads of State or Government are clear evidence that the political will exists. The challenge which faces the Community now is to translate that will into action. We have made a start - a good start - towards our objective. The Commission for its part will maintain and indeed improve its own momentum. The Council clearly could and must do more. And the Parliament too - whose support for the objectives has been unflagging - must also look to its laurels. There is also an important part for you here to play as well. As representatives of commerce and industry you need to bring your considerable influence to bear on Ministers, on civil servants, on government advisers and on Parliaments in your own countries to persuade, and indeed to cajole, them into achieving our objectives. After all what we are asking them to do is clearly and obviously in their own interests and in the interests of the people they represent and serve.

22. We are offering trade and industry in the Community the greatest opportunity they have ever had. If we can convince them of this, if we can convince them of our ability to complete this programme and complete it on time, we will set in train a growing flow of investment for the future. That investment in turn will contribute to the growth it is designed to serve. But it is a two way relationship - we must convince industry but industry must stand with us in convincing Government. I hope, I trust, I am sure that the discussion here today will contribute to that end.





ED 1523

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 203 final

Brussels, 11 May 1987

SECOND REPORT FROM THE COMMISSION  
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

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on the implementation of the Commission's  
White Paper on completing the internal market

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## INTRODUCTION

1. Developments in the European and in the World economy give greater, not less, importance to the programme for the Completion of the Internal Market. With economic activity in Europe not growing as fast as we had hoped and with a slow-down in the world economy and in international trade, it becomes more and more important that the competitive edge of industry in the Community should be sharpened. The only way that this can be done is if the people of Europe can draw upon their united strength; if they deploy the full reserves and opportunities of an internal market of 320 million people; and if they remove internal barriers and restrictions which divide them and impose wholly unnecessary and avoidable additional costs.

2. The cornerstone of any Community is mutual dependence and support. This constitutes the very heart of what the Community means and what it really stands for. All the Community countries depend upon one another. We must realize, reinforce and profit from this interdependence to achieve the progress and prosperity that can be achieved only in a single unified market.

3. The Community is the biggest trading bloc in the world. 50% of that trade is done among Member States themselves. It represents goods and services, indeed people and capital, circulating within the Community. And this despite the barriers, the impediments and the obstacles. We must maximise that trade and the opportunities it offers. We can only do so by removing the barriers and allowing Europe to operate as a single entity. That is what is really meant by "Completing the Internal Market".

4. There is another, related imperative. We have 16 million of our people unemployed. So long as Europe remains divided, the prospective growth rates which can be foreseen offer no hope of any significant or long-lasting improvement in that figure. Europe needs to make, must make, a quantum leap forward - in efficiency, in

mobility, in investment, in economic and social cohesion, in monetary cooperation, in science and in research. None of these things will happen by themselves. They will only happen if we set the right framework in which they can happen. And that framework is the completed Internal Market.

5. Investment requires confidence. We are offering industry the greatest opportunity and indeed the greatest challenge that has faced them for many a year. With a market base of 320 million people, industry in the Community will have at long last an equal - or more than equal - opportunity with its major competitors overseas to maximise its efficiency, reduce its costs and sharpen its competitive edge. We need to do better and we can do better to meet competition from abroad in our domestic markets and competition world wide in our export markets. This will require massive investment in industry itself and in the infrastructure of the Community - in transport, in energy, in science and elsewhere. All these factors will combine to form a growing circle of prosperity and employment in the Community. The funds needed will be very great, but they will be forthcoming if there is confidence on the part of industry and Governments that the opportunities most assuredly will materialise. That confidence can only be built on a perceived and unshakable determination on the part of the Member States of the Community that the Internal Market will indeed be completed by 31st December 1992 as provided in express terms by the Single European Act, and - and this is very important - on timely and demonstrable progress towards that goal being achieved. The whole purpose of the timetable included in the White Paper and in the Progress Reports we in the Commission present each year is to impose the necessary discipline, to measure progress, to identify shortcomings and to demand solutions. Rarely has it been necessary in human history to provide such moral sanctions to persuade or cajole people into doing what is so obviously and unmistakably in their own interest to do.

Developments affecting White Paper progress

6. Since May 1986 when the Commission published its first progress report (COM(86)300) there have been a number of developments which have had an impact on subsequent progress in implementing the White Paper Programme.

7. At the time of its first progress report, the Commission looked forward with eager anticipation and optimism to the early implementation of the agreement reached at the Intergovernmental Conference held in Luxembourg in December 1985. By January 1986 that agreement had been finalised in the form of the Single European Act, signed by all Member States. What was not foreseen in May 1986 was the considerable and regrettable delay that would eventually occur in the Single Act being ratified by all the Member States and so put into effect. This delay has had serious consequences.

8. The Single Act represents a first and a radical revision of the Treaty of Rome introduced with the completion of the Internal Market very much in mind. Its implications for the White Paper programme, which it mentions by name, are immense. The Single Act enshrines within the Treaty and in the most categorical terms the commitment made on so many occasions by the Heads of State and Government to create between now and the end of 1992 an area without internal frontiers in which the free movement of goods, persons, services and capital is assured. Never before has there been such an explicit and solid basis for the internal market programme as set out in the Commission's White Paper. But, equally important, to achieve this objective the Single Act also improves significantly the Community's institutional system by extending qualified majority voting to some two-thirds of the proposals set out in the White Paper programme and by enabling Parliament through the "cooperation procedure" to play a much larger and more active part in the decision making process on internal market proposals. The acid test will be whether the Council does in fact change over to qualified majority voting where this is provided for in the Single Act. No less crucial will be the practical implementation of the "cooperation procedure".

9. The Single Act also envisages for the Commission wider executive powers to implement rules laid down by the Council. The Intergovernmental Conference in December 1985 specifically called upon the Council to adopt, in advance of the entry into force of the Single Act, principles and rules governing the definition of the Commission's executive powers in each case. To this end the Commission on 3 March 1986 submitted its proposals to the Council in the form of a draft Regulation, to translate into law the express request of the Intergovernmental Conference that on internal market matters priority should be given to the advisory Committee procedure.

10. Regrettably, on the eve of the entry into force of the Single Act and some twelve months after the Commission submitted its proposal, the Council has still not adopted the necessary principles and rules. As a result, important Commission proposals - notably those implementing the new approach to food law - on which valuable progress might otherwise have been made, remain delayed in the Council on the committee procedure issue. The Commission believes the strengthening of its own executive powers to be an essential instrument for completing the Internal Market programme. It therefore calls upon the Council as a matter of urgency to adopt the principles and rules it has proposed.

THE OVERALL PICTURE

11. Less than two years have passed since the White Paper was published and during this start-up period in the programme considerable effort has had to be put into devising and improving working procedures. It has taken some time for the three principally involved institutions to translate this effort into positive results, but the performance of each during 1986 can be summed up as follows:.

first, the Commission considerably speeded up its tabling of proposals, clearing almost all the 1985 backlog and submitting most of the proposals scheduled for 1986;

second, the Council in 1986 also speeded up the rate at which it adopted proposals as compared with 1985, but is nevertheless even further behind schedule than it was when the Commission published its first progress report in May 1986; and

third, the Parliament, though reasonably up-to-date in its processing of White Paper proposals, could become a factor for delay if the rate at which it submits its opinions to the Council does not match that at which the Commission submits its proposals for the Parliament's opinion.

12. The coming into force of the Single Act once it is ratified will definitively mark the end of the start-up period of the White Paper programme. The necessary tools will then exist to build upon the foundations which we have laid since June 1985. The rate of progress should increase markedly as a result provided the institutions use the Single Act for the purpose it was intended. In practice, progress in future will depend in large measure upon how effectively and diligently the Commission, the Council and the Parliament use the tools which the Single Act provides.

Progress in the Commission

13. In total the Commission has now tabled some 175 out of the 300 proposals set out in the White Paper timetable. Since publication of the White Paper, a number of the proposals originally envisaged have been either withdrawn, as further examination has shown them to be unnecessary, or in some cases a group of proposals have been amalgamated into a single proposal. Taking these factors into account, the Commission has dealt in all with nearly 60% of its programme. This represents good progress towards the ultimate objective - even though we would have liked to have been somewhat further ahead. The Commission's original target was to have submitted some 200 proposals by now. In fact its total backlog is 29 proposals.

14. Nearly half of this backlog relates to the agricultural sector, in particular to the abolition of veterinary and phytosanitary controls: the delays are due to continuing staff shortages. The Commission is taking steps within the framework of the 1987 budget to deal with these staffing problems and expects to put this sector back on track before too long.

15. Work since 1985 on completing the Internal Market has revealed a need for proposals which, although not originally envisaged in the White Paper programme, do complement that programme. Wherever possible the Commission has endeavoured to react to and meet that need. Consequently, it has submitted an additional 20 proposals linked to the objective of completing the internal market which were not included in the White Paper when it was published.

16. The Commission's initiatives are not confined to - and cannot be measured simply by - the number of proposals tabled. Completing the internal market means establishing all the conditions for the

harmonious functioning of the Community. The Commission has accordingly continued its work to ensure compliance with the competition rules and development of the principle of mutual recognition of national rules on the basis of Article 30 of the Treaty.

#### Progress in the Council of Ministers

17. Up to date the Council of Ministers has adopted 58 of the White Paper proposals submitted by the Commission. This leaves 112 White Paper proposals outstanding before the Council awaiting its decision. This can only be described as a most disappointing result.

18. The Council has made a serious effort to improve the organisation of its work. The decision taken in 1985 to establish a rolling work programme involving three successive presidencies was followed by the appointment in 1986 of a coordinating group to facilitate the groundwork of delegations for Council meetings on Internal Market matters. As a result there has been an improvement in some areas in the pace of work in the Council. Two examples may be quoted: first the adoption of the Directive on the protection of microcircuits barely a year after the proposal was put forward; and second, the adoption of a joint position on the proposal on public supply contracts only six months after the Commission submitted it. These are examples of what the Council can achieve when it has a mind to. But overall progress is unsatisfactory. Of the 112 White Paper proposals still before the Council, 58 were scheduled for adoption in 1986 under the White Paper timetable and remain outstanding. This is a measure of the failure of the Council of Ministers to instil a new and necessary sense of urgency.

19. It should be noted that the rate of progress varies with the configuration of the Council. The "internal market" Council meetings, under pressure from the European Council and the



Presidency, achieved much better results in the latter half of 1986; but the Council meetings on agriculture and economic/financial affairs were of much more limited success. During the past twelve months, no proposals were adopted in the vitally important agri-foodstuffs sector and only 8 directives were adopted in the veterinary and phytosanitary fields. During the same period only 2 directives - of very limited scope - were adopted in the fiscal sector. The fact remains that the objective of a Community without internal frontiers as laid down in the Single Act will only be achieved if the necessary progress is made in all areas including in the veterinary and phytosanitary field and in the fiscal field.

#### Progress in the Parliament

20. Parliament has an important influence on the rate of decision-making by the Council. All the proposals in the White Paper must receive the opinion of the Parliament before they can be adopted: two decisions could not be taken in December 1986 solely because Parliament had not delivered its opinion. The entry into force of the Single Act will further enhance Parliament's role in the decision-making process. Except in the veterinary and phytosanitary, fiscal and transport fields and a few sectors under Article 235, all White Paper proposals involve the "cooperation procedure" and in those that do not the Parliament's opinion is still required.

21. At the time of the Commission's first progress report, 17 proposals were before Parliament. That number has now risen to 32 as proposals are being tabled faster by the Commission. Of these 32 proposals, 24 are scheduled for adoption by the Council before the end of 1987 under the White Paper timetable.

PROGRESS TOWARDS THE OBJECTIVES OF THE WHITE PAPER

22. The White Paper identifies the barriers - the fiscal, technical and physical barriers - which must be eliminated by 1992 in order to create an area without internal frontiers in which the free movement of goods, persons, services and capital is assured.

23. The following sections examine what progress has been made to eliminate these barriers in important individual areas since the first progress report was published in May 1986.

Abolition of frontier controls and formalities for goods

24. The Community's objective as expressly stated in the Single European Act is to establish an area without internal frontiers by 1992. Between now and the total elimination of all controls and formalities that this clearly infers, much can be done to simplify controls and formalities at least as far as goods are concerned.

25. With this end in view, the Commission presented to the Council in 1986 a proposal to introduce common border posts ("banalization") as advocated by the European Council at its meeting in Fontainebleau in June 1984. This proposal would abolish exit formalities at Community internal frontiers when goods are transported between two Member States. Instead all formalities would be confined to a single stopping point, the office at the point of entry, thus avoiding much of the duplication of controls and delays that occur at present.

26. The Council took a first step towards the introduction of common border posts, when on 1 December 1986 it adopted Regulation No 3690/86 which abolishes customs formalities at the frontier when leaving a Member State within the framework of the TIR Convention.

27. Two other measures were adopted in 1986 to simplify frontier controls on goods. On 9 June 1986, the Council adopted a Regulation which will abolish from 1 January 1988 certain postal charges made for presenting goods to customs. This measure will be of particular benefit to the many people who send small postal packages within the Community. Also, the Council adopted on 15 December 1986 a Directive extending the provisions of Directive 83/643/EEC on the facilitation of physical inspections and administrative formalities relating to goods. The main purposes of the new Directive are to improve cooperation between national administrations, to adapt the opening hours of certain customs offices to take account of traffic flows, to provide for certain controls to be carried out by the customs on behalf of other services and to simplify the means of payment of certain administrative costs.

28. Despite the general slippage that has occurred on White Paper proposals in the agricultural and agri-foodstuffs sectors, some progress was made during the past year in the veterinary and phytosanitary fields. In 1986, the Commission put forward proposals to bring within the scope of Community rules frozen meat, meat products not treated by heating, salting or drying and egg products. It also submitted a proposal to step up action to eradicate classical swine fever, which is still a serious problem in the Community and creates trade difficulties. The Commission also proposed to the Council that the same rules and fees for health inspection should apply to all meat, whether intended for national markets or intra-Community trade.

29. For its part the Council adopted some internal market measures of which the most important were three measures designed to remove differences in the control and use of residues. The first measure was a directive concerning the examination of animals and fresh meat for the presence of residues (86/469/EEC). This directive establishes the principles of an overall control system applicable

to Community production as a whole and to imported products. This system, which is an essential component of Community harmonisation in the animal products sectors, will ensure effective monitoring of the use of pharmacological substances throughout the Community market and will allow in particular an effective check to be made on the ban on hormones for fattening introduced in 1985. The two other measures were directives (86/362/EEC and 86/363/EEC) which fix the maximum levels for pesticide residues in cereals and foodstuffs of animal origin.

30. In the animal health sector, the Council adopted three Decisions in December 1986 designed to open up trade by eliminating major animal diseases. These Decisions reinforce plans to eradicate African Swine fever in Spain and Portugal (Decisions 86/650/EEC and 86/649/EEC); promote Community action to eradicate brucellosis, bovine tuberculosis and leucosis; and continue for one further year the Community action to eradicate classical swine fever.

#### Freedom of movement and establishment for people

31. Two of the fundamental rights which the completed internal market must afford its citizens are the freedom to cross from one Member State to another without checks and formalities and to enjoy equal access to professional activities within the Community. There is nothing new about either of these rights. They both have their origins very firmly established in the Treaty itself.

32. The Commission as long ago as January 1985 submitted a proposal for a Directive to simplify and wherever possible to remove altogether controls at intra-Community frontiers. Since then, the Council has gradually eroded the substance of the Commission's original proposal to the point where if it were adopted today there would be no appreciable difference in the level of controls at most Community internal frontiers. Even so, the Council is still not prepared to adopt what little is left of the Commission's proposal.

33. On a more positive note, and in the light of the clear commitment in the Single Act to the creation of an area without internal frontiers by 1992, Ministers of the Interior and Justice, at their informal meeting in October 1986, established a Committee of senior officials to promote and enhance cooperation between national police and judicial authorities on, for example, illegal immigration and visa and asylum policies.

34. The Commission's far reaching proposal for a general system of mutual recognition of higher education diplomas has also made disappointingly little progress. It too was submitted in 1985, in line with the wishes of the European Council meeting held in Fontainebleau. Despite the fact that the European Council as recently as December 1986 reiterated once again the importance it attaches to the mutual recognition of diplomas, little further progress has been made in breaking the deadlock within the Council.

35. The Commission's proposal on the right of residence for nationals of Member States who are not yet or no longer employed similarly remains blocked at the level of the Council, some 8 years after it was submitted.

36. This sorry state of affairs cannot, indeed must not, be allowed to continue. The Council must come to terms with the fact that it can no longer prevaricate as it did for 17 years for example before it got around to adopting the Commission's proposal on the right of establishment of architects.

37. In order to facilitate further the movement of Community citizens between Member States the Commission in 1986 forwarded to the Council additional proposals, not foreseen in the White Paper, which aim to avoid double taxation and to simplify further the formalities governing movements of personal goods, certain vehicles and removals within the Community.

Technical harmonisation and standards

38. In 1986 the Commission broke important new ground in submitting to the Council and the Parliament three proposals based on the "new approach" to technical harmonisation and standards, as called for in the Council's Resolution of May 1985. These covered pressure vessels, toys and construction products respectively and laid down the essential health and safety requirements. In line with the "new approach", products which conform to the proposed essential requirements would be entitled to free movement within the Community. Construction products provide a particularly good example of the "new approach" at work since the proposal on the Council table replaces the three separate proposals originally foreseen in the White Paper. It will be supplemented by the publication (foreseen in 1988) of Eurocodes to provide common technical specifications in the construction sector.

39. Later this year, the Commission will put forward further "new approach" proposals, in particular an important and far-reaching proposal concerning the safety of machinery. All these "new approach" directives take account of the objective enshrined in Article 100.A.3 of the Single Act which commits the Commission to tabling proposals based on a high level of health, safety, consumer and environmental protection.

40. As part of its strategy to prevent the creation of new technical barriers, the Commission also presented, in November 1986, two proposals for Directives aimed at extending the scope of the information and standstill procedure introduced in the fields of technical standards and regulations. The object of these draft directives is to extend the provisions of Directive 83/189/EEC to cover certain agricultural products, foodstuffs, medicinal products and cosmetics. This Directive requires prior notice to the Commission of proposed national rules thus enabling the Commission

to examine the national proposals for conformity to Community legislation before they come into force. The Directive is proving to be an essential tool for protecting the integrity of the internal market. Since it entered into force, some 294 draft national provisions have been notified to the Commission and their conformity with Community law checked; the Commission formally requested that modifications be made to 124 of these draft provisions.

41. In the field of harmonising industrial standards, the European Standards bodies, CEN and CENELEC, are at present working on mandates to develop some 30 new European Standards. Despite the increased financial support that the Commission has given to CEN and CENELEC, both bodies are encountering difficulties in coping with their greater workload. Additional financing may have to be found and made available in the not too distant future.

42. Later this year, CEN and CENELEC will be invited to adopt as European Standards common conditions and codes of practice put forward by the Commission for implementation by testing laboratories and certification and inspection bodies. This action forms part of the Community certification and testing policy: on the basis of such standards it will be possible for agreements on the mutual recognition of test results and certificates to be concluded sector by sector.

43. In the new technology sector, the Council in 1986 adopted a Directive introducing the common technical specifications of the MAC/Packet family of standards for direct broadcasting by satellite. It also adopted two Decisions: one on standardisation in the field of information technology and telecommunications; and one on the implementation of the first stage in the mutual recognition of type approval for terminal equipment.

44. Also in the field of new technology, the Commission put forward in February 1987 proposals for a Recommendation and a Directive on the coordinated introduction of public pan-European digital mobile telephone communications in the Community.

45. In the past year, the Council has adopted or taken decisions in principle on ten proposals on industrial products. The five most important proposals concerned high-technology pharmaceutical and medicinal products.

46. The adoption of this package of five proposals which will enter into force on 1 July 1987 constitutes a major step towards the establishment of a Single European market in pharmaceutical products. They will in particular facilitate the development and marketing of medicines produced by biotechnology; protect highly innovative pharmaceutical products where patent protection is inadequate; and delegate to the Commission the power to adapt Directives on the testing of pharmaceutical products for human and veterinary use in the light of technical progress.

47. For its part, the Commission in 1986 took three important initiatives to reduce the disparities between national regulations relating to prices of pharmaceutical products and the different social security systems. The first of these was a Communication setting out the Commission's interpretation of the compatibility with Article 30 of the Treaty of measures taken by the Member States concerning price control and reimbursement. The Communication is intended to be used as a guide for public authorities, indicating their obligations, and for economic operators, setting out their rights.

48. The second Commission initiative was a proposal for a Directive concerning the transparency of measures which govern the pricing of pharmaceutical products for human use and their



eligibility under national sickness insurance schemes. Thirdly, the Commission submitted to the Council in December 1986 a recommendation for a Decision authorising the Commission to enter into negotiations to enable the Community to accede to the Convention on the preparation of a European Pharmacopoeia concluded under the auspices of the Council of Europe. Accession to this Convention would speed up the standardisation of quality criteria for medicinal products.

#### Opening up the public procurement market

49. Public procurement has been identified by successive European Councils as a key area. The total value of government procurement including contracts awarded by firms in the public sector is estimated to be worth about 400 billion ECU per year in the Community as a whole. This vast market however is in effect closed to real competition at Community level. Only 2% of public procurement contracts in the Community are awarded to firms from other Member States and some 75% of contracts are awarded to national "champions" for whom the tenders are tailor-made.

50. The lack of open and effective competition in this field, is one of the most obvious and anachronistic obstacles to the completion of the internal market. The importance of opening up this market cannot be exaggerated.

51. In the White Paper timetable, the Commission envisaged a series of initiatives between 1987 and 1989 designed gradually to open up all public procurement to Community competition by 1992. In fact, the Commission has stepped up the tempo of this work and put forward its proposals more quickly than it had originally planned, in keeping with the calls for urgent action on public procurement made by successive European Councils in 1986.

52. As a first step, the Commission sent to the Council in June 1986 a Communication setting out its general policy orientations, together with a draft proposal to amend the "Supplies" Directive (77/62/EEC of 21 December 1976). On the basis of this proposal, the Council in December 1986 agreed a number of amendments, though less rigorous ones than those put forward by the Commission. The Parliament's opinion on this proposal is still awaited.

53. In December 1986, the Commission forwarded to the Council its proposal for a Directive amending the "Works" Directive (71/305/EEC) of 26 June 1971).

54. Taken together, these two proposals would improve substantially the transparency of public supplies and works contracts and so create conditions for a genuine opening-up of public procurement to intra-Community competition, including for the first time real opportunities for small and medium sized enterprises. They would correspondingly increase the effectiveness of the procedures for monitoring application of Community rules, and would improve the procedures for awarding contracts so as to restrict the excessive use made in the past of exemptions.

56. In its proposal to amend the "Works" Directive the Commission has included the measures it regards as necessary to strengthen adequately the present regime despite the fact that the Council had weakened the corresponding measures in the "Supplies" Directive.

57. The Commission has very recently agreed a series of further measures which it will present to the Council in the form of formal proposals later this year. These will include a draft Directive on enforcement procedures, to allow the Commission to intervene direct with the awarding authorities to suspend award proceedings; and would require Member States where necessary to

amend their court procedures so as to ensure that tenderers could appeal easily and effectively against impending awards which were clearly incompatible with Community law. Further proposals will ensure a gradual opening up of public procurement in four important sectors not covered by the existing Directives, namely telecommunications, transport, and the supply of energy and water.

58. The Commission looks to the Council to follow up the impetus given by the European Council to the objective of opening up public procurement and rapidly to take the decisions which industry and commerce have a right to expect.

#### Financial Services

59. Considerable progress has been achieved during the past year. All the proposals foreseen in the White Paper for 1986 were presented by the Commission before the end of the year.

60. In the banking sector, the Council adopted a Directive on bank accounts which will permit increased mutual understanding and comparison of the financial performance of banks in different Member States. This Directive will be completed by a proposal for a Directive on the obligations of branches of foreign banks regarding the publication of annual accounting documents, which will put an end to the practice, existing in many Member States, of requiring from such branches the publication of separate annual accounts.

61. The development of new methods of payment such as payment cards containing magnetic strips and microchips, involves questions of technology, infrastructure and usage rules and clearly has internal market implications. That is why the Commission, in a Communication to the Council early in 1987, announced initiatives towards the interoperability of card payment systems in the Community and their rules of use.

62. Mandates will be given to CEN-CENELEC to draft a set of European standards for identification and payment cards covering embossed characters, magnetic strip and microprocessor cards with maximum alignment with ISO standards, and to define standards for the specification of the records to be exchanged.

63. A code of conduct relating to electronic payments, via a terminal installed at the points of sale of traders or providers of service, will be published before the end of 1987.

64. As regards freedom of services in the insurance sector, work in the Council on the relevant proposals and in the Commission on the preparation of new directives had been suspended until the Court gave its judgement on the cases pending before it. This judgement was delivered on 4 December 1986.

65. In the case relating to co-insurance, the Court has ruled that there can be no requirement on the lead insurer to be established in or have an authorisation from the destination State. The Commission welcomes this decision and urges the Member States concerned to take whatever steps are needed to implement it as soon as possible.

66. Work has now also resumed in the Council in the light of the Court judgements on the basis of the draft Second Directive on Non-Life insurance with a view to reaching agreement on rules to facilitate the free provision of services in this sector. The Commission attaches great significance to this work and urges the Council to bring it to a successful conclusion as soon as possible during 1987.

67. In its judgements the Court has emphasised the need, given the special characteristics of the insurance sector, to ensure adequate protection for the consumer. The Commission is therefore considering what further harmonization is needed for this purpose in the insurance sector. One consequence of this is that the proposals foreseen in the White Paper for freedom of services for life insurance and compulsory motor insurance will now need further examination and it will not be possible to put them forward before 1988.

68. In the securities markets field, this year should see the adoption by the Council of a Directive on securities offer prospectuses as well as a Directive extending mutual recognition to stock exchange listing particulars. In addition, a proposal will be presented for a Directive governing the rules of investment advisers.

#### Transport

69. The Commission has this year submitted to the Council two proposals on the liberalisation of coach services. This was the sole White Paper proposal outstanding in the transport field though the Commission does intend this year to put forward an additional proposal to abolish all controls on means of transport at internal frontiers.

70. At the level of the Council, good progress was made in 1986 in the sea transport sector. A package of four measures was adopted in December 1986, which should lead to progressive liberalisation and strengthening of competition in this sector.

71. In other transport sectors, progress was less marked. On road transport of goods, the Council in 1986 adopted an overall 27% increase (15% nominal plus corrections) in the Community road haulage quota for 1987 and agreed conclusions to adopt in 1987 an

annual 40 per cent increase in the quota. The Commission's proposals for the liberalisation of inland shipping has not yet been adopted by the Council.

72. In July 1986, the Commission, using the powers afforded under Article 89 of the Treaty, took steps to ensure that the principles of fair competition laid down in Articles 85 and 86 are applied in the air transport sector and is currently engaged in a formal dialogue with ten companies about their current agreements and concerted practices. Although the Council agreed in March 1987 on the conditions to be attached to fares in the discount and deep discount zones, the major issues of capacity, market access and competition remain unresolved. The Commission expects the Council to take the necessary decisions before the end of June 1987.

#### Liberalisation of capital movements

73. Good progress was made in 1986. The first phase of the Commission's programme to liberalise capital movements was accomplished in November 1986 when the Economic and Financial Affairs Council adopted a Directive (86/566/EEC) which extends the obligation to liberalise to include long term commercial credits, transactions in securities not dealt with on a Stock Exchange (shares, bonds, UCITS) and the admission of company securities of one Member State to the capital markets of another.

74. The Commission expects to submit its proposals for the second phase of its liberalisation programme before the end of the year.

#### Intellectual and industrial property

75. A Directive concerning the legal protection of micro-circuits was adopted in December 1986. This was an important step. In addition to the 'security' that it will provide within the

Community for European semiconductor manufacturers, the Directive should also guarantee their access to the US protection system. This was the sole proposal in this field adopted by the Council in 1986.

76. The Commission will be presenting in 1987 a proposal on the patent coverage of biotechnology inventions. The promised Green Paper on copyright will also be presented during the year, and will cover copyright questions related to certain new technologies including software.

#### The removal of fiscal barriers

77. At the European Council in Milan in June of 1985, the Heads of State and Government asked Finance Ministers to examine on the basis of the White Paper any measures which might be necessary in the fiscal field for the achievement of the objective of a single market and the possible timetable for the application of those measures. To this end, the appropriate Council of Ministers (Ecofin) appointed a High Level Ad-hoc Group of representatives of Finance Ministers to examine the matter and report.

78. In June 1986, the report of this High Level Ad-hoc Group was submitted to the Council which broadly endorsed the Group's conclusion that the Commission's approach to the abolition of fiscal frontiers was the most suited to the completion of the internal market. The Council asked the Commission to submit detailed proposals on the rates and rate structure of indirect taxation and on the clearing system which is needed for the current allocation of revenue between the Member States. The Commission will submit these proposals shortly. The Council undertook in June 1986 to deal in the meantime with proposals already submitted covering the common basis of assessment of VAT and the common excise duty structures. Despite this, little hard progress in the fiscal field was made in 1986.

79. Worthy of particular note is the fact that the Commission's proposal - submitted in November 1985 - for a "standstill" to promote convergence in the number and level of VAT rates has never even been discussed at Council level. Also unadopted remains the proposal on special VAT schemes for small and medium sized enterprises including substantial increases in the VAT threshold levels, which the Commission put forward in 1986.

80. The Commission can only share the view expressed by the European Council at its meeting at the Hague in 1986 that a number of basic decisions need to be taken quickly in relation to the removal of fiscal barriers at the frontiers in order to achieve the goals set for 1992. Because of its inaction in the fiscal field in 1986, the onus on the Council to take positive decisions in 1987 has become even greater.



CONCLUSION

81. The successful completion of the internal market will be the Community's greatest single achievement since it came into being. Together with the Customs Union it will complete the basic fabric of economic unity which the Treaty of Rome set out to create. In the 30 years which have passed since the Treaty was signed, further important objectives have been added, but the pre-eminence of the Internal Market remains.

82. Success depends upon two things. It depends upon political will and on the ability to translate that political will into practical achievement.

83. The repeated declarations made by the Heads of State or Government and the Single European Act are clear evidence that the political will exists. But essential though it is, political will alone is not sufficient. The record of the Council of Ministers provides ample evidence of this fact. Left to their own devices Ministers of Agriculture and of Finance and their officials have not shown sufficient recognition of the fact that the clearly laid down 1992 target requires a major change in their outlook and in the pace at which they deal with internal market related dossiers. In marked contrast, the results produced by the Internal Market Council in the second half of 1986 were particularly good in relation to previous performance. This was the product of political determination at the very top backed up by positive action below. The inescapable conclusion must be that it is for the Heads of State or Government themselves to ensure that their administrations translate their own political will into positive tangible results.

84. What has happened is understandable but it must be put right. It is easy enough at the top political level to see the immense economic advantages which would flow from an integrated European

market. But when comes to the practical detail of individual proposals too often the vision is lost and national and sectoral interests take over. The lesson to be learned, quite simply, is that Heads of State or Government must involve themselves in the successful completion of the Internal Market programme and require their Ministers to respect what the European Council lays down. Unless they do, what is at present a serious but retrievable situation so far as the Council is concerned will get worse. There are difficulties immediately ahead due to the delay in entry into force of the Single Act and the need to get the new cooperation procedure with the Parliament working smoothly. But once through this patch of choppy water, it is essential that the Council of Ministers - in all its manifestations - significantly improve its performance.

85. In this respect it is important to bear in mind that the delays which have occurred do not seem to be due to fundamental opposition - from eg. economic, regional or sectoral interests - to the objective of completing the Internal Market. The contrary is true: the objective continues to enjoy the support of the large majority of the economic groups concerned, including Industry and the Trade Unions. A number of proposals currently on the Council's table are blocked, not because of political or economic problems linked to the substance of the proposals, but because of procedural difficulties (such as differences about legal bases; disagreement about delegation of powers of implementation to the Commission; conflicting priorities within the Council of Ministers; and so on). It is entirely within the power of the Community institutions to overcome these difficulties, particularly after the Single European Act is implemented.

86. The Parliament too - whose support for the objectives of the White Paper has been unflagging - must also look to its laurels. The pace at which the Parliament delivers its opinion is already

influencing the progress of work in the Council. This influence will become greater once the cooperation procedure enters into effect and as the number of proposals sent to the Parliament for its opinion increases. The Commission looks to the Parliament for its continued support and for its early opinion on internal market proposals.

87. By the end of next year, the Commission is required, under the Single European Act to report to the European Council on the progress made towards achieving the internal market by 31 December 1992.

88. The Commission hopes - and is entitled to expect - that by then it will be able to report that satisfactory and balanced progress has been achieved in all the sectors concerned. It regrettably cannot give such a report on the present occasion.

## **ANNEXES**

### **INTRODUCTION**

The following three annexes outline the present state of progress on implementing the programme and timetable annexed to the White Paper on completing the internal market and take account of developments since June 1985.

Annex 1 lists the proposals included in the White Paper timetable which have been adopted by the Commission and the Council up to 30 April 1987.

Annex 2 lists the proposals submitted by the Commission to the Council and the Parliament which have yet to be adopted by the Council

Annex 3 lists the Commission proposals still to be presented to the Council and the Parliament in the context of the completion of the internal market.

ANNEX I  
1/5/87

WHITE PAPER INITIATIVES AND PROPOSALS  
ADOPTED BY COMMISSION AND COUNCIL  
UP TO 30 APRIL 1987

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The following list shows the proposals included in the annex to the White Paper on the Completion of the Internal Market which have been adopted or partially adopted by both Commission and Council up to 30 April 1987. Numbers refer to the total of 55 Council adoptions which have taken place, (4 decisions having been taken on proposal no 7 below).

Those partially adopted will require further Council decision.

The observations under the "Comments" heading indicate the implementation periods foreseen for each decision and derogations, if any.

SUBJECT	ADOPTION DATE
<b><u>PART ONE : THE REMOVAL OF PHYSICAL BARRIERS</u></b>	
<b>I. CONTROL OF GOODS</b>	
<b>1. Various controls</b>	
1. Duty free admission of fuel contained in the fuel tanks of commercial motor vehicles : lorries and coaches COM(84)171, COM(86)383	PARTIALLY ADOPTED (coaches) 8/7/85 Dir.85/347 OJ L 183 of 16/7/85
COMMENTS : Entry into force : 1/10/1985 Proposal updated by COM(86)383 - lorries	
2. Single Administrative document (SAD) third country aspects	ADOPTED 8/7/85 Regul.1900/85 & 1901/85 EEC OJ L 179 of 11/7/85
COMMENTS : Entry into force : 1/1/1988	

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3. Abolition of customs presentation charges

ADOPTED  
9/6/86  
Reg. 1797/86  
OJ L 157 of  
12/6/86

COMMENTS : Entry into force 1/1/1988; derogations for Spain - and Portugal

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4. Introduction of common border posts "banalisation"  
COM(86)524

PARTIALLY ADOPTED  
1/12/86  
(TIR aspect)  
REG 3690/86  
OJ L 341 of  
4/12/86

COMMENTS : Entry into force : 1/7/87; no derogations foreseen

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**2. Veterinary and phytosanitary controls**

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5. Production and trade in milk

ADOPTED  
5/8/85  
Dir. 85/397  
OJ L 226 of  
24/8/85

COMMENTS : Implementation date : 1 January 1989

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6. Live animals of the bovine species: amended eradication directives to provide for final eradication of brucellosis tuberculosis & leucosis in all Member States including Spain and Portugal

ADOPTED  
22/12/86  
Decision  
87/58  
OJs L 24 &  
L 32 of  
27/1 &  
3/2/87  
respectively

**COMMENTS**

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Member States shall draw up eradication plans to be submitted to the Commission within nine months of the notification of Decision; the Commission after examination of the proposed plans and any amendments thereto, shall approve them according to the procedure of the Standing Veterinary Committee. On the dates fixed by the Commission in its decision of approval, Member States shall bring into force the national provisions required to implement the eradication plans.

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7. Live animals of the porcine species : eradication of African swine fever in Spain, Portugal & Sardinia (Sardinian proposal still awaited) and Classical swine fever in the Community as a whole COM(86)555	<p style="text-align: center;">PARTIALLY ADOPTED</p> <p>African swine fever aspect 16/12/86 DEC. 86/649 - Portugal DEC. 86/650 - Spain OJ L 382 of 31/12/86 Classical swine fever: financial aspect &amp; certain measures - 7/4/87 DECs 87/230 &amp; 87/231 OJ L 99 of 11/4/87</p>
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**COMMENTS**

Concerning Decision 86/649, PORTUGAL to submit a reinforced plan to the Commission for the eradication of African swine fever and the restructuring of pig farms. Concerning Decision 86/650, SPAIN also to submit reinforced plan for the above-mentioned eradication scheme. No precise deadlines are mentioned in the decisions. The Commission must approve these plans, according to the procedure of the Standing Veterinary Committee which includes specific time limits, and follow the developments concerning the implementation of the eradication plan.

(A report must be made to the Committee at least once a year)

Decision 87/230 to apply from 1/1/1987

Decision 87/231 : Member States to enforce necessary measures to comply with decision not later than 31/12/87 and must inform the Commission thereof

8. Hormone growth promoters	<p style="text-align: center;">ADOPTED</p> <p>10/7/85 &amp; 21/12/85 Dir 85/358 &amp; 85/649 OJ L 191 of 23/7/85 &amp; OJ L 382 of 31/12/85</p>
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COMMENTS : Implementation date : 1/1/87 for Dir.85/358;  
1/1/88 for Dir.85/649

9. Microbiological controls (meats, poultry, red meat)	<p style="text-align: center;">ADOPTED</p> <p>12/6/85 Dir 85/323 &amp; 85/324 OJ L 168 of 28/6/85</p>
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**COMMENTS**

Implementation date Dir. 85/323 : obligation to conform to terms of directive contains period not yet fixed  
Implementation date Dir. 85/324 : as above

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**10. Medical examination of Personnel****ADOPTED**  
12 & 20  
June 1985  
Directives  
85/325, 85/326  
85/327  
OJ L 168 of  
28/6/85**COMMENTS**  
-----Implementation date Dir. 85/325 : 1/1/86  
Implementation date Dir. 85/326 : 1/1/86  
Implementation date Dir. 85/327 : 1/1/86

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**11. Antibiotic residues****ADOPTED**  
16.9.86  
Dir  
86/469  
OJ L 275 of  
24/9/86**COMMENTS**  
-----Implementation dates : 1 April 1986, 31 December 1987, 31  
December 1988

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**12. Control of residues****ADOPTED**  
16.9.86  
Dir  
86/469  
OJ L 275 of  
24/9/86**COMMENTS**  
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Implementation dates : as at No 12 above

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**13. Swine fever****ADOPTED**  
12/6/85  
Dir. 85/320,  
85/321 &  
85/322  
OJ L 168 of  
28/6/85**COMMENTS**  
-----Implementation Dir. 85/320 : 1/1/1986  
Implementation Dir. 85/321 : 1/1/1986  
Implementation Dir. 85/322 : 1/1/1986

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14. Control of foot and mouth disease	ADOPTED 18/11/85 Dir.85/511 OJ L 315 of 26/11/85
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**COMMENTS**

Implementation date : 1/1/1987

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15. Amendment to Directive 77/93 (plant health) COM(84)288	PARTIALLY ADOPTED 28/2/85 Dir.85/173 OJ L 65 of 5/3/85
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COMMENTS : Implementation dates : 1/1/85 and 1/3/85

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16. Proposal for fixing of maximum levels for pesticide residues in cereals and foodstuffs of animal origin	ADOPTED 24/7/86 Dir. 86/362 & 86/363 OJ L 221 of 7/8/86
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COMMENTS : Implementation date : 30/6/1988

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17. Proposal to amend Directive 79/117/EEC on the prohibition of certain plant protection products (ethylene oxide)	ADOPTED 21/7/86 Dir. 86/355 OJ L 212 of 2/8/86
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COMMENTS : Implementation date : 1/7/87

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18. Proposal for Directive on the fixing of guidelines for the evaluation of additives used in animal foodstuffs	ADOPTED 16/2/87 Dir. 87/153 OJ L 64 of 7/3/87
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COMMENTS : Implementation date : 31/12/87

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19. Modification of Directive 72/461 on health problems affecting intra- Community trade in fresh meat and Directive 72/462 on health and veterinary inspection problems upon importation of bovine animals and swine and fresh meat from 3rd countries	ADOPTED 30/12/86 Dir.87/64 OJ L 34/87 of 5/2/87
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COMMENTS : Implementation date : 1/1/88

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- Further alignment of additional  
plant health standards - third  
countries

ADOPTED  
29/10/1986  
Com. Dir.  
86/547  
OJ L 323 of  
18/11/86

COMMENTS

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Directive to apply until 31 December 1989  
(Member States to immediately inform Commission of all laws  
etc adopted to implement Directive; Commission to inform  
other Member States)

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II. CONTROL OF INDIVIDUALS

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20. Sixth Directive relative to  
exemptions in international  
travel: Increase to 350 ECUs

ADOPTED  
8/7/85  
Dir. 85/348  
OJ L 183 of  
11/7/85

COMMENTS

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Entry into force : 1/10/1985; certain derogations for  
Denmark, Greece and Ireland

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21. Tax reliefs to be allowed on the  
importation of goods in small  
consignments of a non-commercial  
character -  
COM(83)730 & COM(84)372  
(See No 23 on Annex 2)

ADOPTED  
8/7/85  
Dir. 85/349  
OJ L 183 of  
16/7/85

COMMENTS : Entry into force : 1/10/1985

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**PART TWO : THE REMOVAL OF TECHNICAL BARRIERS**

**I. FREE MOVEMENT OF GOODS**

**1. New approach in technical harmonization and standards policy**

**2. Sectoral proposals concerning approximation of laws**

**2.1. Motor vehicles**

- Revision of braking directive 71/320

ADOPTED  
23/12/1985  
Com.Dir.  
85/647  
OJ L 380 of  
31/12/85

**COMMENTS**

Members States were required to bring into force the provisions necessary to comply with the Directive before 1 October 1986.

**2.2. Tractors and agricultural machines**

**2.3. Food law**

22. General Directive on sampling and methods of analysis

ADOPTED  
20/12/85  
Dir.85/591  
O.J. L 372 of  
31.12.85

**COMMENTS**

Member States to take necessary measures to conform to Directive 24 months after notification (which took place on 23.12.85)

23. Preservatives (modification)  
COM(81)712

PARTIALLY  
ADOPTED  
20/12/85  
Dir. 85/585  
O.J. L372 of  
31.12.85

**COMMENTS** : Member States were to take necessary measures to conform to Directive by 31.12.1986

24. Emulsifiers (modification)	ADOPTED 24/3/86 Dir.86/102 O.J. L 88 of 3/4/86
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COMMENTS

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Member States to take necessary measures to conform to directive 12 months after notification (which took place on 27/3/86); the modified legislation should then enter into force 2 years after notification of the directive

25. Coffee extracts chicory extracts (modification)	ADOPTED 19/12/85 Dir.85/573 O.J. L 372 of 31/12/85
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COMMENTS

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Member States to take necessary measures

(a) by 1/1/87 as far as trade in products that conform to present directive is concerned;

(b) by 1/7/88 as far as trade in products that do not conform to present directive is concerned

26. Obligation to indicate ingredients and alcoholic strength - COM(82)626	PARTIALLY ADOPTED 26/5/86 Dir.86/197 OJ L 144 of 29/5/86
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COMMENTS

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Member States to modify (if necessary) their legislation in order to ensure that

- trade in products that conform to present directive can be permitted by 1/5/88

- trade in products that do not conform to present directive can be permitted by 1/5/89

27. Simulants (plastic materials in contact with foodstuffs)	ADOPTED 19/12/85 Dir.85/572 OJ L 372 of 31/12/85
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COMMENTS

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Member States to take necessary measures to conform to present directive at the same time as measures are taken to implement directive 82/711

#### 2.4. Pharmaceuticals and high-technology medicines

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28. Proposal for Directive concerning the placing on the market of high-technology medicinal products incl. those derived from biotechnology	Adopted 22/12/86 Dir.87/22 OJ L 15 of 17/1/87
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COMMENTS : Member States to take necessary measures to conform to directive by 1/7/87

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29. Proposal amending Directive 75/318/EEC concerning the testing of medical specialities	Idem DIR 87/19
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COMMENTS : Member States to take necessary measures to conform to directive by 1/7/87

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30. Proposal amending Directive 81/852/EEC concerning veterinary medicinal products	Idem DIR 87/20
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COMMENTS : Member States to take necessary measures to conform to directive by 1/7/87

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31. Proposal for a Council Recommendation concerning tests relating to the placing on the market of medical specialities	ADOPTED 9/3/87 OJ L 73 of 16/3/1987
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COMMENTS

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No implementation period required since this is a recommendation

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32. Proposal for a Council Directive amending Directive 65/65/EEC concerning medical specialities	ADOPTED 22/12/86 DIR 87/21 OJ L15 of 17/1/87
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COMMENTS : Member States to take necessary measures to conform to directive by 1/7/87

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## 2.5. Chemical products

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- |  |  |
|--|--|
| <p>- Adaptation to technical progress of Directive 67/548 on classification, labelling and packaging of dangerous substances</p> | <p>ADOPTED<br/>24/6/1986<br/>Com. Dir.<br/>86/431<br/>OJ L 247<br/>of<br/>1/9/1986</p> |
|--|--|

### COMMENTS

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Member States to adopt and publish, before 1 July 1987, provisions necessary to comply with directive and inform Commission thereof, provisions to be applied by 31 December 1987

- |   |   |
|---|---|
| <p>- Amonium nitrate (fertilizers of high nitrogen content)</p> | <p>ADOPTED<br/>8/12/1986<br/>Com.Dir.<br/>87/94<br/>OJ L 38 of<br/>7/2/1987</p> |
|---|---|

### COMMENTS

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Member States to take necessary measures to comply with Directive not later than 31 December 1987 and inform Commission thereof; Member States to communicate to Commission texts of provisions of national law which they adopt in this field.

- |   |   |
|---|---|
| <p>33. Council Directive relating to restrictions on the marketing and use of PCB's (polychlorinated biphenyls)</p> | <p>ADOPTED<br/>1/10/85<br/>DIR 85/467<br/>OJ L269 of<br/>11/10/85</p> |
|---|---|

### COMMENTS

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Member States were due to take the necessary steps to conform to the directive by 30/6/86

- |  |  |
|--|--|
| <p>34. Council Directive relating to "Restrictions on the marketing and use of asbestos" COM(79)419 &amp; COM(83)556</p> | <p>PARTIALLY<br/>ADOPTED<br/>20/12/85<br/>DIR 85/610<br/>OJ L375 of<br/>31/12/85</p> |
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### COMMENTS

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Member States to take necessary measures to conform to the directive by 31/12/87

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35. Non-ionic detergents (modification of existing Directive)	ADOPTED 10/3/86 DIR 86/94 OJ L80 of 25/3/86
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**COMMENTS**

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Member States are being allowed to maintain exceptions to the requirements concerning certain non-ionic agents included in detergents laid down by Directive 73/404, until 31/12/89

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36. Membership of the European Agreement on detergents	ADOPTED on 12/12/85
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**COMMENTS**

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The decision taken on 12/12/85 merely enables the Commission to commence negotiations for the Membership of the European Agreement on Detergents; therefore implementation conditions are not applicable.

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2.6. Construction and construction products

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2.7. Other items

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37. Household appliances: airborne noise	Adopted 1/12/86 DIR 86/594 OJ L 344 of 6/12/86
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**COMMENTS**

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To be implemented by Member States 36 months after notification (which took place on 4 December 1986)

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38. Tyre pressure gauge	ADOPTED 26/6/86 Dir.86/217 OJ L 152 of 6/6/86
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**COMMENTS**

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Member States to take necessary steps to conform to directive 18 months after notification (which took place on 30 May 1986)

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39. Hydraulic diggers (noise)

ADOPTED  
22/12/86  
Dir. 86/662  
OJ L 384 of  
31/12/86

COMMENTS

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Implementation period : 24 months after notification (which took place on 25/12/86)

NB : 6 years after implementation common noise levels to be adhered to

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40. Protection of hotels against fire (proposal for a recommendation)

Adopted  
22/12/86  
Recommendation  
86/666  
OJ L 384 of  
31/12/86

COMMENTS

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Member States to report to Commission, within 2 years, all national measures taken in accordance with the Recommendation

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II. PUBLIC PROCUREMENT

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III. FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS

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41. Comparability of vocational training qualifications

ADOPTED  
16/7/85  
Dec. 85/368  
OJ L 199 of  
31/7/85

COMMENTS

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Member States to submit to the Commission, 2 years after adoption of the decision, a report on its implementation in individual Member States

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42. Cooperation between higher education and industry for advanced training relating to new technologies (COMETT)	ADOPTED 24/7/86 Dec.86/365 OJ L 222 of 8/8/1986
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**COMMENTS**  
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Implementation : preparatory phase 1986; operation of  
programme 1987-1989;  
Commission to submit a report by 31/10/1988 on experience of  
programme and its continuation

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43. Coordination relating to commercial agents	ADOPTED 18/12/86 DIR 86/653 OJ L 382 of 31/12/86
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**COMMENTS**  
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Member States to take necessary measures to conform to  
directive by 1/1/90;  
for IRELAND and the U.K. this deadline is extended to 1/1/94;  
for ITALY, the section concerning the provisions on the  
ending of commercial agents contracts will be 1/1/93

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44. Coordination of provisions in respect of certain activities in the field of pharmacy	ADOPTED 16/9/85 DIR 85/432, 85/432, & DEC. 85/434/EEC OJ L 253 of 24/9/85
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**COMMENTS**  
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Re, DIR 85/432 Member States are to take the necessary  
measures to conform to the directive by 1/10/87;  
Decision 85/434 concerned the creation of a Consultative  
Committee on training in the field of pharmacy - this will  
not be implemented before 1/10/87 - Member States will have  
to designate national experts and Council must take a  
decision.

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45. Mutual recognition  
of diplomas in  
pharmacy

ADOPTED  
16/9/85  
Dir. 85/433  
OJ L 253 of  
24/9/85

**COMMENTS**

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Member States to take the necessary measures to conform to Directive by 1/10/87.  
There will be a DEROGATION for GREECE : 10 years after entry into force the Commission must make proposals aiming at the extension of mutual recognition of diplomas to self-employed pharmacists

46. Specific training  
in general medical practice

ADOPTED  
15/9/86  
Dir. 86/457  
OJ L 267 of  
19/9/86

**COMMENTS**

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Member States should require the diplomas referred to in the directive by 1/1/95 at the latest

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**IV. COMMON MARKET FOR SERVICES**

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**1. FINANCIAL SERVICES**

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**1.1 Banks**

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47. Accounts of banks

ADOPTED  
8/12/86  
DIR 86/  
635  
OJ L 372 of  
31/12/86

**COMMENTS**

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Implementation required by 31/12/1990; facility for Member States to apply implementing rules for the first time for financial year accounts beginning 1993

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- Recommendation on the setting up of a guarantee system of deposit within the Community

ADOPTED  
22/12/1986  
Com. Rec.  
87/63  
OJ L 33 of  
4/2/1987

**COMMENTS :** Implementation requirements do not apply since this is a Recommendation

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- Recommendation on control of large exposures	ADOPTED 22/12/1986 Com. Rec. 87/62 OJ L 33 of 4/2/1987
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COMMENTS : implementation requirements do not apply since this is a recommendation

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### 1.2 Insurance

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### 1.3 Transactions in securities

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48. Collective investment undertakings for transferable securities	ADOPTED 20/12/85 DIR 85/611 OJ L 375 of 31/12/85
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#### COMMENTS

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Implementation required by 1/10/1989; Member States may grant additional period of 12 months to comply with those rules for UCITS existing on that date; facility for Greece and Portugal to postpone application up to 1/4/1992.

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## 2 - TRANSPORT

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49. Maritime transport:	PARTIALLY
1. freedom to provide services in the sea transport sector:	ADOPTED
(a) between M.States and between M.States and third countries	22/12/86
(b) within M.States	REGS: 1(a) 4055/86
2. application of Arts 85 & 86 of Rome Treaty to maritime transport	1(b) NOT adopted
3. unfair pricing practices	2 : 4056/86
4. Coordinated action to safeguard free access to cargoes in oceanic trades	3 : 4057/86 4 : 4058/86
COM(85)90	OJ L 378 of 31/12/86

#### COMMENTS

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Entry into force : REGS 4055 - 1/1/87  
4056 - 1/7/87  
4057 - 1/7/87  
4058 - 1/7/87

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### 3 - NEW TECHNOLOGIES AND SERVICES

#### V - CAPITAL MOVEMENTS

50. Liberalisation of units in collective investment undertakings for transferable securities	ADOPTED 20/12/85 DIR. 85/583 OJ L 372 of 31/12/85
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#### COMMENTS

Member States to take necessary measures to comply with directive by 1/10/89;  
DEROGATION for Portugal to 31/12/1990

51. Liberalisation of operations such as transactions in securities not dealt in on a Stock Exchange, admission of securities on the capital market and long-term commercial credits	ADOPTED 17/11/86 DIR 86/566 OJ L 332 of 26/11/86
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#### COMMENTS

Member States to take necessary measures to comply with Directive by 28/2/87;  
Spain and Portugal may, in connection with the Act of Accession, postpone liberalisation until respectively :

- 1/10/1989 and 31/12/1990 for transactions on units in collective investment undertakings in transferable securities,

- 31/12/1990 and 31/12/1992 for other transactions liberalised

NB. It was announced on 25 February 1987 that GREECE, ITALY and IRELAND have been allowed to extend DEROGATIONS in this field (in accordance with Article 108 of the Rome Treaty) to some of the newly liberalised operations up to: end 1987 for Italy and Ireland and end 1988 for Greece. However, operations representing inflows of capital and long term commercial credits are liberalised as from 28/2/1987

## VI - CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COOPERATION

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### 1. Company law

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- |  |  |
|--|--|
| 52. Proposals for a Regulation<br>for a European Economic<br>Interest Grouping | ADOPTED<br>25/7/85<br>Reg. 85/2137<br>OJ L 199 of<br>31/7/85 |
|--|--|

#### COMMENTS

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Member States to take necessary measures to conform to regulation by 1/7/89

### 2. Intellectual and Industrial property

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- |   |  |
|---|--|
| 53. Legal protection of<br>micro circuits | Adopted<br>18/12/86<br>DIR.<br>87/54<br>OJ L 24<br>of<br>27/1/87 |
|---|--|

COMMENTS : Member States expected to enforce directive by 7/11/87 at the latest

### 3. Taxation (removing tax obstacles to cooperation between enterprises)

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## VII APPLICATION OF COMMUNITY LAW

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### 1. Transparency

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- |   |   |
|---|---|
| - Commission Communication in relation<br>to Article 30 of the Rome Treaty<br>on price fixing and on sickness insurance<br>concerning pharmaceuticals | ADOPTED<br>1986<br>C. 86/1723<br>OJ C.310 of<br>4/12/1986 |
|---|---|

#### COMMENTS

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Implementation requirements do not apply since this is a Communication

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**PART III : THE REMOVAL OF FISCAL BARRIERS**

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**1. V.A.T.**

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54. 13th VAT Directive concerning  
tax refunds to persons not  
established in the Community

ADOPTED  
17/11/1986;  
DIR. 86/560  
OJ L 326 of  
21/11/1986

COMMENTS : Entry into force 1/1/1988

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55. 17th VAT Directive concerning  
the temporary importation of  
goods other than means of  
transport

ADOPTED  
16/7/85  
DIR. 85/362  
OJ L 192 of  
24/7/85

**COMMENTS**

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Entry into force : 1/1/1986;  
DEROGATIONS for Germany and Greece : carryover of application  
of certain articles

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1 MAY 1987

ANNEX 2

**PROPOSALS SUBMITTED BY COMMISSION TO COUNCIL IN  
THE CONTEXT OF THE COMPLETION OF THE INTERNAL MARKET  
WHICH STILL REQUIRE COUNCIL ADOPTION**

- 
- Proposals marked with an asterisk (\*) were presented since the publication of the White Paper (14 June 1985)
  - Proposals marked with two asterisks (\*\*) are still before the European Parliament
  - voting procedures under the terms of the Single Act are indicated in the Council column thus : U - unanimity;  
QM - qualified majority;  
SM - simple majority
  - *Initiatives indicated in ITALICS were not included in the White Paper timetable*

SUBJECT	Date of Commission's proposal	Projected date of adoption by Council
<b>PART ONE : THE REMOVAL OF PHYSICAL BARRIERS</b>		
<b>1. CONTROL OF GOODS</b>		
<b>1. Various controls</b>		
1. Simplification of Community transit procedure: discontinuance of presentation of transit advice note and guarantee - COM(79)456 & COM(80)354	1979	1986 (U)
2. Duty free admission of fuel contained in the fuel tanks of commercial motor vehicles : lorries & coaches COM(84)171 updated by COM(86)383 (lorries)	1984 1986*	PARTIALLY ADOPTED 8/7/85 Dir.85/347 (coaches) 1987 (U)

3. Introduction of common border posts ("banalisation") COM(86)524	1986*	PARTIALLY ADOPTED (TIR aspect) Reg. 3690/86 1987** (QM)
<b>2. Veterinary and phytosanitary controls</b>		
4. Live animals of the porcine species : eradication of classical swine fever in the Community as a whole (financial aspect, modification of Directives 64/432, 72/461, 80/217 and 80/1095) : COM(86)555	1986*	PARTIALLY ADOPTED 7.4.1987 Decs 87/230 & 87/231 1987 (QM)
5. Production and trade in medicated feeding stuffs - COM(81)795 & COM(83)378	1981	1985 (QM)
6. Boar meat - COM(83)655	1983	1985 (QM)
7. Personnel responsible for inspection COM(81)504	1981	1985 (QM)
8. Acceptance for breeding purposes of purebred breeding animals of the bovine species COM(79)649	1979	1986 (QM)
9. Zootechnical standards applicable to breeding animals of the porcine species COM(79)785, modified by COM(86)659	1979 1986*	1987 (QM)
10. Imports of meat products from third countries (animal and public health) COM(84) 530, COM(86)658	1984 1986*	1987 (QM)
11. Aujeszky disease and swine vesicular disease COM(82)529	1982	1985 (QM)
12. Semen of animals COM(83)512, modified by COM(86)657	1983 1986*	1987 (QM)



13. Modification of Directive 77/99/EEC on meat products COM(85)678	1985*	1986 (QM)
14. Proposal to amend Directive 77/93 (plant health) COM(84)288	1984	PARTIALLY ADOPTED 28/2/85 Dir.85/173 1985 (QM)
15. Proposal for fixing of maximum levels for pesticide residues in feedingstuffs - COM(77)337	1977	1986 (QM)
16. Proposal to amend the annex of Directive 76/895/EEC concerning residues of pesticides in and on fruit and vegetables (ethoxyquin and diphenylamine) COM(82)883	1983	1985 (QM)
17. Proposal for the placing of plant protection products on the market COM(76)427	1976	1986 (U)
18. Proposal for the improvement of Community systems of certification of seeds - COM(85)782	1985*	1986 (QM)
19. Harmonised health conditions for production and trade in food products of animal origin not covered by existing legislation : eggs COM(87)46	1987*	1988** (QM)
20. Amendment to Directive 80/215 inspection of intra Community trade in meat products COM(87)51	1987*	1987** (QM)
21. Amendment to Directive 64/433 on health problems affecting intra-Community trade in fresh meat COM(86)532	1986*	1987** (QM)
22. Amendment to Directive 72/462 on health and veterinary inspection problems upon importation of bovine animals and swine and fresh meat from third countries COM(86)532	1986*	1987** (QM)

## II. CONTROL OF INDIVIDUALS

23. Small consignments: exemption from value added tax on the final importation of certain goods : COM(86)383, updated by COM(87)21	1986*	1987** (U)
24. Directive on the easing of controls at Intra-Community Borders COM(84)749 & COM(85)224	1985	1985 (U)
25. Modification of Directive 83/183 on tax exemptions applicable to permanent imports from a Member State of the personal property of individuals (removals) COM(86)584 fin/2	1986*	1987** (U)
26. Proposal for a Directive amending for the first time Dir. 83/182 on temporary importation of certain means of transport (motor vehicles) COM(87)14	1987*	1987** (U)

## PART TWO : THE REMOVAL OF TECHNICAL BARRIERS

### I. FREE MOVEMENT OF GOODS

#### 1. New approach in technical harmonization and standards policy

27. Proposal for the extension of information procedures on standards and technical rules (amendment to Directive 83/189) COM(87)52	1987*	1987** (QM)
28. Simple pressure vessels COM(86)112	1986*	1987** (QM)

#### 2. Sectoral proposals concerning approximation of laws

##### 2.1. Motor vehicles

29. Gaseous emissions - passenger cars COM(85)288	1985*	1985 (QM)
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30. Gaseous emissions-commercial vehicles COM(86)261	1986*	1987** (QM)
31. Diesel particulates - passenger cars - COM(86)273	1986*	1987** (QM)
32. Type approval of motor vehicles and their trailers - Directive 70/156 - COM(87)26	1987*	1988** (QM)
<b>2.2. Tractors and agricultural machines</b>		
33. Implementation of Directive 74/150 (weight and dimensions,driveshaft, engine stopping device, windscreen wipers, footrest) COM(87)194	1987*	1987** (QM)
34. <i>Modification of framework Directive 74/150 COM(86)777</i>	1986*	1987** (QM)
35. <i>Rollover protection structures (Incorporating two pillars and mounted in front of the driver's seat) on narrow-track wheeled agricultural or forestry tractors COM(84)400; COM(86)776</i>	1984 1986	1987** (QM)
<b>2.3. Food law</b>		
36. General Directive on quick frozen foods - COM(84)489 & COM(85)514	1984	1985 (QM)
37. Flavourings - COM(80)286 & COM(82)166	1980	1985 (QM)
38. Extraction solvents - COM(83)626 & COM(85)79	1983	1986 (QM)
39. Preservatives (modification) COM(81)712	1981	PARTIALLY ADOPTED 20/12/85 Dir. 85/585 1985 (QM)
40. Infant formulae and follow-up milk (dietetic foods) COM(84)703, modified by COM(86)564	1984	1986 (QM)

41. Obligation to indicate ingredients and alcoholic strength - COM(82)626	1982	PARTIALLY ADOPTED 26/5/86 DIR.86/197 1985 (QM)
42. Modified starches - COM(84)726	1984	1986 (QM)
43. Food additives (in part modification of existing directives) COM(86)87	1986*	1986 (QM)
44. Materials and articles in contact with food (amendment) COM(86)90	1986*	1986 (QM)
45. Food for particular nutritional use (amendment) COM(86)91	1986*	1986 (QM)
46. Food labelling (amendment) COM(86)89	1986*	1986 (QM)
47. Jams COM(86)613	1986*	1987** (QM)
48. Fruit juices COM(86)688	1986*	1987** (QM)
49. Food inspection COM(86)747	1986*	1987** (QM)
50. <i>Definition of spirituous beverages and aromatised wines</i> COM(82)328, COM(86)129	1982 1986*	1986 (QM)
2.4. Pharmaceuticals and high-technology medicines		
51. Price transparency in the prices of medicines and social security refunds COM(86)765	1986*	1988** (QM)
52. Membership of European Pharmacopoeia SEC(86)2010	1986*	1987 (QM)
2.5. Chemical products		
53. Council Directive relating to "Restrictions on the marketing and use of asbestos" COM(79)419 & COM(83)556	1979	PARTIALLY ADOPTED 20/12/85 Dir. 85/610 1985 (QM)

54. Classification, packaging and labelling of dangerous preparations - COM(85)364	1985*	1987** (QM)
55. Liquid fertilisers COM(86)704	1986*	1988 (QM)
<b>2.6. Construction and construction products</b>		
56. Construction products COM(86)756	1986*	1987** (QM)
57. Tower cranes : permissible sound levels COM(86)491	1986*	1987 (QM)
<b>2.7. Other items</b>		
58. Safety of toys - COM(83)323, modified by COM(86)541 (includes chemical properties and electrical toys)	1983  1986*	1987** (QM)
59. Cosmetics - 4th modification to Directive 76/768 COM(87)74	1987*	1988** (QM)
60. Proposal for a Directive amending Directive 79/581 on consumer protection in the indication of the prices of foodstuffs COM(84)23, COM(87)160	1984 1987*	1985 (QM)
61. Consumer protection in respect of the indication of prices for non-food products COM(83)754	1983	1985 (U)
62. Helicopter exhaust noise COM(81)554	1981	1987 (QM)
63. Proposal for directive on the approximation of Member State laws on products which are misleadingly defined and which could therefore undermine the safety of consumers - COM(86)499	1986*	1987** (QM)
64. Good laboratory practices - non-chemical tests COM(86)698	1986*	1987** (QM)

65. Proposal modifying Directive 84/538 on lawn mower noise COM(86)682, COM(87)133	1986* 1987*	1987** (QM)
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## II. PUBLIC PROCUREMENT

66. Modification of directives on public supplies COM(86)297	1986*	1987** (QM)
67. Modification of directives on public works COM(86)679	1986*	1988** (QM)

## III. FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS

68. Harmonisation of income taxation provisions with respect to freedom of movement of workers within the Community COM(79)737	1979	1985 (U)
69. Transitional measures for access to activities in the technical field and for their exercise COM(69)334	1969	1985 (QM)
70. Coordination of provisions in respect of the training of engineers COM(69)334	1969	1985 (U)
71. Right of Establishment : Proposal for a Directive setting up a general system of mutual recognition of higher education diplomas - COM(85)355 & COM(86)257	1985*	1987 (QM)
72. Right of residence for nationals of Member States not yet or no longer employed COM(79)215 & COM(85)292	1979	1985 (U)

#### IV. COMMON MARKET FOR SERVICES

##### 1. FINANCIAL SERVICES

###### 1-1 Banks

73. Freedom of establishment and freedom to supply services in the field of mortgage credit - COM(84)730	1985	1988 (QM)
74. Reorganisation and winding-up of credit institutions COM(85)788	1985*	1987 (QM)
75. Proposal on the obligations of branches established in a M.S. by credit institutions and financial institutions having their head offices outside that M.S. regarding the publication of annual accounting documents COM(86)396	1986*	1987** (QM)
76. Harmonisation of the concept of own funds COM(86)169	1986*	1986** (QM)
1-2 Insurance		
77. Facilitation of freedom to provide services in insurance other than life insurance - COM(75)516 & COM(78)63	1975	1986 (QM)
78. Coordination of laws relating to legal expenses insurance - COM(79)396 & COM(82)43	1979	1987 (QM)
79. Credit insurance COM(79)459 & COM(82)255	1979	1988 (QM)
80. Insurance contracts COM(79)355 & COM(80)854	1979	1988 (QM)
81. Annual accounts - insurance undertakings COM(86)764	1986*	1989** (QM)
82. Winding up of insurance undertakings COM(86)768	1986*	1989** (QM)

## 1-3 Transactions in securities

83. Information to be published when major holdings in the capital of a listed company are acquired or disposed of COM(85)791	1985*	1988 (QM)
84. Coordination of the requirements for the drawing up, scrutiny and distribution of the prospectus to be published when securities are offered for subscription or sale to the public - COM(80)893, COM(82)441, COM(87)129	1981	1988 (QM)
85. UCITS Directive : Jurisdictional clause COM(86)193	1986*	1986 (QM)
86. UCITS Directive : special measures concerning certain investments COM(86)315	1986*	1987 (QM)
87. Directive on Insider Trading COM(87)111	1987*	1989** (QM)
<b>2 TRANSPORT</b>		
88. Air transport : fares COM(81)590 & COM(84)72	1981	1985 (QM : subject to Art. 75(3))
89. Air transport bilateral agreements, arrangements and memoranda of understanding between Member States COM(84)72 amended by COM(86)677	1984 1986*	1986 (QM : subject to Art. 75(3))
90. Air transport : application of Article 85 EEC COM(84)72 COM(86)328	1984	1987** (QM : subject to Art.75(3))



91. Road transport: organisation of the market (Community quota) for the carriage of goods by road between M. States : transitional and final stages COM(83)340, COM(86)595	1983 1986*	1986/88** (QM : subject to Art.75(3))
92. Inland waterways: goods and passengers. Freedom to provide services by non-resident carriers within a Member State COM(85)610	1985*	1989 (QM : subject to Art. 75(3))
93. Road transport : Goods Freedom to provide services by non resident carriers within a Member State COM(85)611	1985*	1988 (QM : subject to Art. 75(3))
94. Road transport : passengers Freedom to provide services by non-resident carriers within a Member State COM(87)31	1987*	1987** (QM : subject to Art. 75(3))
95. Maritime transport : goods and passengers : freedom to provide services in the sea transport sector within a Member State by non-resident carriers COM(85)90 (4 regulations already adopted by Council in December 1986)	1985	1986 (QM : subject to Art. 75(3)) PARTIALLY ADOPTED Regs 4055 to 4058
96. Road transport : common rules for the international carriage of passengers by road COM(87)79	1987*	1987** (QM : subject to Art.75(3))
<b>3 - NEW TECHNOLOGIES AND SERVICES</b>		
97. Broadcasting activities COM(86)146	1986*	1987** (QM)
98. Proposal for recommendation and directive on pan European radiomobiles COM(87)35	1987*	1987 (QM)

## VI - CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COOPERATION

### 1. Company law

99. Fifth Company Law Directive (structure of public limited companies) COM(72)887 & COM(83)185	1973	1988 (QM)
100. Tenth Directive concerning cross-border mergers - COM(84)727	1985	1987** (QM)
101. Statute for a European Company COM(70)600 & COM(75)150	1970	1990 (U)
102. Proposal for 11th Company Law Directive to dispense branches of certain types of companies from publishing separate accounts COM(86)397	1986	1988** (QM)
103. Proposal for Council directive amending Dir.78/660/EEC on annual accounts and Dir.83/349/EEC on consolidated accounts as regards the scope of those directives (4th and 7th Co.Law directives) COM(86)238	1986*	1987 (QM)
<b>2. Intellectual and industrial property</b>		
104. Regulation on Community trade marks - COM(80)635 & COM(84)470.	1980	1987 (U)
105. First Directive to approximate the laws of Member States relating to trade marks - COM(80)635 & COM(85)793	1980 1985*	1987 (QM)
106. Regulation on the rules needed for implementing the Community Trademark regulation COM(85)844	1985*	1987 (QM)
107. Regulation on rules of procedure for the Boards of Appeal of the Community's Trade Mark office COM(86)742	1986*	1988 (QM)

108. Community trademark office - regulation on fees COM(86)731	1986*	1988 (QM)
<b>3. Taxation (removing tax obstacles to cooperation between enterprises)</b>		
109. Arbitration procedure concerning the elimination of double taxation COM(76)611	1976	1985 (U)
110. Common system of taxation applicable to parent companies and their subsidiaries COM(69)6	1969	1985 (U)
111. Common system of taxation of mergers, divisions and contributions of assets COM(69)5	1969	1985 (U)
112. Harmonization of taxes on transactions in securities COM(76)124	1976	1986 (U)
113. <i>Harmonization of M.S. laws relating to tax arrangements for carryover of losses of undertakings COM(84)404 and COM(85)319</i>	1984	1988 (U)

### **PART III : THE REMOVAL OF FISCAL BARRIERS**

#### **1. V.A.T.**

114. Proposal for a Council Decision providing for a standstill ensuring : - no proliferation of VAT rates in Member States - no widening of the gap between VAT rates in each M.S. COM(85)606 modified by COM(87)17 (See no.123)	1985* 1987*	1986 (U)
115. 14th VAT Directive concerning deferred payment on importation COM(82)402	1982	1985 (U)

116. Proposal on special schemes for small business (includes flat rate farmers proposal now no longer necessary) COM(86)444	1986*	1987** (U)
117. 7th VAT Directive : works of art, collectors' items, antiques and used goods - COM(77)735 & COM(79)249	1978	1986 (U)
118. 12th VAT Directive concerning expenditure on which tax is not deductible - COM(82)870 & COM(84)84	1983	1986 (U)
119. 16th VAT Directive concerning imports by final consumers of goods which have already borne tax in another Member State COM(84)318 & COM(86)163	1984	1986 (U)
120. 18th VAT Directive concerning the abolition of certain derogations (Article 28(3) of Directive 77/388/EEC - COM(84)649	1984	1986 (U)
121. 19th VAT Directive : miscellaneous supplementary and amending provisions of Directive 77/388/EEC COM(84)648	1984	1986 (U)
122. Directive on the stores of ships, aircraft and international trains COM(79)794	1980	1986 (U)
<b>2. EXCISE DUTIES</b>		
123. Proposal for a Council Decision providing for a standstill ensuring no introduction of new excise duties which give rise to border formalities COM(85)606 mod.by COM(87)17 (as No 114 above)	1985* 1987*	1986 (U)

124. Harmonization of the structure of excise duties on alcoholic drinks COM(72)225	1972	1985 (U)
125. Harmonization of the structure of excise duties on alcoholic drinks COM(82)153	1982	1985 (U)
126. Harmonization of the structure of excise duties on alcoholic drinks COM(85)150	1985	1985 (U)
127. Harmonization of the structure of excise duties on alcoholic drinks COM(85)151	1985	1985 (U)
128. Excise duty on wine - COM(72)225	1972	1986 (U)
129. Introduction of a third stage concerning the harmonization of the structure of cigarette duty - COM(80)69	1980	1986 (U)
130. Harmonization of the structure of excises on mineral oils COM(73)1234	1973	1986 (U)

**ANNEX 3**  
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1 MAY 1987

LIST OF COMMISSION PROPOSALS STILL TO BE PRESENTED TO COUNCIL BEFORE 31 DECEMBER 1992 IN THE CONTEXT OF THE COMPLETION OF THE INTERNAL MARKET - WHITE PAPER AND NON-WHITE PAPER

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(1 asterisk indicates delay vis à vis White Paper timetable)

(Initiatives indicated in *ITALICS* were not included in the White Paper timetable)

Subject	Expected Date of Commission Proposal	Expected Date of Council Adoption
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**PART ONE : THE REMOVAL OF PHYSICAL BARRIERS**  
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**1. CONTROL OF GOODS**

**1. Various Controls**  
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Abolition of controls related to means of transport (goods and persons)	1987*	1987
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Completion of work leading to full abolition of all remaining import formalities and controls on goods between member states: - statistical harmonisation	1987	1990
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Full abolition of all remaining import formalities & controls on goods between M.S. Elimination of national protective measures and regional quotas.	1989	1989
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**2. Veterinary and phytosanitary controls**  
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Creation of special veterinary fund to finance eradication schemes for tuberculosis, brucellosis and leukosis in the bovine species, classical swine fever in the Community as a whole and African swine fever in Sardinia, Spain and Portugal	1987*	1988
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First revision of the safeguard clause concerning the veterinary sector : the exporting Member State takes the appropriate measures subject to Community decision	1987*	1988
Formulation of directives concerning animal health problems relating to trade in: - live poultry, poultry meat and hatching eggs	1987*	1988
Formulation of directives concerning animal health problems relating to trade in: - dogs and cats (measures against rabies)	1987*	1988
Live animals of the bovine and porcine species : amend Directive 64/432 to provide for inspection and certification in herd of origin and, when necessary, reinspection at place of destination	1987*	1988
Products of animals of the bovine and porcine species amend Directives 72/461 & 80/215 to provide for inspection and certification at the place of production and re-inspection, in the case of suspicion of fraud at the place of destination	1987*	1988
<i>NB Proposal partially approved - amendment to Directive 80/215</i>		
Poultry products: amend Directive 71/118 to provide for inspection and certification at the place of production and re-inspection, in the case of suspicion of fraud at the place of destination	1987*	1988
Reinforcement of Community checks of application by on-the-spot Commission inspectors (budget proposal)	1987*	1988
Reinforcement of arbitration of disputes	1987*	1988
Application of Community veterinary action programme to control irregularities and fraud in the movement of animals and animal products	1987*	1988

Modification to the rules of frontier controls relating to welfare of animals in international transport in order to attain free movement	1988*	1989
Definition of the role of Community plant health inspectorate (amending Directive 77/93)	1987*	1988
Amendments to Article 15 of Directive 77/93 (improvements to the operation of safeguard provisions)	1987*	1988
Budget proposal enabling establishment of Community health inspectorate	1987*	1988
Proposal for the modification of directive 76/895 (maximum levels for pesticide residues in fruit and vegetables)	1987*	1988
Proposal for a system of certification of reproductive materials in fruit plants	1988*	1989
Proposal for 4 year research programme into effective methods of controlling certain harmful organisms	1987*	1988
Live animals of the bovine species: formulate directives for eradication of contagious bovine pleuro-pneumonia in Portugal	1987	1988
Proposal for directive on trade in embryos of farm animals	1987	1988
Formulation of Directives on animal health problems relating to trade in live animals of the equine species	1988*	1989
Formulation of Directives on animal health problems relating to trade in live animals of the ovine and caprine species	1988*	1989
Formulation of Directives on animal health problems relating to trade in fish and fish products	1988*	1989
Proposals for the limitation of inspections to places of departure and checking of plant health certificates at the places of destination	1987	1988



Establishment of certain rules on liability in respect of plant health	1988*	1989
Brucellosis in small ruminants	1988	1989
Echinocollssis	1988	1989
Formulation of Directives concerning veterinary inspection problems relating to trade in animals not covered by existing Directives	1988	1989
Harmonised health and hygiene conditions for production and trade in shellfish and crustacea and preparation	1988	1989
Harmonised health and hygiene conditions for production and trade in fish and fish products	1988	1990
Harmonised health and hygiene conditions for production and trade in game meat, products and preparations	1988	1990
Pedigree animals not covered by existing Directives	1988	1989
Simplification of annexes in Directive 77/93/EEC (plant health)	1989	1990
Alignment of national standards and Intra-Community standards in plant health	1989	1990
Reduction of role of phytosanitary certificate in Intra-Community trade	1990	1991
Proposal for a system of certification in reproduction materials for decorative plants	1989	1990
Reinforcement of controls of harmful organisms especially in seed potatoes and in fruit plant reproductive material	1987	1989
Revision of labelling rules for foodstuffs drawn up in view of a uniform EEC label	1987	1988
Guidelines for checking requirements in connection with the approval of plant protection production	1987	1988

Extension of application Directives 66/401/EEC, 70/437/EEC and 70/458/EEC to seedlings	1987	1988
Proposal for creation of a European law on plant breeders	1987	1988
Harmonisation of control of foot and mouth disease	1990	1992
Harmonised health conditions for production and trade in food products of animal origin not covered by existing legislation <i>NB : Proposal partially approved by Commission : eggs aspect</i>	1990	1992
Second revision of the safeguard clause concerning the veterinary sector: The exporting Member State takes the appropriate measures in order to avoid specific measures in Intra-Community trade	1991	1992
Pathogens in feedingstuffs	1991	1992
Application of health standards to national products	1991	1992
Suppression of veterinary certificates for animal products and simplification of certificates for live animals	1991	1992
Suppression of plant health certificates	1991	1992
<i>Foot and mouth disease : Community laboratory and Community Institute</i>	1987	1988
<i>Transport of milk in tankers</i>	1987	1988
<i>Directive on organic production of food-stuffs and marketing of organically produced foodstuffs</i>	1987	1988
<i>Rules relating to minced meat and similar</i>	1987	1988

## II. CONTROL OF INDIVIDUALS

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Directive on the control of the acquisition and possession of arms	1987*	1988
Directive on the approximation of drugs legislation	1987	1989
Directive on the coordination of rules concerning the status of third country nationals.	1988	1990
Directive on the coordination of rules concerning the right of asylum and the status of refugees	1988	1990
Directive on the coordination of national visa policies	1988	1990
Directive on the coordination of rules concerning extradition	1989	1991

## PART TWO : THE REMOVAL OF TECHNICAL BARRIERS

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### I. FREE MOVEMENT OF GOODS

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#### 1. New approach in technical harmonisation and standards policy

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Proposal on machine safety	1987	1987
Earth moving equipment	1988*	1989
Radio Interferences	1987	1988
Lifting and loading equipment	1988*	1989
Medical equipment: electro medical implantables	1988	1988
Individual protective devices equipment	1987	1987
Textiles : care labelling	1990*	1991
Gas appliances	1988	1990

## 2. Sectoral proposals concerning approximation of laws

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### 2.1 Motor vehicles

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Revision of European test procedures for gaseous emissions : amendment of Directive 70/220 concerning air pollution (test procedure simulating extra-urban traffic conditions)	1987	1988
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Revision of limit values for gaseous emissions of cars : amendment of Directive 70/220 (limit values for vehicles below 1400 cc)	1987	1988
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Global assessment of protective characteristics of passenger cars in frontal and lateral impact	1988*	1989
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Implementation of EEC type approval scheme for other motor vehicles (buses and coaches, motor cycles)	1989	1990
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### 2.2 Tractors and agricultural machines

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<i>Amendment of Directive 77/536 concerning roll-over protection structures (dynamic test)</i>	1987	1988
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<i>Amendment of Directive 77/537 concerning the emission of pollutants from diesel engines</i>	1987	1988
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### 2.3 Food law

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General Directive on irradiation of foodstuffs	1987	1988
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Additional labelling requirements (nutrition labelling)	1989	1990
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### 2.4 Pharmaceuticals and high-technology medicines

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Extension of Directives to medicinal products not already included	1987	1989
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Amendment to Directive on veterinary medicines	1988*	1989
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Pharmaceutical products: completion of work eliminating obstacles to free circulation of pharmaceutical products	1989	1990
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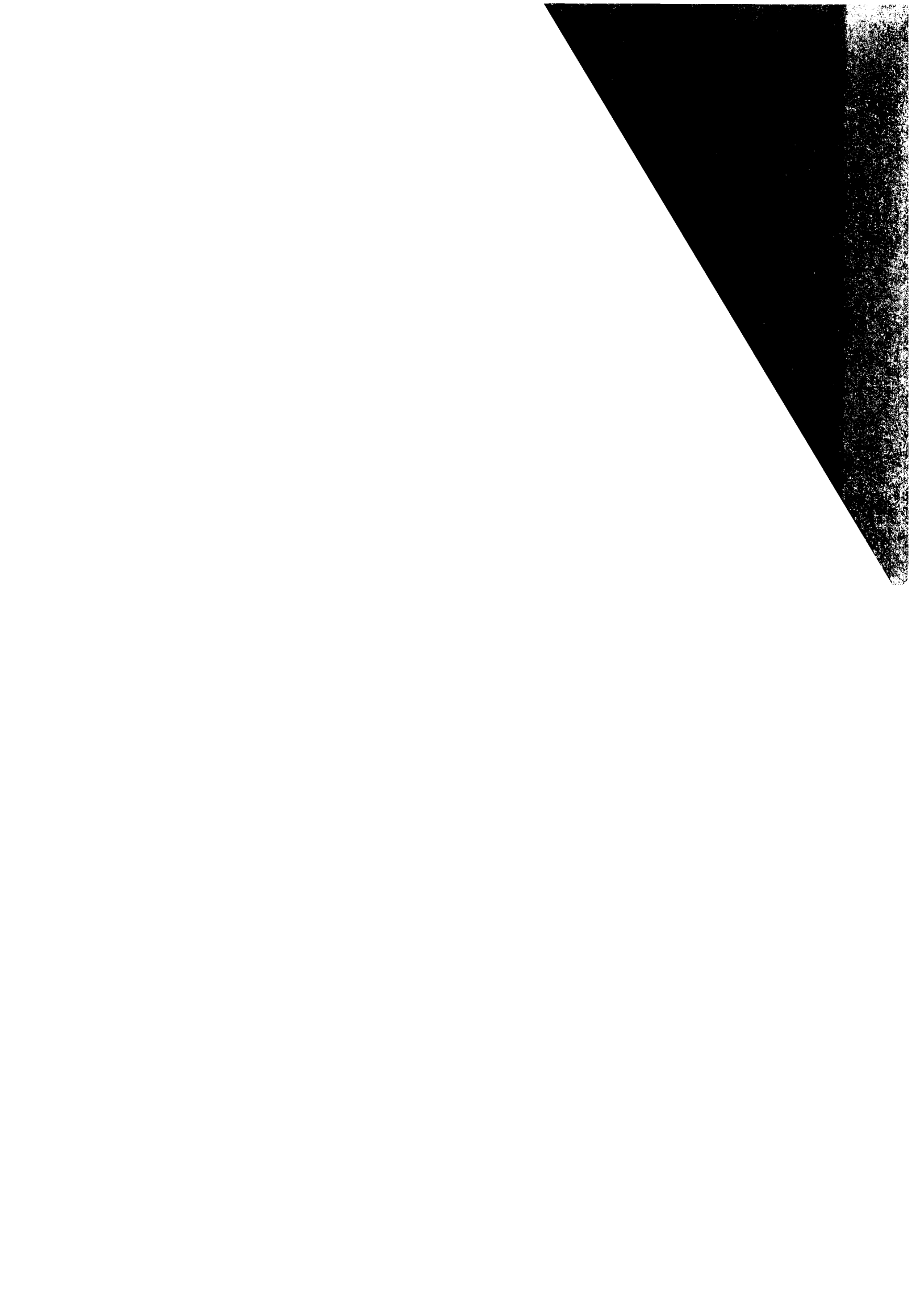
Harmonisation of conditions of distribution to patients	1990	1991
Information for doctors and patients	1990	1991
<b>2.5 Chemical products</b>		
Secondary fertilizers	1987	1989
Oligo-elements in fertilizers	1988	1990
Method of analysis for secondary fertilizers and oligo-elements	1989	1991
<b>2.6 Construction and construction products</b>		
<b>2.7 Other items</b>		
Metrology : certification completion of work	1988/89*	1988/90
Flammability of textiles	1989	1990
<b>II. PUBLIC PROCUREMENT</b>		
Improvement of implementation of public procurement directives	1987	1988
Opening up of public procurement in the excluded sectors : transport, energy, water and telecommunication	1987	1988
Public procurement in the field of services: opening up of markets for priority sectors	1987	1989
Public works procurement: additional harmonisation of procedures	1989	1990
Public procurement of services: other sectors	1989	1991
<b>III. FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS</b>		
<i>Proposal adapting and amending existing directives on doctors, nurses, dentists veterinary surgeons and midwives</i>	1987	1988
Proposal concerning the elimination of cumbersome administrative procedures relating to residence permits.	1987	1988

Proposal concerning the introduction of a European 'vocational training card' proving the qualification of its holders	1989	1990
Assessment of the functioning of the general system of mutual recognition and possible proposal in order to improve it	1990	1991
<b>IV. COMMON MARKET FOR SERVICES</b>		
<b>1. FINANCIAL SERVICES</b>		
<b>1.1 Banks</b>		
Second directive on Coordination of credit institutions	1987	1989
<b>1.2 Insurance</b>		
Proposal for a Third Directive concerning motor liability insurance	1987	1989
Freedom to supply services in the motor liability insurance sector	1988*	1989
Freedom to supply services in the field of life insurance	1988*	1991
<b>1.3 Transactions in securities</b>		
Investment advisors	1987	1989
<b>3. NEW TECHNOLOGIES AND SERVICES</b>		
Gradual opening up of the market in information services	1987*	1988
<b>V. CAPITAL MOVEMENTS</b>		
Liberalisation of transactions concerning mortgages	1987*	1988
<b>VI. CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COOPERATION</b>		
<b>1. Company law</b>		
Liquidation of companies	1987	1989

Proposal for a Directive on take-over bids	1987	1989
Proposal for a Directive on the relationship of undertakings in a group	1988	1990
Amendment to proposal for a Regulation on the Statute for a European Company	1988	1990
<b>2. Intellectual and Industrial property</b>		
Proposal on the site of the Community trademark office and its working language	1987*	1987
Proposal for a Directive on legal protection of biotechnological inventions	1987	1989
Proposal for a Directive to protect computer programs	1987	1989
<b>PART THREE : THE REMOVAL OF FISCAL BARRIERS</b>		
<b>I. V.A.T.</b>		
Passenger transport	1987*	1988
Approximation of VAT rates	1987*	1989
Abolition of fiscal frontiers (includes abolition of derogations with distortive effects)	1987*	1989
Establishment of a VAT Clearing House System	1987	1990
<b>II. EXCISE DUTIES</b>		
Harmonisation of consumption taxes on manufactured tobacco other than cigarettes	1987*	1988
Harmonisation of consumption taxes on cigarettes	1987*	1988
Common rate bands for all harmonised excise duties on alcoholic beverages	1987*	1988

Gradual abolition or reduction of excises not covered by the Common system and giving rise to border formalities	1987	1988/ 1990
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Introduction of a linkage between national bonded warehouses for excise goods	1989	1990
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<i>Common rate bands for all harmonised excise duties on mineral oils</i>	1987	1988
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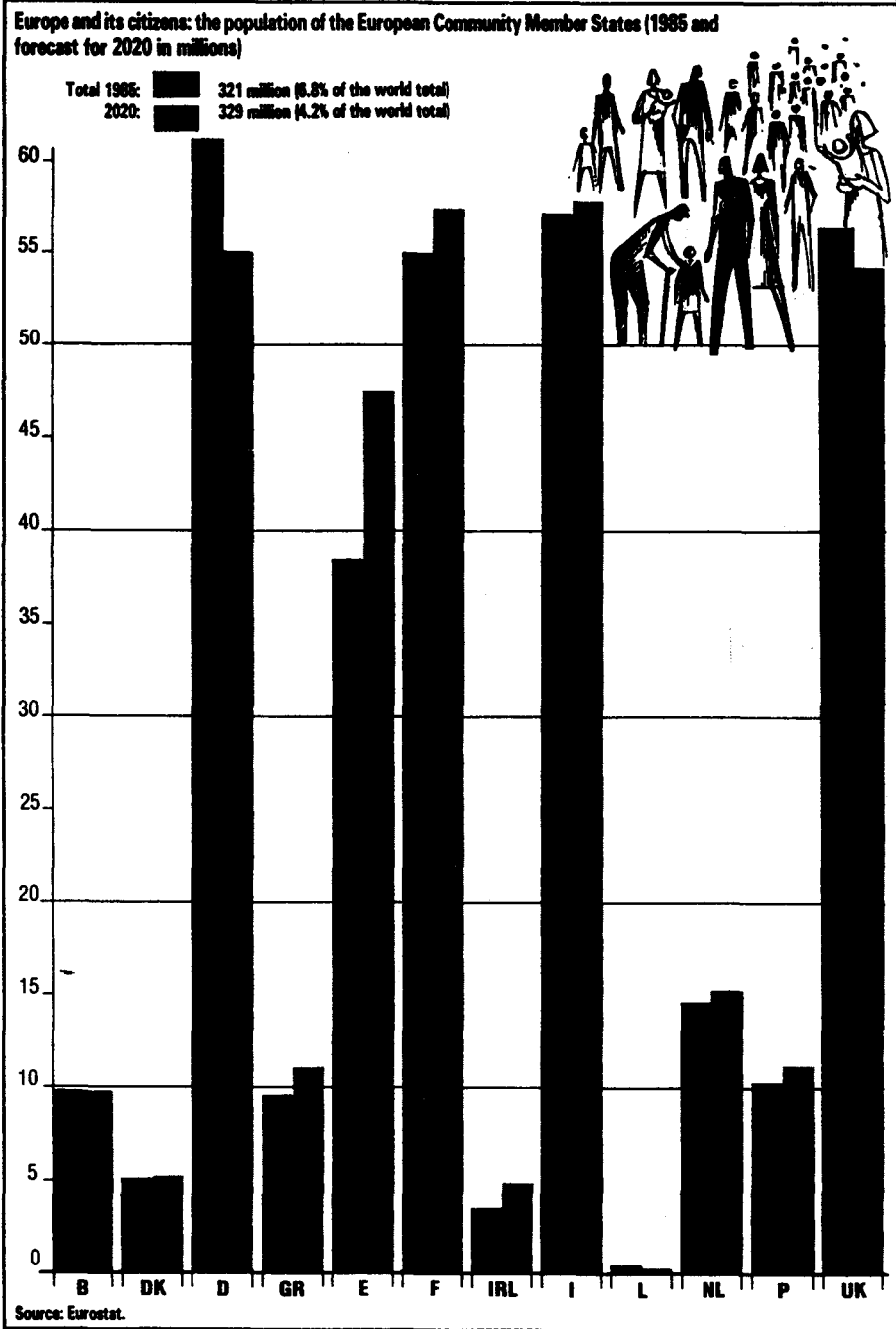












### Living and working in the country of one's choice

The right to settle for long periods in other Member States has already been guaranteed to salaried workers and the self-employed. This right must be extended to all people with sufficient means to avoid burdening the social services of the host country. At the same time an effort must be made to relax the bureaucratic regulations which afflict Community citizens when they live in another Member State. From 1986, for instance, the introduction of a Community driving licence should remove the necessity to acquire new documents when moving to another member country. The temporary importation of motor-vehicles for private use should also be eased.

The citizens of most Member States can already work in any part of the Community they chose. From 1988 this right will apply to wage earners in and from Greece. From 1993, it will apply to Spain and Portugal. Improvements are, nevertheless, necessary:

- The right of establishment should be extended to all. Member countries still restrict the conditions under which the members of certain liberal professions can practise in their territory. In some cases, in the health professions for instance, these conditions have been harmonized throughout the Community. The legislative route to achieving such a harmonization is very lengthy. A new approach is needed for other areas in order to make the right of establishment available to all Community citizens without delay. This new approach should be based on the reciprocal recognition of qualifications, without prior harmonization. The twin foundations of such a policy should be mutual confidence and widespread information. Where discrepancies exist between training requirements, a given number of years of professional experience in the country of origin should be taken as sufficient qualification.
- Professional qualifications acquired in one Member State must be sufficiently transparent to be acceptable in another. There should be a system for comparison of qualifications and also a European professional training card setting out each person's qualifications.
- Finally, there should be new national, bilateral or Community rules to ease the fiscal, monetary or social problems encountered by people living in one member country and working in another, particularly frontier workers.

### Freedom of movement and freedom to buy

The European Community has set a target date of 1992 for the completion of the European internal market. By this date all the physical, technical and financial barriers which, despite the abolition of customs duties, still impede trade within the Community should be removed. European citizens would no longer face checks at internal frontiers. Consumers would enjoy the full benefits of the common market.

To achieve this aim it will be necessary to agree increased Community cooperation on immigration and drugs abuse, common European product standards (or the common acceptance of national standards) and much smaller divergences between national VAT rates. All the same, some measures, which would be of direct benefit to Community citizens, can be introduced immediately:

- The simplification of frontier formalities by extending to all internal borders the system already introduced by some countries: green stickers to allow cars to cross frontiers at reduced speed, but without stopping; specific procedures and gates for Community citizens at ports and airports; a system of occasional spotchecks, at random or in emergencies.
- The gradual merging of frontier posts and checks by adjacent Member States; new measures to make life easier for road hauliers; taxation on coach journeys to be unified in the country of departure.
- The complete revision, or at least the inflation-linked indexation by simplified procedure, of the VAT and excise allowances for travellers and small postal consignments; the abolition of customs acceptance charges on small packages and the introduction of new allowances for newspapers and books sent to individuals. In all cases, beyond these limits, the principle of no double taxation formulated by the European Court of Justice, should be applied.
- Easier access to medical care throughout the Community. Members of health insurance schemes travelling to another Member State can already enjoy the same benefits as local people if they obtain an E111 form from their insurer. But the validity of such forms is limited in time and a more practical system is long overdue. At the same time European norms should be introduced for the information carried on medical cards issued to certain sick people by many Member States to assist medical staff in an emergency.
- More consideration for the needs of border residents: more convenient opening hours for border posts and the organization of cross-border emergency aid, where needed.
- The development of national and Community programmes to assist tourists: radio broadcasts in their own languages; efforts to prevent accidents to tourists, within the framework of the road safety year in 1986; extension of rescue and assistance schemes; better staggering of holidays.
- Continued efforts to create a common market in services, which are all too often restricted to national markets, to the consumer's cost. Many services go beyond national frontiers: telecommunications, air, road and rail transport. In these and other areas the Community must generate new work opportunities for the service professionals and reduced costs for users and consumers.

## To be recognized as a citizen of Europe

Citizens of Member States of the Community are also citizens of the Community itself. Special rights should be accorded them throughout the Community:

- The right to participate in the European elections under equal conditions. Electoral procedures should be made uniform, as the European Parliament has requested. Where a Community citizen is travelling or living abroad at the time of the poll, he should have the right to vote in his home country or country of residence.
- The right of self-expression and assembly should be granted to Community citizens on the same terms as nationals of the host State.
- Those living permanently in another Member State (about 5 million of them) should have the right, after a period of time, to vote and stand in local elections. They should also have the right to be consulted on issues which affect them, such as housing or foreign language teaching.
- Border region residents – taken in the widest sense, 48 million people – should have the right to be consulted when the neighbouring country is contemplating developments which could affect them such as major public works, re-organization of transport or measures affecting ecology, health or safety. The European Commission has suggested local cooperation in these areas as well as in employment, training and regional development.
- The right of all Community citizens to enjoy the full benefits of Community policies. In cases where these conflict with national regulations, the citizen can seek redress in the courts. But things would be easier for ordinary people and their legal rights would be underpinned if Member States ensured the total, straightforward and rapid implementation of Community law. It would also help if this law was, itself, codified and simplified. In all cases superfluous legal provisions should be abolished.
- The right to better access to the administration. First of all, the citizen's right of petition should be strengthened and simplified, as the European Parliament has demanded. A European 'ombudsman' or mediator, or as the Parliament requested a mediating commission, would examine citizens' complaints and could help them to obtain redress.
- The right to adequate information on efforts to develop the European Community. The Community institutions and Member States should cooperate more closely in informing their citizens of the historic reasons for the creation of the Community and the importance of current efforts to develop it further. The same applies to explaining the implications of Community policies and the impact on people's everyday life.

- The right of holders of a European passport – which is now being introduced – to benefit from the assistance of the embassy or consulate of another Member State when visiting a foreign country where his own country is not represented.

### **Working together to help the Third World**

One of the greatest challenges of our time is the development of the Third World. The Community already makes a substantial contribution but it should try to involve its citizens in its efforts.

- The Community should extend its links with the non-governmental organizations which express the personal commitment of many Europeans in the struggle against hunger, poverty and their underlying causes, which require long-term action. Organizations and volunteers from the Member States should be encouraged to cooperate more. Member States should guarantee the social rights of volunteers while abroad, as a Community recommendation invites them to do.
- A Community pilot programme should be launched to develop ways of extending volunteer work to people younger than 25, who would be accompanied by indispensable qualified personnel.

### **Young people, first class citizens of the Community**

Young people are Europe's future. The Community should help them to prepare for this future, which will be increasingly European:

- Exchange programmes should be extended. The Community already supports the exchange of young workers and joint university study programmes. But more needs to be done: to reduce the cost of exchanges, to encourage the twinning of schools, to develop information and advice services, to create a major European programme of school and professional exchanges, which would, like all Community actions, bring the benefits to a wider range of people. In higher education, students should be encouraged to undertake part of their studies in another country through the promotion of an inter-university study and exchange programme. To the mutual recognition of certificates and diplomas there should be added a system of recognition of courses followed in other countries (through, perhaps, a system of transferable credits on the American pattern). There could also be European prizes for excellence, awarded for studies and qualifications undertaken in several countries.
- As European education ministers have already declared, all young people should have the opportunity to gain a working knowledge of two languages apart from their mother tongue (including at least one Community language) before their obligatory schooling ends. Visits by teachers to other member countries

should be made more common. Future language teachers should be encouraged to gain a large part of their linguistic training at source: in the countries where their chosen language is spoken.

- European problems should be discussed more often in the classroom. The necessary structures should be set up at national and Community level. Teachers should be provided with the necessary written and audio-visual teaching materials.
- The Community must help young people to find jobs. Community ministers have already committed themselves to providing, up to 1988, work training or work experience of at least six months to all interested school-leavers. To intensify the struggle against youth unemployment, this guarantee should be extended to one year, or even, if possible, two.
- More Community aid should be given, through a pilot programme, to voluntary holiday workshops which bring together young people from different countries for social, cultural, ecological and archaeological activities.

### **Bringing the Community into everyday life**

A people's Europe must also extend to the everyday concerns and interests of Community citizens, health, sport, culture, television, as well as the symbols of a living Community.

- The European Commission programme on health and dangerous substances should be extended by increased cooperation in areas where joint action is more effective than individual efforts: improvement of living conditions for the handicapped, medical research, the fight against cancer, the prevention of drug addiction, and the treatment and rehabilitation of drugs victims.
- Sport should unite Europeans, not divide them. The ministers responsible should increase their cooperation against stadium violence. At the same time Community competitions should be organized, such as the European yacht race sponsored partly by the European Commission. There should also be more sporting exchanges and European sports events for schools and for the handicapped. At international sports events, national emblems and colours should be accompanied by a Community emblem. Why not, where appropriate, pick Community sports teams?
- The Community should give more support to the practice of 'twinning', which has linked the peoples of many European cities, towns and villages.
- As for radio and television, all the necessary technical and legal provisions should be introduced to allow Community citizens to enjoy their right, conferred by the Treaty of Rome, to watch the greatest possible number of

European television stations, relayed either by cable or satellite. For cultural reasons and also for economic reasons (especially the threat of American and Japanese competition) a special effort is needed to promote the production and showing of European programmes. European co-production should receive financial support. A multilingual European television channel should be created. Other initiatives are possible within the framework of a European cinema and television year in 1988, the centenary of the 'seventh art'.

- Also in the cultural field, it would be desirable to set up a European Academy of Science, Technology and Arts. This would be an independent body, intended to reflect the richness and originality of European civilization. It would give opinions and award European prizes. At the same time steps should be taken to ensure that the reduced prices offered by museums and theatres, especially to the young, should be available to all nationalities. Finally, consideration could be given to the creation of a European lottery to provide financial support for Community cultural activities.
- The Community should strengthen its identity by making use of the language of signs and symbols which helps people to express themselves, to communicate and to identify one another in everyday life. First of all the Community should have its own flag and its own emblem — twelve stars and a Greek 'E' in gold against a blue background. It should also have an official anthem — Beethoven's hymn to joy. There should be a Europe Day each year to mark the anniversary of the 9 May declaration by Robert Schuman in 1950 which led to the creation of the Community. The day could be used to transmit information on the Community on television and to schools. Other measures should include the design of postage stamps with Community themes and extend internal postal rates in each country to letters and parcels sent anywhere in the Community. Finally, to make a distinction between the external and internal frontiers of the Community, signs proclaiming 'Customs' should be removed between Member States. Customs duties have already been abolished within the Community and Member States are being urged to remove all frontier controls, for taxation or any other purpose, by 1992.

△

The conclusions of the People's Europe Committee received the political assent of Community Heads of State or Government. They have also been approved by the European Parliament. Their implementation will require either new laws and regulations or changes in mentality and behaviour. The European Commission has already made many proposals in this area. Some have been adopted. The Community Council of Ministers increased the franchise on small postal consignments (now £58 or Ir. £72) and travellers' allowances (£207 or Ir. £252 for each adult

and Ir. £64<sup>1</sup> for each child). The council also approved directives on the comparability of professional qualifications and the right of establishment of architects and pharmacists. It is now up to the Council of Ministers and the Member States to take rapid decisions on other measures which would make a people's Europe a reality ■

<sup>1</sup> However, Ireland applies a tax on individual objects above Ir. £55 in value.



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# Towards a people's Europe

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## Commission of the European Communities

Information offices (countries fully or partially English speaking\*)

**Ireland** 39 Molesworth Street, Dublin 2 — Tel. 71 22 44

**United Kingdom** 8 Storey's Gate, London SW1P 3AT — Tel. 222 81 22  
— 4 Cathedral Road, Cardiff CF1 9SG — Tel. 371631  
— 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 2058  
— Windsor House, 9/15 Bedford Street,  
Belfast BT2 7EG — Tel. 40708

**Australia** Capitol Centre, Franklin Street, PO Box 609,  
Manuka 2603, Canberra ACT — Tel. (062) 95 50 00

**Canada** Office Tower, Suite 1110, 350 Sparks Street,  
Ottawa Ont. K1R 7S8 — Tel. (613) 238 64 64

**USA** 2100 M Street, NW, Suite 707,  
Washington DC 20037 - USA — Tel. (202) 862-9500  
— 245 East 47th Street, 1 Dag Hammarskjöld Plaza,  
New York, NY 10017 - USA — Tel. (212) 371-3804

\* Offices also exist in other countries including all Member States.



**T**he European Community is all very well but what does it do for me? What effect does it have on my everyday life? At the June 1984 meeting of the European Council, the Community Heads of State or Government set up an *ad hoc* committee for a people's Europe to suggest ways of strengthening the identity and improving the image of the Community, partly in order to answer the above questions.

The committee was made up of the personal representatives of the Heads of State or Government and the President of the European Commission. It was chaired by the Italian representative, Mr Adonnino. Before winding up its work, it sent two reports to the European Council, the first in March 1985 and the second in June 1985. The Heads of State or Government approved the reports and asked the Community institutions and member governments to implement rapidly their conclusions.

### **Urgent measures with long term implications**

Some of the proposals of the People's Europe Committee are new. Others endorse and extend work already in progress. The Committee made reference for example to numerous demands from the European Parliament and proposals from the European Commission for the abolition of all frontier checks by 1992. But the personal representatives of the Heads of State or Government put the greatest emphasis on measures capable of being rapidly implemented while the political will exists. The committee has not, therefore, covered the whole field. It has concentrated on measures which will have an impact on people's everyday lives and help further the closer union of the peoples of Europe.

Such a union is a fundamental objective of the Community, whose aims are not purely or even essentially economic. The European treaties aim, by strengthening 'the unity of economies', to 'confirm the solidarity which binds Europe' and bring about 'an ever closer union among the European peoples' which will in turn 'strengthen the cause of peace and liberty'.

Successive wars cost the lives of millions of men and women and left Europe ravaged, ruined, divided and weakened in comparison with other parts of the world. It was to break with this disastrous cycle of conflict that the founding States made a formal gesture of reconciliation and solidarity and founded the Community in 1951.

Thirty-five years later, in a world still troubled and uncertain — a world in which Europe can only keep up through increased cooperation — the development of the Community is essential. To this end, the new generations must be given concrete evidence of the advantages of Community solidarity. They must learn to get to know and understand one another across Community frontiers. This is the main finding of the People's Europe Committee, whose conclusions are summarized below.





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Brussels, July 1987

**EUROPE WITHOUT FRONTIERS**

**The Commission's blueprint for eliminating the  
necessity of fiscal controls at frontiers.**

A single market in which people would be free to go where they like, to buy what they like without having to fear the taxman at the frontier. No customs checks, no fiscal controls. It is true that the Customs' Union was completed in 1968, but frontiers remain. It is chiefly because of the differences between indirect taxation rates - VAT and excises - applied by Member States that checks at border crossings are justified. The Single European Act calls for the creation of a single internal market, an area of economic activity totally free of internal borders. The Commission's White Paper has spelled out the detail of this project and the approximation of indirect taxation within the Community is a fundamental requirement for this purpose. This will be one of the most delicate tasks to fulfil because of the role of indirect taxation in national budgeting.

VAT and excise duties brought close enough within Europe to make frontier checks unnecessary. Two VAT rate bands - a standard rate, and a lower one for basic necessities - and a set of common excise duties. A 5-6% margin of manoeuvre in each case for the Member States. For business a simplification of trade with other Member States. The Commission were asked by the heads of government to propose such a plan. That is what the Commission have now done. The dialogue with the Member States on what is a key ingredient of the programme to abolish controls at internal frontiers can now begin.

The Commission's mandate was not to create an upheaval of national taxation systems but to devise, on the basis of existing situations, a recipe for approximation which could guarantee the best possible fiscal environment for economic operators while at the same time disturbing as little as possible national fiscal policies.

The proposals embody a considerable degree of flexibility to enable Member States to decide within the margins provided: the general principle followed has been that of causing the minimum disturbance for the maximum number of Member States. In addition the view expressed in the White Paper of 1985 that there may be a need for derogations to meet cases of particular difficulty is reaffirmed as a matter of importance particularly to those Member States applying zero rates.

Fiscal approximation is the key to the abolition of internal frontiers. As long as there are internal frontiers and controls the internal market will not be complete. The most direct and immediate benefit will accrue to industry and commerce as the administrative costs of fiscal frontier formalities disappear and as the time spent in transporting goods is reduced. Relieved of these costs, business in the Community will become more competitive both in the internal market and internationally. This in turn should increase marketing potential and new opportunities for economies of scale in the manufacturing process.

But the main beneficiary will no doubt be the citizen of Europe who will be able to travel and go after his business in the Community without meeting any obstacles at internal borders.

#### The White Paper provided the strategy

The White Paper on completing the Internal market presented the Community with a clear and vital choice:

"Europe stands at the cross-roads. We either go ahead - with resolution and determination - or we drop back into mediocrity. We can now either resolve to complete the integration of the economies of Europe; or through a lack of political will to face the immense problems involved, we can simply allow Europe to develop into no more than a free trade area.

The difference is crucial. A well-developed free trade area offers significant advantages: it is something much better than that which existed before the Treaty of Rome; better even than that which exists today. But it would fail and fail dismally to release the energies of the people of Europe; it would fail to deploy Europe's immense resources to the maximum advantage; and it would fail to satisfy the aspirations of the people of Europe."

The Commission's White Paper on completing the internal market laid down a comprehensive programme for creating a Europe without frontiers by 1992. Europe's stagnation and relative decline over the past decade or more have been in considerable measure due to the fact that the countries of the European Community, for all their common heritage and common interest, remain a fragmented economy, divided into a dozen separate markets. It is to create a single economic base, a single home market of 320 million people, that the Community has determined to complete the integration of its internal market by 1992. Only such an integrated, undivided Europe can offer the benefit of the sort of single large home market on which the performance of our most successful competitors is based.

The Commission's White Paper was endorsed by the heads of State and government at Milan 1985 and has since been universally accepted as the foundation for a rebirth of European aspirations. The Single European Act establishes as a legal commitment the objective of "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured". That means a Community without internal frontiers - not fewer or simpler frontier controls, but no divisive frontiers at all.

The present controls at the internal frontiers of the Community are used by Member States to enforce a wide range of policies. Much the most important of these is fiscal policy. If we are to abolish the internal frontiers which at present divide us, it is vital to deal with fiscal frontiers and the underlying reasons for their existence. This is something which has been accepted ever since the founding of the Community and was most recently reaffirmed in the Single European Act itself.

The European Council had asked the ECO/FIN Council to examine the fiscal chapter of the White Paper. This led to a report which concluded that fiscal approximation was indeed necessary, as the Commission had said, if fiscal frontiers were to be abolished. But the Member States were not able to decide whether the measures envisaged by the Commission were ultimately acceptable to them until full details of the measures as a whole were available. Only when they could see clearly

- the financial, budgetary, economic and social consequences of the measures for them, and
- the practical consequences for both the economy and individuals and the national budget entailed by the clearing mechanism,

would each of them be in a position to weigh up the advantages and disadvantages.

### The Commission meets the challenge

The Commission has now tabled a detailed package of proposals on rates and rate structure of Indirect taxation which make it possible for the dialogue with Member States and the European Parliament to go forward.

The Commission has taken as its starting point a snapshot of the existing wide spread of indirect tax rates and structures in the Community. It has then confined itself to setting out the minimum changes which must be made to that picture in order to achieve a sufficient degree of fiscal approximation. The Commission plan is therefore - and that must be clearly understood - not an attempt to design an ideal fiscal system for the Community, but a blueprint for abolition of fiscal frontiers. It is in that spirit that the Commission has tried to find the most practical possible solutions; and it is in that spirit, and taking possible problems of adjustment into account, that they are presented and must be studied. That is the job which the Commission was asked to do.

#### • VAT

Most Member States with the exception of Denmark and the United Kingdom currently apply at least two VAT rates. Setting aside zero rates the lowest rate applicable in early 1987 was 1% (Belgium) and the highest rate was 38% (Italy). In theory, the easiest solution would be to retain a single rate but in practice this is unrealistic and would entail unacceptable consequences for several Member States. On the other hand, common sense says that a multiple rate system would be almost unmanageable. The only real choice is therefore between a system with two rates or a system with three rates. The Commission chose two rates: a standard rate and a reduced rate.

#### Number of rates

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- a standard rate
- a reduced rate, for items of basic necessity, namely:
  - . foodstuffs
  - . energy for heating and lighting
  - . water
  - . pharmaceuticals
  - . books, newspapers and periodicals
  - . passenger transport.



### Rate levels

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- standard rate: between 14% and 20%
- reduced rate: between 4% and 9%

Member States would be free to fix their national rates at any point within these 5/6 percentage point margins. However, in view of the inclusion of certain sensitive sectors, such as the cultural sector, the Commission recommends that Member States fix the applicable rate in the lower half of the band for reduced rates.

### Zero rates

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The proposal that items of basic necessity should be charged at a reduced rate follows the position adopted in most Member States. Zero rates are applied extensively only by two Member States but for them are a matter of importance. The Commission has always recognized that derogations may be necessary to meet cases of particular difficulty and this was stated in the White Paper itself. This is a matter where only the Member State itself can judge the effect of the proposals on their own particular circumstances and the next step must therefore rest with them. The Commission has deliberately left the door open. It is for the Member State in the first instance to decide whether having regard to all the implications they would wish to go through this door. The Commission would then have to proceed from there.

### \* Excises

Here again the Commission has been guided by the concern to create as little disturbance as possible to national fiscal systems while at the same time offering evenhanded solutions. The problems are more complex than for VAT because the taxation base as well as the rates vary between Member States. Also VAT is calculated on the price of goods including the excises and it is therefore not possible to envisage the same flexibility for excises as for VAT without risking to explode the VAT bands mentioned above. Thus the Commission has made specific proposals for each product. In addition it has taken into account a number of non fiscal requirements such as for instance the fight against cancer in the case of tobacco excises.

#### Alcoholic drinks

#### Amounts in ECU

Alcohol for beverages (per hl of pure alcohol)	1 271
Intermediate products (per hl)	85
Wine (per hl) (average 11% vol)	17
Beer (per hl) (average 12.50 plato)	17

Manufactured tobaccos

Cigarettes (specific excise per 1000)	19.5 ECU
ad val + VAT (in % of retail price)	52% - 54%
Cigars and cigarillos	
ad val + VAT (in % of retail price)	34% - 36%
Smoking tobacco	
ad val + VAT (in % of retail price)	54% - 56%
Other manufactured tobacco	
ad val + VAT (in % of retail price)	41% - 43%

Mineral oils

Petrol, leaded, and medium oils used as road fuel per 1000 l	340 ECU
Petrol, unleaded per 1000 l	310 ECU
Liquified petroleum gas (LPG) per 1000 l	85 ECU
Diesel (gas-oil) per 1000 l	177 ECU
Gas-oil for heating purposes and medium oils used as fuel other than road and aviation fuel	50 ECU
Heavy fuel oil per 1000 kg	17 ECU

\* A clearing mechanism

The clearing mechanism will ensure that Member States which are substantial exporters will not unduly loose out because VAT is collected in the Member State of final consumption. It involves a central account to which Member States will pay or from which they will draw according to whether they are net exporters or net importers. It will be based on the normal VAT returns from traders and not add any new administrative burden.

For excise duties, no such system is needed, since these are not charged until the goods are released from bond, normally in the country in which they are to be sold to the final consumer.

\* Timetable

Community rates for VAT and the excise duties should enter into force no later than 31 December 1992. Member States will be free to work towards these rates in the intervening period. The Commission will monitor this progress and report periodically to the Council.

The Commission also puts forward a Convergence Proposal which replaces the standstill proposal currently before the Council. This proposal, which covers both the VAT rates and the main excise duty rates, aims to ensure that Member States do not diverge between now and 1992 from the overall objective.

\*

\* \*

The Commission has tried to keep possible adverse effects of approximation for Member States revenue and budgetary flexibility to a minimum, but the path to abolition of fiscal frontiers in 1992 will be an easier one to tread for some Member States than for others. Some aspects may cause extreme difficulty in some cases. The Community as a whole - the Member States and the Commission working together - will have to find ways, including the possibility of derogations where these can be justified, of easing the path for those of its members for whom the implementations of the proposals could pose political, social or budgetary problems. A major element of flexibility lies in the fact that Member States will be free to determine their own path to 1992 and the pace at which they travel along it. The Council and the Commission will monitor the pattern of progress and may propose solutions to difficulties which might arise.

The overall budgetary and macro-economic effects of these proposals are difficult to estimate with any certainty. Member States will need to be involved in evaluating them, but one may note already that a number of factors such as elasticities of demand, the fact that in low taxation situations traders might seek higher profit margins, the potential for increased transfrontier trade as well as for new patterns of consumption will be of relevance.

It is also important to note that the Commission is aware of the serious difficulties which the implementation of these proposals might create for some Member States because of differences in economic development. The Commission confirms its willingness to consider appropriate solutions either in the form of derogations of a temporary nature which will not call into question the principle of the integrality of the internal market and more particularly the abolition of internal frontiers, or through making use of Community policy instruments designed to reduce regional imbalances in the Community.

I. The present situation concerning VAT and excises requires border controls

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a) VAT In Member States

	Reduced	Standard	Increased
Belgium	1 and 6	19	25 & 25+8
Denmark	-	22	-
France	2.1 & 4 5.5 & 7	18.6	33 1/3
Germany	7	14	-
Greece	6	18	36
Ireland	2.2 & 10	25	-
Italy	2 et 9	18	38
Luxembourg	3 et 6	12	-
Netherlands	6	20	-
Portugal	8	16	30
Spain	6	12	33
United Kingdom	-	15	-

b) Excises in ECU

	B	DE	G	F	GR	IRL	I	L	NL	UK	SP	P
<b>1. ALCOHOLIC BEVERAGES</b>												
1.1												
Excise duty charged on 1 Hl of average wine	32.59	197.44	20.22	3.30	0.00	278.84	0.00	13.29	23.30	154.32	0.00	0.00
1.2												
Excise duty charged on 1 Hl of pure alcohol	1251.78	3498.66	1178.98	1148.82	47.66	2721.78	230.25	841.91	1298.09	2483.36	308.90	248.24
1.3												
Excise duty charged on 1 Hl of average beer	10.20	56.86	6.56	2.93	10.27	81.45	16.96	4.90	20.00	48.75	2.57	6.51
1.4												
Excise duty charged on 1 Hl of average intermediate product	61.00	292.39	70.44	5.70	1.97	484.32	9.66	41.00	63.31	286.00	0.00	0.00
<b>2. MINERAL OILS (2)</b>												
2.1												
Excise duty charged on 1000 litres of standard petrol	260.94	672.50	255.77	368.74	348.81	361.50	557.34	208.75	340.33	270.69	253.87	351.53
2.2												
Excise duty charged on 1000 litres of road diesel	122.51	236.25	213.29	190.49	106.38	279.08	177.62	100.18	108.33	228.92	123.51	161.77
2.3												
Excise duty charged on 1000 litres of heating gasoil	0.00	236.25	8.11	53.21	108.66	48.04	177.62	0.00	43.66	15.36	38.42	23.24
2.4												
Excise duty charged on 1000 kg of heavy fuel-oil	0.00	265.62	7.24	24.63	93.12	10.28	6.77	2.33	14.64	11.20	0.69	10.89
2.5												
Excise duty charged on 1000 litres of LPG	0.00	163.46	159.61	137.74	39.65	222.39	95.85	20.97	0.00	1353.43	27.42	16.80
<b>3. CIGARETTES</b>												
3.1												
Specific excise duty charged on 1000 average cigarettes	2.49	77.49	27.27	1.33	0.61	48.94	1.83	1.72	25.99	42.75	0.69	2.23
Ad-valorem excise duty plus VAT as a % of the retail price of cigarettes												
	66.36%	39.25%	43.78%	71.06%	60.42%	33.61%	68.64%	63.55%	35.73%	34.04%	51.94%	64.82%

Notes

(1) This represents the effective average excise rate on wine in Germany calculated according to the respective quantities of still wine (which is not subject to excise) and sparkling wine (which is subject to excise) consumed.

(2) In calculating averages account has been taken of partial or total refunds of excise to certain users which result in a lower effective rate than the nominal rate quoted.

## II. Other indirect taxes

Other indirect taxes within the Community, such as taxes on the registration of vehicles, on the purchase of houses, stamp duties on transactions and documents, entertainment tax, etc. also vary considerably from Member State to Member State. Those variations can be such as to cause distortions of competition and deflection of trade. But they do not impede the free movement of goods in the sense that the differences between them do not give rise to controls of formalities at frontiers. The Commission actively pursues cases in which such indirect taxes breach the rules of the Treaty, but does not consider their approximation to be a necessary part of the abolition of fiscal frontiers.

## III. Zero rates

It has always been an accepted part of Community policy that zero rating, except in the case of exports, was a temporary measure which would disappear with the completion of the Internal Market. This was clearly stated in the second VAT Directive adopted in 1967 and restated in the Sixth VAT Directive adopted in 1977.

The zero rating of supplies generally acknowledged as basic necessities rests upon considerations of social policy; though it is a less efficient way of achieving such objectives than measures more closely targeted towards those in need. Only two Member States have followed such policies to any significant degree; the other Member States have successfully accommodated themselves to a broadly based concept of the VAT without the extensive use of zero rating. This has been achieved by direct compensation of disadvantaged groups through the social security system and welfare payments, thus directly benefiting the groups primarily affected in a more cost-effective way than is achieved by a fiscal price subsidy.

Zero rating, by giving a price advantage to the products of one Member State, distorts competition within the Community; this is particularly true when applied to supplies which feed through into industrial and commercial costs. Finally, it needs to be remembered that, for any given yield of revenue, zero rating in one area must inevitably lead to a higher overall rate of tax elsewhere; if, in a two-rate system, 50% of consumer expenditure is exempted by zero rating, the rate of tax elsewhere necessarily has to be twice what it would have been if there had been comprehensive coverage.

**EXAMPLE: In 1993, if you buy a car in the EEC, what VAT is applicable?**

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After 1992 all Member States will, under the present proposals, charge VAT on cars at rates between 14% and 20%. Cars, like everything else, will bear VAT at the rate which is in force in the country in which they are sold, regardless of the make or origin of the car.

If, after 1992, France charged VAT at 20% and Germany charged VAT at 14% any car (whether German, French or of any other origin) would be taxed at 19% if bought in France and at 14% if bought in Germany.

This means that, on each national market all cars will be charged to VAT at an equal rate. After 1992 however, the internal market will mean that a Frenchman can buy a car - or anything else - in Germany, pay VAT there, and return to France with it. If that Frenchman is a private individual, he will undergo no further VAT formalities. (He may, of course, have to pay registration taxes etc. in France, which may or may not differentiate between types or sizes of car, but such taxes do not involve controls at frontiers.) If the Frenchman is a taxable person, e.g. a motor dealer, he will reclaim in France as input tax the VAT which he paid (at German rates) on his purchase in Germany; and he will then charge the French rate of VAT on his sale of the car in France. The clearing mechanism will ensure that the French Finance Minister receives from Germans the input VAT which was reimbursed by France to the dealer, but which was in fact paid by the dealer to the German authorities (this will not, of course, happen in relation of individual transactions but will compensate for the sum of such transactions for the two countries as a whole).





# The approximation of European tax systems

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## Commission of the European Communities

Information offices (countries fully or partially English speaking\*)

**Ireland** 39 Molesworth Street, Dublin 2 — Tel. 71 22 44

**United Kingdom** 8 Storey's Gate, London SW1P 3AT — Tel. 222 81 22  
— 4 Cathedral Road, Cardiff CF1 9SG — Tel. 371631  
— 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 2058  
— Windsor House, 9/15 Bedford Street,  
Belfast BT2 7EG — Tel. 40708

**Australia** Capitol Centre, Franklin Street, PO Box 609,  
Manuka 2603, Canberra ACT — Tel. (062) 95 50 00

**Canada** Office Tower, Suite 1110, 350 Sparks Street,  
Ottawa Ont. K1R 7S8 — Tel. (613) 238 64 64

**USA** 2100 M Street, NW, Suite 707,  
Washington DC 20037 - USA — Tel. (202) 862-9500  
— 245 East 47th Street, 1 Dag Hammarskjöld Plaza,  
New York, NY 10017 - USA — Tel. (212) 371-3804

\* Offices also exist in other countries including all Member States.



European File

To transform the European common market into an area without internal frontiers by 1992: that is the objective set out in a European Commission white paper on 'Completing the internal market'. The objective was approved by the Heads of State or Government at the Milan European Council in June 1985. It is formally asserted by the new draft European treaty, which is meant to supplement the Treaty of Rome and which national parliaments should ratify before the end of 1986. The abolition of internal customs duties has already been passed into EEC law; the creation of an area without frontiers involves abolishing also the physical, technical and fiscal barriers which still obstruct trade between the countries of the European Community.<sup>1</sup>

In line for abolition are a whole range of national 'preserves', created especially by differing national laws and technical standards, as well as by public procurement practices. At the same time, a closer approximation of the different systems of VAT and excise duties will make it possible to eliminate fiscal barriers: these are the countervailing measures (remission of tax on exports and taxation of imports) and frontier checks arising from excessive divergences in levels of taxation. In this way the European Union which is in course of formation will become a tangible reality for its citizens. The other effect will be to give a boost to the European economy, to its international competitiveness and to the number of jobs it can provide:

- Trade between Community countries will begin again to grow faster than trade with the rest of the world, as happened when internal customs duties were dismantled;
- Competition will be intensified among businesses that can take advantage of a large area without frontiers, which will favour economies of scale and make investment in advanced technology profitable;
- A range of costs will be lowered by this increased competition, as well as by the elimination of formalities and loss of time at frontiers.

So European firms, having available to them an internal market of continental dimensions, will be able to compete on equal terms with their American and Japanese rivals. Above all, the Community's 320 million citizens, consumers and taxpayers will gain better employment prospects, and will save the tens of thousands of millions of ECU<sup>2</sup> that are the cost of today's 'non-Europe'.

### **The Community and taxation**

The volume and role of taxation have increased with the growth of government intervention in social affairs and in the economy. Still, nobody is suggesting that the

<sup>1</sup> This file replaces our No 10/84.

<sup>2</sup> 1 ECU (European currency unit) = about £0.63, Ir. £0.71 or US \$0.92 (at exchange rates current on 10 April 1986).

Community implement a fiscal policy analogous to those of Member States. The reason is twofold:

- Though financed by the Community's own resources (customs duties and levies on products imported from the rest of the world, as well as a share of VAT), the Community budget represents only about 3% of the sum of national budgets.
- Though the countries of the Community are increasingly fixing certain economic objectives in common (curbs on inflation, growth rates, etc.), the elaboration of economic and social policy and the means of putting them into effect (fiscal means in particular) are generally left to the discretion of each Member State.

In general, therefore, the Community's activity in the area of taxation is limited to those tasks which are essential for the achievement of its principal objectives, particularly:

- The establishment and completion of a common market, based on the free circulation of people, goods, services and capital between Member States, and on conditions of healthy competition. It is in this context that the countries of the Community are now called upon to accelerate the approximation of their systems of indirect taxation, so that fiscal barriers can be eliminated.
- The implementation of certain common policies (agricultural, regional, social, industrial, research, etc.) which can entail the removal of other obstacles or distortions of a fiscal nature.
- The alignment of the economic policies of Member States, as part of the gradual achievement of an economic and monetary union.

Despite these limited aims, Community activity in this field has proved especially arduous. Every decision relating to taxation effectively requires unanimous agreement of the Council of Ministers.

- As a result, the pace of achievement has up to now been very slow. This is all the more understandable in that taxation policy is traditionally an essential element of national sovereignty. Moreover, it is a complex field, extremely technical, varying considerably from one country to another, and it is a subject on which public opinion is very sensitive (a type of tax relatively well accepted in one country may be much less so in another).
- Contrary to the provision being made for other fields of Community activity, the current revision of the European treaties will unfortunately not eliminate this unanimity requirement. It can only be hoped that the importance of what is at stake, together with the interdependence of the different measures required for the completion of the internal market, will help bring about a consensus.

### **Indirect taxation: ways and means of approximation**

The approximation of indirect taxes imposed on the production or consumption of goods and services is one of the three central themes of the European Commission's white paper on completing the internal market. Effectively, the existing differences between national systems:

- can cause distortions in production costs and selling prices, and hence in the conditions of competition;
- force Member States as a result to maintain frontier formalities and controls, in order to forestall these distortions and prevent deflection of trade and the growth of tax evasion.

The present situation can be described as follows:

- VAT.* Two Community directives adopted in 1967 provided for the general application of value-added tax. They eliminated the remaining 'cascade' taxes, the cumulative nature of which hampered economic activity and the growth of trade. A feature of VAT is its economic neutrality. At each stage in the making or marketing of a product, the tax paid at the preceding stage is deducted from that payable by the vendor. In this way the tax burden remains proportionate to the value of the goods or services, no matter how many transactions they have been through. The common VAT system is already applied in Spain, which joined the Community at the start of 1986. It is due to apply in Greece from 1987, and the Portuguese system will be brought into line with the Community model between now and 1989.

In 1977 the Community Member States reached agreement on a common basis for assessing VAT, albeit subject to many exceptions. It was enough to enable the Community to collect on this basis part of its own resources for the financing of its budget. The VAT available to the Community was subject to a maximum rate, which has just been raised from 1% to 1.4% on the uniform basis. Later directives harmonized the rules for reimbursement of VAT to taxable persons residing in another Member State, as well as the arrangements for hiring-out of moveable tangible property, certain final or temporary imports, etc.

- Excise duties.* These duties are imposed on certain specific products such as alcoholic drinks, manufactured tobacco, and fuels. Despite numerous proposals by the European Commission, the only common regulations so far adopted relate to the structure of duty on cigarettes. Acting on complaints by the Commission, the European Court of Justice has also delivered judgments which made several Member States give up fiscal measures favouring home-produced spirits to the detriment of imported products.
- Tax-free allowances.* Allowances free of VAT and duty have been established for travellers, but the European Commission has to keep up a constant fight to see

that they rise in line with the cost of living. At the moment these allowances cover limited quantities of tobacco products, spirits, coffee, tea and perfume, as well as imports to the value of £207 for each traveller, or Ir. £252 for each adult and Ir. £64 for each child.<sup>1</sup> Specific allowances have also been established for small postal consignments (£58 or Ir. £72), for temporary importation of certain means of transport, and for final importation of personal property in case of removal of residence, marriage or inheritance.

So, however uneven or incomplete its successes, the Community is not inexperienced in the approximation of tax systems. What is now required is to go further and faster, so that fiscal barriers may be removed in 1992.

How close does the approximation have to be? Close enough to avoid distortion or deflection of trade, or effects on competition. The experience of the United States is instructive: there one finds scarcely any problems as long as the tax rates of neighbouring States diverge by no more than 5% of the value of a product. In other words, it is not necessary to go as far as having identical rates of taxation; because of other factors (convenience, quality of service, habits, etc.), the consumer is relatively insensitive to price differences resulting from a tax rate of, say, 14% in one place and 19% in another.

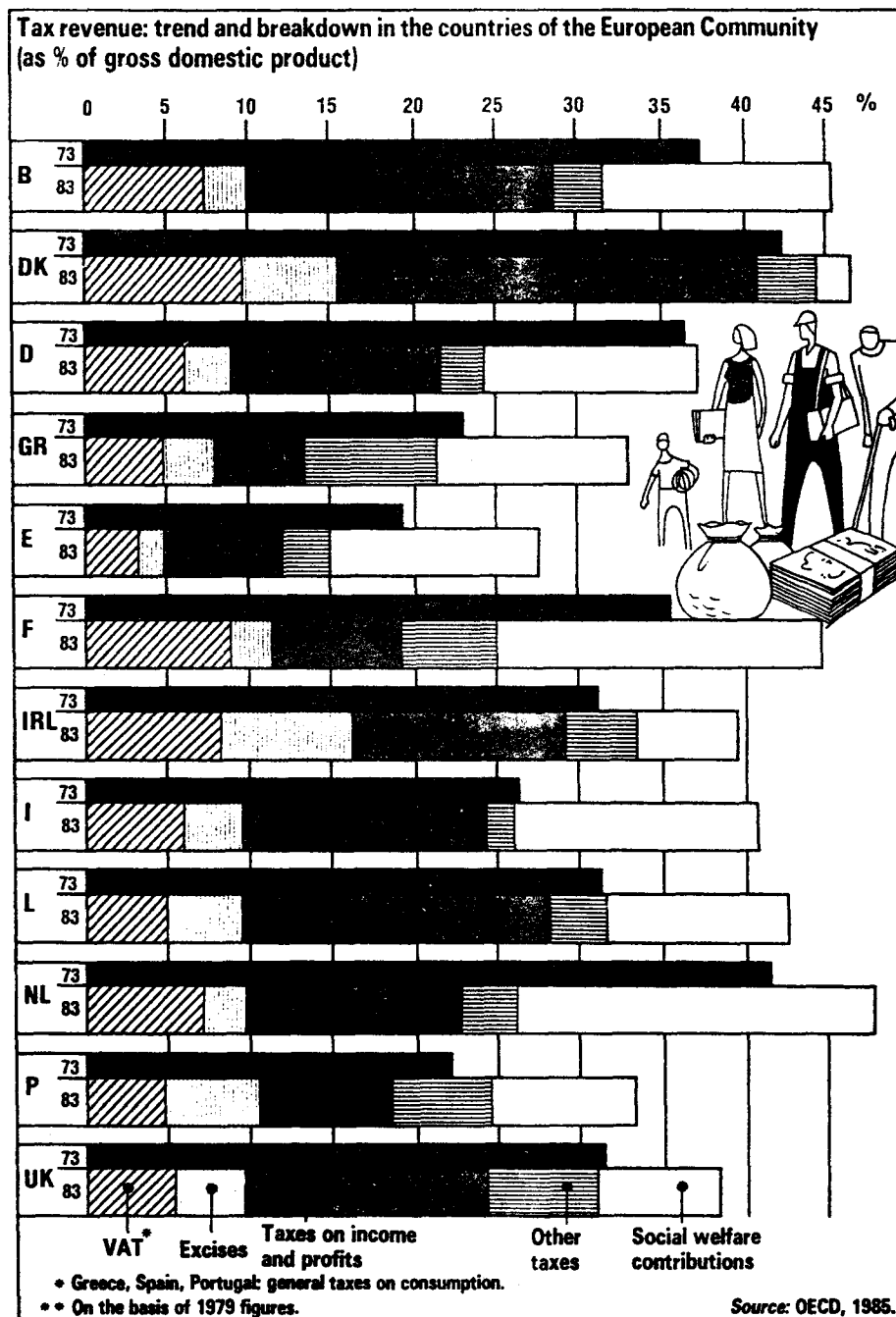
Another point to note is that, in most countries of the Community, VAT and excise duties together represent between 9% and 12% of gross domestic product (see diagram). In global terms, levels are sufficiently comparable to be brought more closely into line with scarcely any effect on average price levels or on State revenue.

There are, however, real problems for countries like Denmark and Ireland, where VAT and excise duties are markedly higher than the Community average, and represent together more than 15% of GDP. Other difficulties, shared by all Member States, arise from the widely varying distribution of the tax burden, as between VAT and excise duties, and as between different products and services.

□ A recent comparison shows that standard rates of VAT range between 12% (Spain and Luxembourg) and 23% (Ireland). However, there are higher rates which go up to 38% (in Italy), as well as numerous lower rates: generally below 10%, and as low as 0% in Ireland and the United Kingdom (see table).

□ The excise duty on a litre of wine ranges from 2.7 ECU in Ireland to zero in Germany, Greece and Italy. 75 centilitres of spirits are taxed at about 9.6 ECU in Denmark and 0.16 ECU in Greece. Denmark and Greece are also at the two extremes for duty on a packet of 20 cigarettes: 1.96 and 0.28 ECU respectively. Duty on a litre of premium petrol varies from 0.20 ECU in Luxembourg to 0.49 ECU in Italy (all rates as of March 1985). Besides these excises which are common to all, or nearly all, Member States, there are more original ones in some countries: on salt, matches, coffee, tea, etc.

<sup>1</sup> However, Ireland applies a tax on individual objects above Ir. £55 in value.



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

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

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

Bringing such practices more closely into line is no easy task, but once again a limited degree of variation can perfectly well be allowed. Moreover, the necessary adjustments would be spread in time between now and 1992, so that they should not give rise to any major difficulty, provided certain possible exemptions are considered, as a last resort. The rest is mainly a question of political will: are the European governments ready or not to make the effort required to bring about a large unified market?

The main lines of the strategy advocated by the European Commission for the approximation of indirect taxation are as follows:

*VAT*

- The uniform basis of assessment must be fully established; that is to say it must be completed and tidied up by doing away with a range of exemptions. The Commission insists on rapid adoption by ministers of its proposals in regard to second-hand goods, works of art, coach transport, flat-rate schemes for farmers and small and medium-sized businesses. Food products, subject to zero-rate VAT in Ireland and the United Kingdom, present a particular problem which should be tackled.
- There must be a gradually closer approximation of the number of rates in force in each country, of their levels, and of the list of goods and services to which each rate applies: differences remaining in 1992 should be insufficient to warrant frontier controls. As a first step, the European Commission wants to avoid any widening of the present divergences in Member States' legislation. It has sent to the Council of Ministers a proposal for a directive

to implement a 'standstill': a freeze on the number of rates and on the gap between them and the Community average. The only changes allowed would be those that made for closer alignment. During a second phase, the Council of Ministers is asked to fix common central rates of VAT and to determine their number, the ranges of variation to be permitted to Member States, and the procedure for gradually approximating the rates by 1992.

- A clearing house system should be set up, using modern information technology. This would simplify intra-Community transactions, by enabling them to be treated in the same way as purchases and sales within a single member country: tax would no longer be collected at the frontier, but in the exporting Member State, with deduction being made in the importing country.
- Excise duties*
  - The European Commission urges the ministers to adopt without delay the proposals it has tabled on the structure of the duties on alcoholic drinks and tobacco and mineral oil products. It also asks Member States not to introduce or increase excises on other products involving imposition or remission of tax or controls at frontiers.
  - As in the case of VAT, the Council of Ministers is asked to fix 'bands' or ranges of variation for tax on alcoholic drinks and tobacco and mineral oil products. National rates could then no longer be changed except to bring them gradually into closer alignment by 1992. In the same period all other excise duties would have to be abolished, unless they did not distort trade or require frontier controls.
  - Finally, bonded warehouses — where products destined for export are often stored, with the duty payable on them suspended — should be linked together, in order to complete the arrangements for abolishing frontier controls.

**Other initiatives**

The Community's efforts are not concentrated entirely on VAT and excise duties. Completion of the internal market also requires certain measures relating to personal income tax and, most importantly, to corporation tax and the taxation of capital formation. At the same time there is a need for improved cooperation among Member States to combat tax avoidance and evasion.

- Personal income tax.* In 1979 the European Commission sent to the Council of Ministers a proposal, which is still on the table, to abolish the tax discrimination that often affects those who do their work in a Member State other than their country of residence. This aspect of personal income tax was singled

out because of its direct interest for frontier workers. Beyond that, the Commission has no aspiration to get involved in personal income tax, which is considered to be a national instrument of economic policy.

□ *Taxation of capital formation and companies.* There are three Community directives to harmonize taxes on the raising of capital. However, it is necessary to go much further. The creation of a large unified market on a European scale requires that capital be able to circulate freely, that industrial cooperation be facilitated, and that conditions of competition become less unequal. It is for that reason that there must be some approximation of the tax burden on businesses, so that production costs, the siting of investments, and the return on invested capital are not unduly influenced by the differing tax systems of Member States. To this end the European Commission has presented several proposals, which still await decision by the Council of Ministers. They include:

- Proposals made in 1969 on tax arrangements for companies merging across national frontiers and companies which have subsidiaries in other Community countries; also a 1976 proposal to eliminate certain instances of double taxation;
- A proposal made in 1975 for a common system of corporation tax. The aim was to achieve as much fiscal neutrality as possible, so that movements of capital would be determined by economic considerations, rather than by the fiscal conditions prevailing in one State or another. The Commission proposed bringing the rates of tax more closely into line, as well as adopting a common system of tax credit which would give partial relief from the double taxation of dividends (as both company profit and shareholders' income). The harmonization of national systems of company taxation also requires agreement on the scope of the tax and on the basis on which it is assessed. The tax arrangements for partnerships, for example, vary from one country to another: perhaps it should be made general practice to allow a choice between taxation of the company and taxation of the persons of whom it is composed. The definition of a common assessment basis poses numerous problems, because of the very magnitude of the issue and the differences that exist between national legislations.

Other proposals presented by the European Commission relate to the carrying over of company losses from one financial year to another, and to the harmonization of indirect taxation on trade in securities.

A Commission white paper on company taxation is intended to take stock of these different proposals, while examining the possibility of new initiatives. The Commission has a particular interest in fiscal measures for stimulating investment of risk capital and promoting innovation. Coordination on the basis of common criteria should make it possible to avoid unfair discrimination and Member States outbidding each other, while improving the competitiveness of European firms *vis-à-vis* their rivals in other major industrialized countries.

- *Fighting tax avoidance and evasion.* In 1977 and 1979 the Community countries adopted two directives organizing reciprocal assistance between their tax authorities, in the areas of direct taxation and of VAT. This cooperation increases the effectiveness of anti-evasion measures at national level. It will also help to ensure fairer competition among European firms ■







# Television and the audio-visual sector: towards a European policy

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## Commission of the European Communities

Information offices (countries fully or partially English speaking\*)

**Ireland** 39 Molesworth Street, Dublin 2 — Tel. 71 22 44

**United Kingdom** 8 Storey's Gate, London SW1P 3AT — Tel. 222 81 22  
— 4 Cathedral Road, Cardiff CF1 9SG — Tel. 371631  
— 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 2058  
— Windsor House, 9/15 Bedford Street,  
Belfast BT2 7EG — Tel. 40708

**Australia** Capitol Centre, Franklin Street, PO Box 609,  
Manuka 2603, Canberra ACT — Tel. (062) 95 50 00

**Canada** Office Tower, Suite 1110, 350 Sparks Street,  
Ottawa Ont. K1R 7S8 — Tel. (613) 238 64 64

**USA** 2100 M Street, NW, Suite 707,  
Washington DC 20037 - USA — Tel. (202) 862-9500  
— 245 East 47th Street, 1 Dag Hammarskjöld Plaza,  
New York, NY 10017 - USA — Tel. (212) 371-3804

\* Offices also exist in other countries including all Member States.



**A**t the end of 1986 the whole European television scene will be transformed by the appearance of Europe's first direct television satellites. We have already seen the spread of cable networks and the increasing use of communications satellites: transmissions from the new satellites will be receivable by means of home aerials and will reach most of the continent simultaneously. The fragmentation already begun at national level will be followed by a rapid internationalization. People will have access to an unprecedented volume of television pictures: culture, entertainment, fiction, news, etc. Where will these pictures come from? Who will capture the market – and the employment – for producing and transmitting them? <sup>1</sup>

One thing is certain: no Community country in isolation, confined to its national market, will be able to furnish at competitive rates the amount of equipment and programmes required as a result of technological advances and the multiplication of the number of stations that can be received. The choice is clear:

- Either a strengthening of exchanges within Europe and a deepening of Community cooperation to promote the identity of our continent in all its diversity;
- Or a surrender to powerful competitors and their cultural models, be it the Americans today, or the Japanese tomorrow.

The European Commission has made its choice. It is proposing to Member States a series of measures to respond to the current technological and industrial changes, to ensure the free circulation of programmes throughout the Community and to reinforce Europe's production and transmission capacity.

#### **Answering the technological and industrial challenge**

Several European communications satellites are already distributing programmes to twenty-odd television stations. 90 channels will soon be available for that purpose: there are expected to be 200 by the year 1992. These programmes are re-broadcast by hertzian waves or, in more densely populated areas of Europe, by cable from communal aerials. In addition, 10 new channels broadcast directly by satellite will be available to people with their own aerial from 1987.

It means that the day of purely national audiences, markets and channels is gone. In the audio-visual field as in many others, technical progress is making a mockery of frontiers. Other developments are expected, which will make for great changes in television:

- The new standards for television transmission by satellite and the use of digital processing of picture, text, spoken word, sound and computerized data, will make it possible to move towards high-definition television, up to the best cinematographic standards;

<sup>1</sup> This file replaces our No 19/84.

The Commission is also hoping for agreement on other technical standards in the audio-visual sector. One of the vital issues is high-definition television, which should establish itself between 1990 and 1995. It is important to continue research in order to arrive at a true world standard. Contrary to what is being proposed by the Japanese television station NHK, this standard should take account of the evolving nature of the technology and of the need to ensure, in everyone's interest, some degree of compatibility between today's television sets and future high-definition broadcasts. Some years of study and development are needed to achieve those objectives and to give a fair chance on world markets to European makers of programmes and equipment.

Finally, the Commission will stimulate improvement of the Community's technological capacity through its research and development programme RACE. Under the programme it is intended to perfect the technology for broadband networks for interactive audio-visual communication services. Linked with certain Eureka projects, RACE should also contribute to the development of high-definition television.

### **Creating a European audio-visual area**

In the audio-visual sector as in others, the continuation of national barriers and of the fragmentation they cause prevents European producers from taking up the challenge presented by external competitors. They are a major handicap for Europe's industry and cultural identity. There are legal as well as technical barriers: to remove them, it is necessary now to give full force to the European Treaty provisions for freedom to provide services — services such as television broadcasting. Every citizen and every firm retransmitting programmes must be free to receive and retransmit, without restriction, programmes coming from other Community member countries.

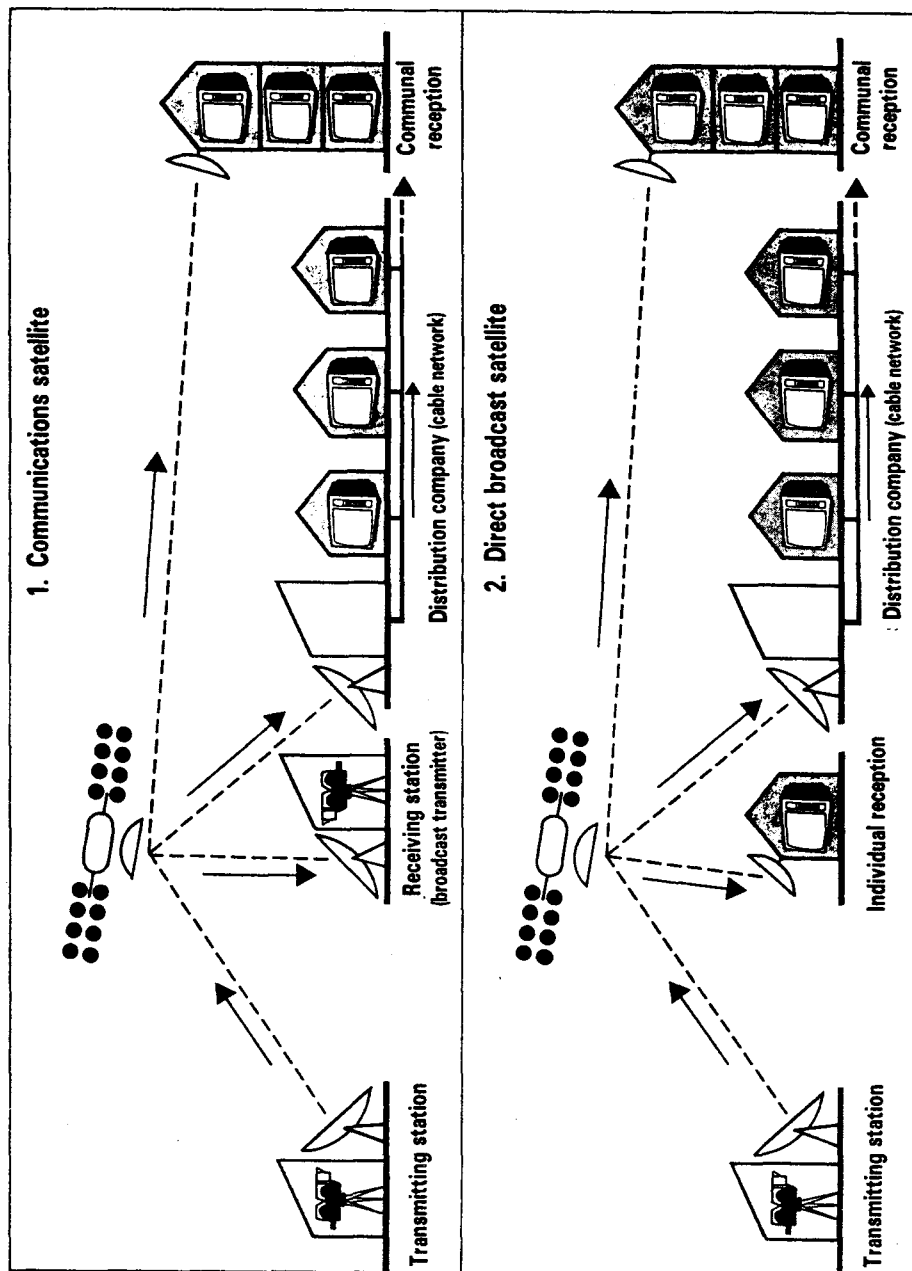
The Treaty of Rome offers two approaches to the creation of a European audio-visual area: the direct application of the Treaty rules and the coordination of national legislation. The European Commission has undertaken, along with the Member States, an examination of possible breaches of the Treaty. They are looking in particular at certain national measures which discriminate on grounds of nationality, such as a ban on retransmission by cable of channels broadcasting from other Member States. Apart from such discriminatory restrictions, there are rules governing certain types of activity, imposed on grounds of the general interest: when applied to broadcasters they may constitute an obstacle to the free circulation of programmes, because of the disparity of the various national legislations. Only coordination at European level can ensure free circulation of broadcasting services.

With this in mind, the European Commission has submitted to the Council of Ministers a proposal for a directive to coordinate certain national measures relating to broadcasting. This proposal was preceded by a Green Paper and

various other documents from the Commission and the European Parliament, which occasioned a very wide-ranging debate on the subject. All that is proposed is a minimum of coordination: in regard to advertising, sponsorship and protection of young people, Member States would still be free to impose stricter or more detailed rules on national broadcasters. In matters subject to coordination, Member States would no longer be able to prevent the free circulation of each other's television programmes by means of non-discriminatory national measures justified on grounds of the general interest. In fact, the directive would have the effect of eliminating the present legal disparities and the laws of Member States would offer equivalent safeguards. The proposal is also aimed at encouraging distribution and production of television programmes in member countries, not only by creating a market big enough to make investment profitable, but also by an industrial policy that ensures preferential treatment in Member States' TV schedules for programmes of Community origin.

The measures proposed relate in essence to:

- The European content of programme schedules. A minimum percentage of air time (30% to begin with, 60% after three years) would be reserved for Community-made television programmes. Also, to encourage the establishment of new production companies, especially small and medium-sized ones, TV stations would have to allocate a minimum percentage of their programme budgets (5% at the beginning, 10% after three years) to the work of independent Community producers.
- The regulation of advertising. The proposal lays down minimum requirements for broadcast advertising, which are intended to ensure free circulation of broadcasts within the Community. It would be for Member States to establish, on the basis of criteria laid down in the directive, the amount of airtime allowed for advertising on their national services. At the same time, they could not prevent retransmission of TV advertisements coming from other Member States if the amount of advertising were below a certain threshold (15% of the transmissions receivable in the country of origin), or provided, in the event of this threshold being exceeded, that certain other conditions are fulfilled. The proposal also provides for separation of advertising from programmes, general standards in regard to the interruption of programmes for advertising and to sponsorship, the banning of tobacco advertising, limits on advertising for alcoholic drinks and advance checking of advertisements.
- The protection of young people against programmes liable to harm their physical, mental, or moral development (pornography, violence, racism).
- Copyright. The aim here is to facilitate the simultaneous distribution by cable, complete and unchanged, of programmes coming from other Member States, while respecting the interests of authors, composers, actors, etc.



- Digitalization will also give impetus to the integration of audio-visual, computer and telecommunications networks. 'Broadband' technology will make it easier to exchange computerized data, text, sound and still or moving pictures. The broadband networks, using optical fibre cable — made of a material like glass, carrying laser-generated light pulses — will be able to give the public a great number of television channels as well as interactive telematic services based on combined use of telephone and television (videophony, videocommunications, downloading of computer programmes, consultation of bank accounts and data bases from the home, etc.).

The industrial market that will be opened up will be enormous: about 2 000 million ECU<sup>1</sup> between 1986 and 1989 for satellites, launch rockets and ground stations; about 10 000 million ECU over the coming five to seven years for aerials, decoders and other equipment for receiving direct television broadcasts. There will also be the cost of cabling, as well as the market for domestic and professional equipment: terminals, recording apparatus, high-definition television receivers, telematic equipment, etc.

Like their external competitors, European manufacturers are capable of supplying the equipment needed for direct reception of satellite television in reasonable time and on relatively competitive terms. To do it, however, they will need to be sure of a market of continental dimensions, which will enable them to produce on a large scale, at low unit cost, for the whole world market. A basic requirement is common European standards for transmission and reception, so that public demand cannot only be sustained by the large number of channels available, but also be met by the same equipment throughout Europe.

- In view of the opportunities offered by direct broadcasting by satellite, the European Commission is asking Member States to adopt, as soon as possible, the MAC-packet 'family' of standards. These new standards were developed by European industry and the European Broadcasting Union: they are compatible with each other and allow better sound and vision reproduction, the simultaneous use of one vision channel and several sound channels (multilingual programmes), and a gradual evolution towards high-definition television. From that point of view the MAC-packet standards should answer the needs of operators and consumers for a long time. The Commission's draft directive provides for their immediate and exclusive use for direct broadcasting by satellite, but allows a gradual transition for ground-based transmissions and for cable distribution. During this transition period, viewers who want to get the value from their PAL or SECAM television set will be able to go on receiving the traditional channels; they will also be able to receive the MAC-packet signals by cable or through a decoder.

<sup>1</sup> 1 ECU (European currency unit) = about £0.64, Ir. £0.71 or US \$0.96 (at exchange rates current on 9 June 1986).

- **Multilingualism.** Television programmes devised for the whole Community will have to be broadcast in several languages, as can be done with the MAC-packet standards. The Community will support and coordinate experiments in improving the quality of dubbing techniques, exploring in particular the possibilities for synchronization by computer. A first concrete step in this direction will be taken with the originators of the multinational and multilingual station 'Europa TV'. The results of work of this kind will of course be put at the disposal of all interested groups.
- **European information and education.** Like the European Parliament, the Commission favours the creation of an independent European news station, which could improve public awareness of what is going on in different countries and of Community activities. The Commission will support the first experiments in this line carried out by editorial teams composed of various nationalities. It will also do its best to make journalists in general more aware of the European and Community dimension of the news.
- **Other programmes with a Community dimension.** The Commission will study ways to give a European dimension to other types of programme.

These are only the first forays in what is intended to be a much wider campaign, to be conducted in cooperation with all interested parties. Too many of those in charge, in both the public and private sector, have not taken full account of the European implications of the new technology. Projects for direct satellite television often have European ambitions even though their point of departure is a narrow national framework or market. The Commission wants to instigate broad European cooperation among all those involved, so as to make them more aware of the Community dimension of the problems faced. In this way it hopes to reduce the uncertainties which still hamper the development of certain projects and affect the ability of the industry to respond to the challenge it faces. In so doing, the Commission means to make a new contribution to the building of a Europe of television and the audio-visual media, a meeting point for the Europe of new technology, the Europe of culture, and the citizens' Europe ■

- The European Commission is preparing other initiatives relating to copyright, some of which are of particular importance to the audio-visual sector: the prevention and suppression of piracy, rules for private copying, etc. A green paper on copyright will set out a first analysis of the issues, with a view to stimulating a wide-ranging debate.
- Finally, the Commission is following the work of certain international organizations, such as the Council of Europe and the OECD, which have become involved in various aspects of the audio-visual sector.

### **An action programme for European audio-visual production**

Satellites, cables, and common technical and legal standards are all very well, but what of the programmes themselves? The question is crucial in two respects:

- Economically, the TV programme industry, like the equipment industry, is directly productive of wealth and employment. In addition, the development of TV infrastructure and the multiplication of channels call for a major increase in programme output, an increase which in turn speeds up the spread of new equipment.
- The cultural challenge from outside is as urgent as the technological and economic ones. Experience in cinema shows the difficulties involved in maintaining European production in the face of American competition; the Americans have benefited for a long time from the advantages of a big internal market of continental dimensions and are, paradoxically, the only producers of TV programmes capable of operating in Europe as in a unified market.

For the European Commission, the time has come to avail more of the richness of the Community by promoting all its creative resources, for both cultural and economic reasons. Briefly, whether in television or cinema, it is necessary both to strengthen national operators likely to assert their cultural diversity, and to develop the European dimension of distribution and production.

The Commission has therefore established an action programme for the European audio-visual production industry. It is intended to stimulate worthwhile original initiatives, as well as projects that take into account the new dimensions of the European audio-visual area and the technological development that is going on, including the prospects for convergence of cinema and television.

Studies and pilot experiments will be launched in close cooperation with professionals in the field, who will be consulted through a series of round table discussions. A first report will be prepared in 1988, European Cinema and Television Year. Two priority areas for action are already apparent: stimulating production and distribution, and promoting programmes with a European dimension.

- Stimulating audio-visual production and distribution.* The special cultural qualities in which Europe is so rich can be asserted by promoting original creativity and by improving methods of production and distribution. Among the main areas for action are:
  - Production methods. Cinema films and major series are the big successes on television. European programme schedules are filled to a large extent by the cheap and abundant supply available from outside countries, especially the United States. The Community will support experimentation with new, more competitive, production methods. Examples would be the use of lightweight electronic equipment or industrial structures which, like small and medium-sized firms, seem better able to adapt to market fluctuations and the other exigencies of present-day production.
  - Technological development. Many European producers have not the means to acquire the advanced equipment which will play a decisive role in future production. The Community will support research into the use of new techniques for making films and TV programmes (digital processes, high-definition pictures, computer-assisted work, etc.).
  - Promoting cooperation. The development of the European industry will be achieved through the cooperation that already exists among producers in different sectors (cinema and television) and in different Community countries. The European Commission hopes to give particular support to new initiatives in the context of European broadcasting. It also wants to promote better economic and technical arrangements for co-productions, as well as for new forms of work and writing.
  - Financing and distribution. Completion of the European internal market will strengthen the economic basis of audio-visual production in the Community. The industry will then need financing and distribution structures on the same scale as this great unified market. New credit arrangements will have to be available at national level and, above all, at Community level. The value of European production must also be enhanced by paying greater attention to the way work is released (it is not sufficiently realized that in the United States publicity and promotion sometimes account for 30% of a film's budget). Finally, because of Europe's linguistic diversity, parallel action is required in the fields of dubbing and subtitling, which increase costs but offer possibilities for wide distribution.
- Promotion of television programmes that are really European.* This is another priority for the Commission. Programmes intended, from the beginning, for all of Europe, could count on an audience and resources that would never be available at national level; they would help to strengthen the feeling of belonging to a Community of countries at once different and deeply united. Among the main spheres of activity are:







# Telecommunications and Europe's future

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## Commission of the European Communities

Information offices (countries fully or partially English speaking\*)

**Ireland** 39 Molesworth Street, Dublin 2 — Tel. 71 22 44

**United Kingdom** 8 Storey's Gate, London SW1P 3AT — Tel. 222 81 22  
— 4 Cathedral Road, Cardiff CF1 9SG — Tel. 371631  
— 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 2058  
— Windsor House, 9/15 Bedford Street,  
Belfast BT2 7EG — Tel. 40708

**Australia** Capitol Centre, Franklin Street, PO Box 609,  
Manuka 2603, Canberra ACT — Tel. (062) 95 50 00

**Canada** Office Tower, Suite 1110, 350 Sparks Street,  
Ottawa Ont. K1R 7S8 — Tel. (613) 238 64 64

**USA** 2100 M Street, NW, Suite 707,  
Washington DC 20037 - USA — Tel. (202) 862-9500  
— 245 East 47th Street, 1 Dag Hammarskjöld Plaza,  
New York, NY 10017 - USA — Tel. (212) 371-3804

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European File

New telecommunications technology is shaping the face of Europe as it will appear in the year 2000. It not only makes our daily lives easier: it is helping to determine Europe's economic future. The sector is rapidly expanding and undergoing profound technical and structural changes.

### **A twofold revolution**

Two innovations are central to the future of telecommunications:

- Digitization. The basic first-generation services (conventional telephone and telex) are out of date. The transmission of data — of the human voice over the telephone, for example — is increasingly being done in digital form, converted into bits, the basic elements of a binary data processing language.
- The taming of light. A second revolution is imminent: that of optoelectronics. Because of its speed and short wavelength, light can transmit large amounts of information relatively cheaply. Copper wire, which carried first a modulated electric current (conventional telephone) and later discontinuous electronic pulses (digital telephone), is now to be succeeded by optical fibre cable. This is made of a material similar to glass and carries pulses of light, produced by lasers. All the evidence is that optical fibre and the satellite are the transmission media of the future.

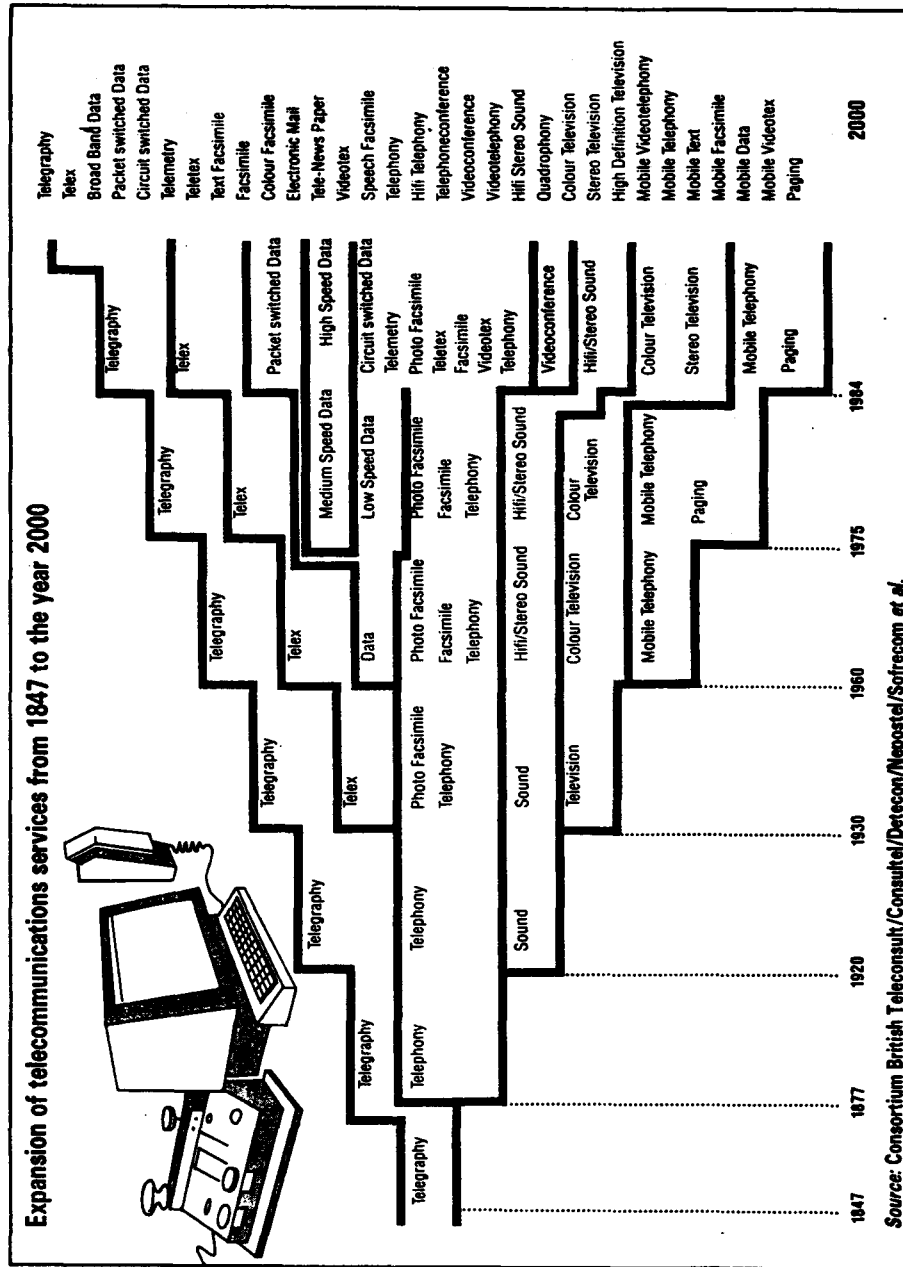
Progress in such technology makes it possible to improve existing services and gradually to institute new ones: facsimile (transmission of photocopies by telephone line), electronic mail (transmission of messages by telephone line, satellite or cable), videotex (telephone transmission of data received on a television screen), videophone (telephone with picture), remote printing and publishing, mass high-speed transmission of data and documents etc.

The development that is going on need not lead to a cumbersome multiplication of networks: there is a growing effort to develop integrated services digital networks (ISDN), which will use a limited number of terminals (mainly the telephone and television screen, which in combination offer multiple possibilities), with the same transmission lines carrying sound, picture and computerized data, all in bit form.

Sooner or later the creation of a high-bitrate, or broadband, network will make it possible to avoid overloading the system, will improve the quality and range of services, and will multiply the possibilities for dialogue or interaction with suppliers of services. Optical cable will carry both the traditional and the new telecommunications services — interpersonal videocommunication, combining voice, picture and text, will no doubt be the order of the day — as well as numerous television programmes in which the user can participate (choosing, for example, the language in which to hear a serial).<sup>1</sup>

<sup>1</sup> The problems of television will not be discussed further in this text. See our No 14/86 'Television and the audio-visual sector: towards a European policy'.

Expansion of telecommunications services from 1847 to the year 2000



These technological innovations are already the subject of various local experiments. They will increase business productivity and bring about major changes in our daily lives: electronic mail and facsimile could replace the traditional letter post, clothes will be ordered and holidays booked from catalogues on a television screen, there will be increased possibilities for working from home on a keyboard linked up to one's company headquarters.

The economic consequences will be equally considerable. The contribution of telecommunications to Gross Domestic Product in the European Community is expected to grow from 2% to 7% between now and the year 2000. Also the multiplier effect of the investment foreseen will be substantial: it is estimated that one million invested in telecommunications infrastructure brings about a total increase in activity of one-and-a-half million; the ratio is as good as that of the building industry.

However, technological change inevitably means important changes in the market. Unless Europe reacts to the new situation, the changes could be to its disadvantage.

- The Community has some important experience to its credit. The Europeans have for a long time been leaders in telecommunications development. The Community is still the world's leading exporter of traditional equipment, with a positive trade balance of about 2 000 million ECU per year.<sup>1</sup> A dozen European firms supply most of the Community's requirements and dominate the world market, exporting 30% of their production.

Nevertheless, although the proportion of homes with telephone is still much lower in the Community than in other major developed countries, the prospects for growth in the equipment market are today lower there (6% a year) than in the rest of the world (8%). The Europeans were the first to develop time-switching or digital switching systems, but the Community uses nearly as many different systems as it has member countries. The fragmentation of its market is its principal weakness. It is no accident that it has to import more than 80% of the electronic components needed for the manufacture of new terminals.

- Traditionally the telecommunications market is a public service one, dominated by national suppliers. The situation is however being radically transformed since the United States opted for deregulation, opening their market to all suppliers and spurring the AT&T company to establish itself on other markets. The same trend is to be observed elsewhere. For Europe, the consequences are twofold: it has to deal with an onslaught of external suppliers on its own territory, while at the same time itself seeking new markets abroad.

Modernization of telecommunication systems is indispensable, if European firms are to remain competitive. It can also be one of the prime instruments of new

<sup>1</sup> 1 ECU (European currency unit) = about £0.64. Ir. £ 0.7) or US \$ 0.96 (at exchange rates current on 9 June 1986).

industrial growth. All the more reason for Europe to seize its opportunities and take steps to maintain or regain its position, on its own ground and on a world market that is full of promise. The European Community can play a vital role, by ending the compartmentalization of national markets: in this way it can restore the confidence of industrialists, who hesitate to invest in research because the high cost (up to 20% of annual turnover) can be met only by commercialization on a very large scale. The Community is laying the foundations of the vast market required for the relaunching of the European economy, by harmonizing the various national technical regulations, by 'Europeanizing' public procurement, by proposing coordinated development plans and joint infrastructure projects, by supporting cooperation in research, by gathering the funds needed for modernizing equipment, and by strengthening, through joint action, the position of Member States on the international scene.

#### **Standardization and public procurement: for a true common market**

The creation of a true common market in telecommunications requires the opening-up of public procurement policies and a harmonization of the technical rules that govern development of the sector.

- The Community system of prior exchange of information in the field of technical standards and regulations was instituted in 1984. It provides that standardization work undertaken in member countries must be brought to the notice of the European Commission in good time for any new obstacle to trade to be forestalled. A committee of experts examines the situation periodically, makes comparisons and tries to reduce the divergences that can arise between national measures being drafted: the measures can be amended and, if necessary, their adoption can be postponed.
- A Community recommendation adopted in October 1984 provides for consultations between the PTT administrations of Member States before the introduction of any new telecommunications service. The consultation is to take place preferably in the framework of CEPT, the European Conference of Postal and Telecommunications Administrations, a forum within which 26 European administrations coordinate their positions. Since 1985 innovations in this field are subject to a joint harmonized approach, intended to enable compatible services to be offered throughout Europe. From 1986 the administrations must also see to it that digital transmission systems and switching systems which are to be involved in the gradual integration of services take account of standards and specifications accepted at European level. CEPT has the task of establishing common specifications for type approval of terminals, using internationally recommended standards and based on priorities laid down by the European Commission after consultation with national PTT authorities.
- A recent Council of Ministers' directive deals with mutual recognition of results of conformity tests on terminals and a Commission proposal with standard-

ization in the field of information technologies and telecommunications. Where the traditional approach was to establish standards *a posteriori* on the basis of existing situations, this legislation will substitute new procedures, more suited to the rapid development of advanced technology: they demand that technical specifications be made available before the commercial stage. The objectives: to offer a better guarantee of interoperability of telecommunications systems and better prevention of technical barriers to trade; to stimulate, in keeping with the Community's priorities, the harmonized adoption of international standards and the development, by CEPT and various committees, of European standards and specifications to complement the international ones or make up for their absence; to define references for public procurement; gradually to set up a procedure for mutual recognition of conformity tests carried out in Member States' approved laboratories on the basis of Community specifications, so that industrialists no longer lose time and money submitting their products to checks in each member country. With this in mind, the European Commission has already concluded contracts with several testing centres for work on facilities and common procedures for conformity testing. A truly European service is being set up in this field.

The opening-up of public procurement completes the programme. This point is clearly crucial, because of the importance of public procurement in the sector. The Community's Council of Ministers adopted a recommendation in 1984 for the opening up by PTT administrations of their calls for tender to firms from other member countries. During an initial period of two years, this opening is total for new types of terminal for professional use and for the general public. It is partial — a minimum of 10% of the value of annual orders — for traditional terminals and for transmission and switching apparatus; procurement of those items should be gradually liberalized after the two years, until it is completely open.

#### **Infrastructure projects: working together**

The second axis of the Community's telecommunications policy is the coordination of development programmes and the carrying out of joint infrastructure projects. Selected according to users' requirements, the projects are intended to stimulate research and industry and to contribute to the creation of the European networks of the future. Among the projects set up by the European Commission are:

- Euronet Diane. This first European information network, created in 1980 by the Community and the national PTT administrations, prepared the way for the interconnection of national networks. It allows users in Member States and neighbouring countries to consult about 600 data banks and data bases by means of a computer and a telephone. The charge for transmission of data is uniform and independent of distance.

<sup>1</sup> See *European File*, No 18/82: 'Euronet Diane: towards a common information market'.

- Apollo. The European Commission and the European Space Agency have decided to cooperate in the field of high-volume data transmission by satellite (copies of documents being transmitted in digital form etc.). The project will make it possible to develop experimental equipment and to stimulate the creation of a European market for ground stations and receiving antennae.
- Insis and Caddia. These abbreviations designate programmes which enable the Community's institutions and Member States to pursue their exchanges of information in various forms through an integrated network of services: transmission of written documents, electronic mail, access to statistical data bases, videoconferences, videotex etc. The idea is to set up a market which gives a picture of that of public institutions in the year 1990.

However, it is necessary to go further. New projects are being examined:

- Intergovernmental videocommunications. Videoconference studios already completed or being installed in Community capitals can be used to cut down the frequent journeys that government representatives and experts have to make, and could reduce the cost of their meetings (the cost of a videoconference meeting varies at the moment between 1 000 and 6 000 ECU, depending on whether it is arranged at two days' notice or convened in a few minutes). The system is expected to yield other benefits: validation of European technical standards for videocommunication, an incentive to suppliers of studios and equipment, a spur to national administrations to speed up the development of larger-capacity telecommunications links. In fact it is already possible to organize bilateral conferences using various existing links, either land-based or satellite; the project provides for multilateral conferences from 1987, and for member countries to choose, as of 1988, the kind of link that meets their needs, within a coherent overall system. Experts have envisaged several possible combinations and have drawn up a development timetable based, in the first instance, on the use of satellite links. The European Council of Ministers has recently adopted a resolution favourable to the continuation of the project.
- Cellular mobile telephone: planning and development of a second-generation system have been the subject of technical studies in preparation for a recommendation by the European Commission. The system will have to be digital, in order to facilitate data transmission and allow further development of services; contrary to present equipment, which is not compatible, it will have to permit connections from country to country across the Community. The system will locate the user and sustain his communication over long distances, by means of relay transmitters, each serving a 'cell' of territory of a given area. Such a project could never be realized without a European approach to the problem. The international bodies have already decided to reserve the 900 megahertz band for mobile telephony; the Germans, French and Italians have concluded a research agreement.

- Integrated services digital networks (ISDN). In a first phase of development these networks could accommodate new services using ordinary transmission lines and terminals. Concerted implementation at European level is indispensable. The European Commission has presented a proposal for a recommendation to harmonize the supply of new services, and to clarify and broaden the prospects for the European telecommunications industry. By 1988 users could have access to facsimile, teletex (telephone transmission of texts received on a screen or printer) and standardized interfaces for linking ISDN terminals to the present telephone network. Between 1988 and 1993 the public could avail of facilities for automatic recall of engaged numbers, videotex, telephone conferencing, as well as the transmission of images and computerized data. By the end of 1990, decisions should be taken regarding services such as telemetry, electronic mail, videophony and packet transmission of computerized data (the data are transmitted in groups when the line is free, thus making communication more economical by using slack time). In the longer term, ISDN could evolve towards a broadband (higher-bitrate) network capable of carrying television programmes as well.
- Transnational broadband communication channels. The main axes forming the backbone of a future European optical fibre network need to be established by joint decision. The creation of such a network will make it possible to improve the quality of telephone traffic between European countries and reduce its cost. In a second stage, these channels can be used by a transnational system of integrated broadband services, which will be more efficient than ISDN.

#### **Research: developing the technology of the year 2000**

The building of integrated broadband communication systems, combining all possible or imaginable services (telephone, telex, teletex, interactive television, mobile videophone . . .) poses a considerable technological problem: the mastering and use of light. Transmission by optical fibre is now possible, but economic and reliable systems must still be developed for transmitting, connecting, amplifying and receiving the light signals transmitted. Laser technology is still open to great improvements. An optical processor must also be developed which can recognize and convert the signals transmitted and received, as well as checking, processing and stocking them and generally regulating their flow. In its memorandum of June 1985, 'Towards a European Technology Community', the European Commission suggested a Community project for the development of such a processor. Other initiatives are already under way:

- Race (Research and development in advanced communications technologies for Europe). This Community research programme was launched in 1985 and is intended to develop the technology base for a future network of integrated broadband telecommunications systems, using optical fibres. Eight sectors of research and development have already been selected: high-speed integrated circuits, high-complexity integrated circuits, integrated optoelectronics, broad-

band switching, passive optical components, components for high-bitrate long-haul links, dedicated communication software, large area flat panel display technology. The programme is planned to last 10 years and the European Commission proposes spending 440 million ECU on it. A first 'definition' phase (July 1985 to December 1986), is intended to prepare the ground by drawing up a reference model for a European network and defining research priorities. Studies to this end are co-financed by the Community (which meets half the costs, 14 million ECU), industrialists and research centres in Member States. Then, between 1987 and 1991, the first operational phase is to include precompetitive work required for the provision of equipment (new terminals etc.) and services for trial and demonstration. Finally, between 1991 and 1996, a second operational phase will cover the development of the technology for perfecting the new equipment and services.

- Esprit (European strategic programme for research and development in information technology). This Community programme of precompetitive research on information technology was launched in February 1984 and covers five fields of activity: among them is advanced microelectronics, which is of particular importance to telecommunications. Some of the research, which is carried out under contracts financed jointly by the Community, industrialists and universities, concerns technology for processing optical signals.
- Eureka. The first workplan put forward by France for the 'European technological renaissance' provided for the 'Eurocom' project, to cover the development of broadband transmission and associated equipment, switching for data processing and office computer communications.

#### **Investment support: priority for less-favoured regions**

The Community gives financial support to many investments intended to strengthen telematic links between Member States, to equip and open up regions that are least favoured or geographically removed from the big business centres, and to provide European firms with all the services they need in order to be competitive.

In recent years the Community's financial instruments have devoted some 700 million ECU annually to the development of telecommunications infrastructure. Besides grants from the European Regional Development Fund (ERDF), there have been loans from the European Investment Bank. The loans amounted to some 600 million ECU in 1985 (of which 32 million came under the New Community Instrument) and a total of more than 2 800 million ECU between 1981 and 1985. Most of the aid went to less-developed regions in Greece, Ireland and southern Italy, and enabled them to extend and modernize their networks and equipment. Significant loans have also been given for advanced technology projects: in 1985 the Bank financed satellites for a French telematics network and a satellite ground station in the Abruzzi in Italy.

The spread of new technology need not lead to greater divergences in regional levels of development; on the contrary, it can be used to reduce the disparities. For that reason the European Commission has issued the draft programme STAR, for the co-financing of advanced telecommunications facilities in the least favoured regions. In five years the ERDF would devote some 780 million ECU to the programme.

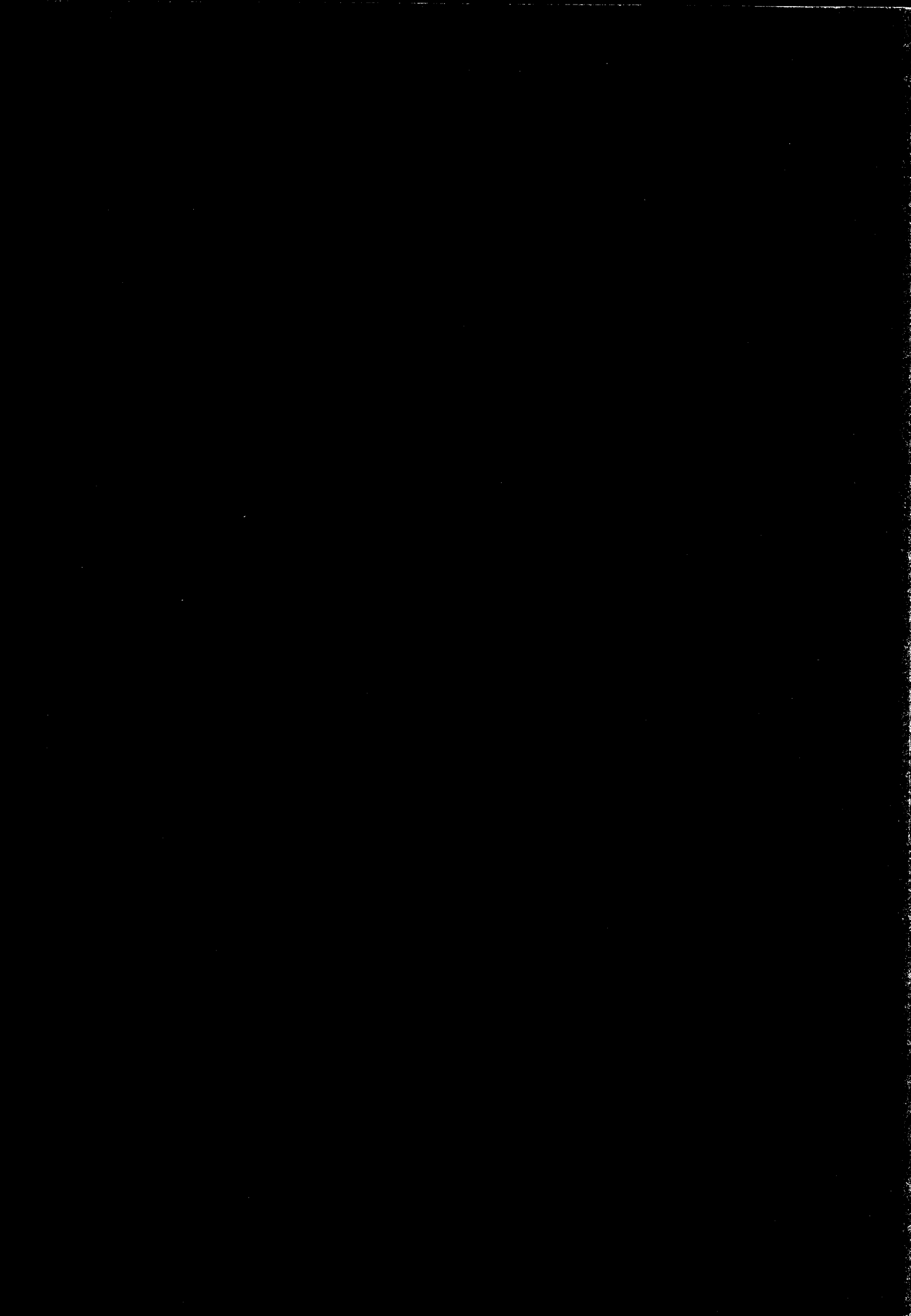
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To ensure the growth of an advanced industrial sector and the development of new services for all users, to cover the continent with a high-performance network operating at low cost, to open up frontiers and shorten distances between people: a telecommunications policy which pursues those ends makes a decisive contribution to the building of a united Europe ■







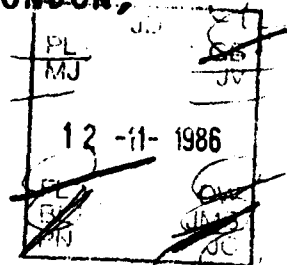




CHECK AGAINST DELIVERY  
SEUL LE TEXTE PRONONCÉ FAIT FOI  
ES GILT DAS GESPROCHENE WORT

~~HTP~~

ADDRESS BY PRESIDENT DELORS TO THE CONFEDERATION  
OF BRITISH INDUSTRIES (C.B.I.), LONDON,  
10 NOVEMBER 1986



Ladies and Gentlemen,

When I last spoke to the CBI, a year ago, Europe was in the middle of an institutional debate. Out of that came, two months later, the adoption at the Luxembourg Summit of the biggest reform of the Treaty of Rome since it was signed nearly thirty years ago - the Single European Act. I said then why, as I saw it, reform was having to be made - to head off the prospect of Europe going into gradual economic and technological decline. I explained how the reform could provide the opportunity for the European Community to take on a new lease of life.

Reforms always involves compromise and this applies to the Single European Act. The compromise involved has been the subject of controversy. Some people think it does not go far enough. Others think it goes to the limits of the acceptable. But at least the Single Act offers a way out of a situation where Europe was seizing up.

In fact, the Single Act has been a big hit with economic operators. They have greeted with enthusiasm the scheme for a single Europe-wide market by 1992, with its expected knock-on effect.

They are delighted at the prospect of greater currency stability. At having our word to say in a dollar-dominated world. And they are delighted with

the prospect of closer technological cooperation, without which our technology will become more and more dependent on others.

So our main concern, following ratification of the reform, is to make a start on implementing its aims. You can rest assured that the European Commission will be turning to full account the new institutional machinery. It will be using this to enable the Community to take its decisions more quickly and efficiently. And to establish new economic and social ground rules - the new framework, the new sphere in which you industrialists will be operating.

In consequence of the institutional reform a number of decisions concerning the single market and technological cooperation - what we call the specific programmes within the overall framework - will now be taken by majority vote in the Council of Ministers. But I want to stress to you that this process has got to be actively set in motion.

The single market. - This time last year, I was telling you about the Commission's White Paper, prepared under the direction of Lord COCKFIELD. The White Paper sets out the 300 decisions needed to establish a single European market. An economic area with no internal frontiers, allowing free movement of persons, goods, services and capital. As agreed by the Heads of State and Government at the Hague European Council in June, there are two key lines which, I hope, will be embarked on by practical action in 1987. They concern the abolition of tax barriers; and the opening-up of public contracts.

**Abolition of tax barriers.** - This is a difficult assignment, the more so given that Council unanimity will still be required in this case. But it is vital. How can there possibly be a single European market if major differences in indirect taxation remain. Differences which cause trade distortions and upset traffic flows. Differences which make life difficult for industry and involve massive red tape. Why should we go on any longer with a state of affairs where it is often as complicated to export to a Community country as to a non-Community one. Or where differences in tax rates and assessment bases interfere with free and fair competition ?

I should like to give you a few details of where we are going.

Real progress is possible. Do not forget that in 1987 the twelve member countries, all twelve of them, will have the same system of indirect tax-VAT. Surely that shows that decisive action can be taken in this exceedingly sensitive field of taxation.

Doing away with frontier checks includes doing away with fiscal checks. To make that possible, the Commission will be putting forward proposals, by the end of this year, for bringing the levels of VAT and excise duties in the Member States closer together. The aim is that they should be close enough to avoid distortions of trade when the frontiers are removed. That does not mean that we will be seeking to impose a single, harmonised rate for VAT or for the excise duties. We shall be careful to provide flexibility. We will probably propose more than one target rate of VAT and will certainly allow a margin of fluctuation around those target rates. The object is to provide a

Community régime which will allow the abolition of fiscal frontiers, but which Member States can adapt to their individual circumstances.

In the meantime, the Commission expects the Council to do two things : it should agree the proposals already in front of it for the completion of the structure of VAT and the main excise duties; and it should adopt the Commission's proposal for a rate standstill. The standstill is designed to prevent differences in tax rates within the Community from increasing further, while at the same time allowing Member States to move, if they wish, towards the likely zones of convergence. It combines the minimum necessary discipline with the maximum possible flexibility.

**Opening-up of public contracts** is also a key area with its own problems. The whole idea runs counter to the most time-honoured administrative and economic practices. But once again. How could there possibly be a single, fluid, moving market if it contains insulated pockets representing 10 % of Community GDP ? 200 billion Ecus. How can we let these compartmented captive markets continue, with their differing technical standards, just when European industry needs the knock-on effect from expanded markets. How can European industry meet the world challenge without the big economies of scale which give operators the incentive to work together and adopt common or mutually compatible standards ? For as the Hague European Council recognised, there is a close interrelation between standardization and the opening-up of public contracts. And the achievement of the single European market demands that we sweep away the impediments arising out of disparate standards, different technical rules and divergent national specifications.

I want to make the point - it serves to highlight the complexity of this issue - that a number of steps have already been taken to get the opening-up process going.

Directives were adopted in the 70s for harmonizing award procedures. And the number of tenders published in the Community's Official Journal by central and local authorities has grown year by year. But it has to be said that the impact of these directives, on tendering at Community level, has been disappointing. Their letter has too often been abused, and their spirit ignored.

So what is needed is a new approach. With that end in view the Commission has submitted to the Council a programme for action on three main fronts :

First, implementation of existing directives, which will be updated and amplified;

Second, providing the Commission with the means to act swiftly and simply in connection with tenders;

Third, fixing the sectors that will, over time, be affected by the opening-up of public contracts with the active involvement of both the authorities and industry. Priorities will be determined according to the economic prospect for the sectors and whether European standards exist. As you know, the present directives do not cover transport, telecommunications, energy or water, all sectors in which public contracts are of the utmost importance.

Here, then, we have a new approach, calculated to help the Community increase the pace. With Council decisions, in this field of public contracts, taken by majority, as provided in the Single Act.

Given these two priorities for our 1992 target, the single European market will begin to take shape. The European economic landscape of the future and the rules governing it will become clearer.

The single European market has you as its natural supporters. You rightly see it as a major precondition for Europe's medium-term economic recovery, through the scale it provides, the stimulus it will impart, the spur it will give to cooperation. We shall be establishing it by stages. But there is one area into which I would urge you to plunge right away - the area of technological cooperation.

Technological cooperation goes hand in hand with the establishment of the single market. Joint research and development schemes; projects involving two or more European countries; the framing of common or compatible standards : all these are moves to keep up with the world leaders. And they are in line with the thinking behind the single market.

It is from this angle that Community research and development policy is so relevant and so essential. The content of the new R & D programme we have submitted to the Council of Ministers makes this abundantly clear.

All the projects - on information technology, the life-blood of the single market; on biotechnology; on the "researchers' Europe" and the rest - all of them are trained on the same end and based on the same means : meeting common challenges together. We are not, repeat not, out to enter into some kind of competition with the Member States. We could not, in any case, with the budget we have submitted



- 7.7 billion Ecus (less than 5 billion pounds) over five years. Less than 2 % of overall R & D expenditure in the Community countries.

So I have to say that I cannot see why the Ministers should be showing so much indecision over the framework programme. After all, the Heads of State and Government did give technological cooperation a priority rating in the Single Act. They did provide it with a definite, unambiguous structure, the framework programme. And they did restate that commitment at The Hague when they said the momentum must not be allowed to fall away.

We are told that the Community programme comes expensive. I have just indicated the scale of expenditure. It is the absolute minimum needed to get the Community effort off the ground.

We hear references to cost-effectiveness. But the micro-chip industry people tell us that their return on the ESPRIT programme is 400 %. Despite the extra cost of cooperation.

We are said to be bureaucratic. But do people who say so know that it takes two European officials to manage a million pounds of R & D funds, and eight officials in the most efficient Member States ?

We are at a time when industrialists, and researchers, and academics are turning to us, to Europe, and saying they are ready to work together. When they look to Brussels to know how they are to work and with whom, to meet the challenges of our time. I tell you straight out that I do not see why, at such a time, the most solemn undertakings by the Heads of State and Government are not being put into effect faster.

I should like to think that the hesitations and doubts that we see at this time are just part of that period of questioning, when minds are in fact finally being made up.

For, Ladies and Gentlemen, with the coming of the Single Act we are entering a stage from which a strong, and more dynamic Europe may spring. Opportunities like this are rare in history. It may have been a long time coming. But now we have it !

There is nothing in the course of developments over more than a decade, since the crisis first set in; and nothing in the analysis of those developments; and nothing in the forecasts we are able to make, that invalidates the rightness of the path that we have chosen.

Europe is not a panacea... But there can be no cure without it.

Looking ahead in Europe. That is where all our dynamism, all our drive must go.

Everyone has his part to play.

You have... I have. We all have.





Model speech

THE LARGE EUROPEAN MARKET

Mr Chairman, Ladies and Gentlemen,

First, thank you for this opportunity to talk to you about the broad lines and initial results of the Community's action programme to complete Europe's internal market by 1992.

The Commission considers this action programme one of the greatest challenges facing the Community now that it has attained its full political and geographical stature following the entry of Spain and Portugal last year.

Six years to break down the remaining obstacles to establishment of a genuine common market; six years to complete the programme mapped out in the Commission's White Paper endorsed by the Heads of State and Government a year and a half ago in Milan.

Obviously, the process started then must be backed up by a sustained campaign to alert and mobilize public opinion. This must be targeted on economic circles, government authorities and universities, particularly the economics, politics and law faculties. Equally obviously, in practice implementation of the action programme mapped out in the White Paper will mean more European legislation for the Member States to incorporate into their national law.

These new measures will cover many legal and economic facets of everyday life in each Member State: business legislation, technical regulations and standards, social regulations, environmental protection legislation, administrative procedures, taxation, food health legislation, etc.

Similarly, the national courts will be called on to rule on secondary Community legislation more and more often. This is why it is so important to keep people informed, explain what is at stake and debate the major issues raised by the 1992 target date, combined with the new institutional procedures ushered in by the Single European Act signed last year.

First, though, a brief account of the reasons behind the action programme mapped out in the White Paper and of the broad lines of action before I venture an initial assessment of the general outlook.

I. ESTABLISHMENT OF A UNITED LARGE MARKET: AN INESCAPABLE NEED

First, why is it essential for the Community to succeed in establishing a large market and what are the central objectives of the White Paper?

The European Community is the largest economic bloc in the world, with a population of 320 million. In terms of trade, the Community generates 21% of world trade, compared with just 15% by the USA and 8% by Japan.

Yet despite its size, the Community has failed to capitalize on its enormous economic and human potential. Today its results lag behind the USA's and Japan's on all three of the key determinants of economic performance - output, development and application of new technologies, and employment/unemployment rates. Indeed, we are even falling further behind. There is no denying that the Member States' economic policies have been highly successful in certain respects, yet they have still not come to grips with the three fundamental problems just named.

Fragmentation and the lack of a single continental market is the root cause of Europe's inadequate economic performance.

Continuing compartmentalization of the national markets, each clinging to their own specific regulations and barriers, makes it increasingly difficult for industry and commerce to operate effectively and denies them the economies of scale and large market which are essential if they are to remain competitive on world markets. How come, therefore, that 30 years after the Treaty of Rome entered into force there is still no genuine common market, least of all in goods, despite the wide-ranging harmonization achieved in Brussels since 1958.

I would put much of the blame for the slowdown on the unfavourable economic climate which followed the unprecedented economic growth and speedy progress of the 1960s.

Although customs duties have been abolished since 1968, in practice the Member States have been covertly building up non-tariff barriers in a bid to shield their national markets and industries from the economic recession of the 1970s.

Since the early '80s, however, there has been a distinct change of attitude as European industry has gradually become aware that it is essential for its survival to have a continental market on which to develop and expand its product range.



European industry has come to realize that innovation and challenging past protectionism are its only hope of becoming truly competitive and profitable.

Consequently, incompleteness of the single European market implies heavy financial losses and missed opportunities.

By way of example, the Commission of the European Communities estimates that, on average, the remaining administrative barriers to trade within the Community give rise to costs equivalent to between 5% and 10% of the value of the goods.

To give another example, persistent recourse to discriminatory practices to avoid effectively opening up public contracts in turn costs an estimated 40 000 million ECU a year.

Manufacturers forced by national technical barriers to spread their product range cannot always reap the benefits of the lower unit costs allowed by longer production runs or pay off the rising cost of basic research and development work on new products.

Another telling symptom is that representatives of European industry and commerce were the first to put pressure on their governments to launch this major offensive towards fuller economic integration.

So much for the economic reasons. Now I must add the political reasons for revitalizing construction of the European market. This revival was foreshadowed and facilitated by the measures taken to resolve the Community's budget problems and to reshape the common agricultural policy.

One major step in this direction was the signature of the Single European Act enshrining a series of improvements to the Treaty of Rome, aimed particularly at smoothing the way for the action programme mapped out in the White Paper and at opening up, or putting on a more formal basis, fresh fields of action for the Community (social policy, R&D, environment policy and political cooperation).

I will say more about this later.

What then are the chief planks of the programme set out in the White Paper?

The Commission White Paper, draws a distinction between three separate, yet interdependent activities: the removal of physical, technical and fiscal barriers.

Obviously, the internal market cannot be completed at a stroke. This is why the White Paper sets a detailed timetable for implementing the Commission proposals over the transitional period leading up to 1992 so that the adjustments needed in order to remove frontier barriers within the Community once and for all are not over abrupt.

A. Removal of physical barriers

1. For the man in the street, the frontier barriers and checks are the prime example of the persistent divisions within the Community.

The section of the White Paper on the formalities imposed on private citizens calls for abolition of these police and tax formalities. The general idea is to bolster the Community's external frontiers. To achieve this, alongside closer intergovernmental cooperation on policing, combating terrorism and controlling drugs and arms trafficking, the Commission envisages harmonization of national legislation, primarily to shape a common visa policy and a common system for extradition, preventing illegal immigration, etc.

Obviously, this is a highly politically sensitive subject on which it will be extremely difficult to make progress. Nevertheless, the trend towards greater cooperation between the Member States is irresistible. Already a series of bilateral agreements have been concluded to implement the first phase of the programme by the end of this year, i.e. to facilitate frontier crossings within the Community.

I must stress, though, that the Commission is by no means hostile to spot checks at frontiers whenever circumstances demand.

2. Nevertheless, in normal circumstances, frontier checks will have to be abolished for goods too.

For example, an end must be put to the checks on lorry axle weights and dimensions and on use of the national quotas which still hamper road transport operators. Naturally, the transport quotas themselves must be phased out. Equally, there would be no need for systematic safety inspections if all the Member States were to adopt the same road safety standards. It must be added that a great deal has already been done to simplify the procedure: in 1988 a single administrative document will replace the 80 forms currently demanded throughout the Community before goods can enter different Member States. From 1992 on the single administrative document will be required only for trade with non-Community countries.

In addition, the White Paper calls for harmonization of national standards to allow free movement of live animals, animal products and plant products. This too would obviate the need for frontier inspections and replace them by a

system of mutual recognition of veterinary and plant health certificates.

**B. Removal of technical barriers**

However ambitious in itself, the objective of creating a Europe without frontiers is meaningless if Europeans and European businesses still encounter inside the Member States the very barriers which hamper the free movement of goods and persons between Member States today. To combat this, the Commission is planning proposals to remove these "technical" barriers in line with a pre-set timetable. These proposals will cover goods, free movement of workers and members of the professions, services (financial services and transport), public procurement contracts and capital.

All I wish to do here is to explain a few points connected with these fields.

First, what approach has the Commission adopted to remove technical barriers on industrial goods and agri-foodstuffs?

As I mentioned at the start, diverging national public health, safety and environmental protection standards and technical regulations severely curtail the free movement of goods.

In truth, however, a large proportion of these provisions are designed to protect the national economies. The Community has already achieved a great deal in this field, including technical harmonization of a host of national laws by over 200 Community Directives.

What is more, in 1979 the Court of Justice in Luxembourg made a significant contribution with its ruling on the "Cassis de Dijon" liqueur case.

The principles established by the Court boil down to: any product legally manufactured and marketed in one Member State must, in principle, be allowed onto the market of any other Member State.

The Commission White Paper takes this ruling as the starting point for plans to evolve a policy putting greater emphasis on Community-wide mutual recognition of testing and certification procedures. Wherever this strategy proves inappropriate, the Community will apply a new approach to European standardization.

In a nutshell, future harmonization directives in fields warranting European standards will merely lay down the basic rules to protect public health, safety and the environment. Definition of the technical specifications will be left to European standardization institutes, such as the CEN (European Committee for Standardization) or CENELEC (in the case of electrical appliances). Not only will this save time, enhance efficiency and obviate the need for lengthy negotiations amongst the Council experts but also, in the future, the standstill arrangements will preclude the creation of any fresh obstacles, as provided for by Directive 87/189, thanks to the requirement to justify any standards set and to the procedure for the Commission and the Member States to examine any harmonization proposals wherever necessary.

The Commission has already sent the Council proposals which would apply the new approach to pressure vessels, the composition, packaging and labelling of food, and toys.

Second, what approach has the Commission adopted to remove barriers to the freedom of establishment for the self-employed and workers throughout the Community?

Workers can already move freely, apart from Spanish and Portuguese workers during the transitional period. Freedom of establishment, however, is restricted primarily to the medical profession. At the request of the European Council, last year the Commission submitted a proposal on the introduction of a generally applicable system of mutual recognition of qualifications in all the professions not yet liberalized. The Council is already considering the matter. The basic idea is to take account of university education and experience on the job.

Third, what is to be done about the freedom to provide services?

Major initiatives are planned, not only on traditional services (particularly transport, banking and insurance) but also on new services (such as information marketing, audiovisual services, etc.) Provided the 1992 target date is achieved, these measures should generally stimulate this high-growth sector of the economy.

Tangible progress is expected in the transport sector too. Sea-going shipping services are to be deregulated next year, inland freight in 1988 too and passenger services by road in 1989.

The White Paper also announces greater liberalization of financial services such as banking and insurance. Proposals on non-life insurance have been tabled already. Motor insurance will be opened up by 1989. And the obstacles to life insurance services will be removed in 1991. Clearly, this deregulation of financial services will have to be backed up by an appropriate monetary policy aiming primarily at making the European Monetary System work smoothly and at removing all exchange controls.

One other big field still shielded by massive technical barriers between Member States is the public procurement market which, alone, generates 10-15% of the Community's GDP. The statistics show that little is being done to apply the two Directives already introduced to produce more transparent tendering procedures.

The White Paper lists measures to remedy the discriminatory practices pursued in the Member States, including improvements in the existing Directives, more vigorous enforcement of the existing provisions and extension of them to four new areas: energy, transport, water supply and telecommunications.

Last but not least, steps must be taken to create conditions and an environment favouring greater cooperation between businesses. Cooperation of this kind would strengthen the industrial and commercial fabric of the internal market. Small and medium-sized undertakings would benefit particularly from this move, because their size leaves them particularly sensitive to their general environment. All too often, they are deterred by the existing obstacles.



C. Removal of fiscal barriers

Taxation is one of the areas where the consequences of the 1992 objective are likely to be felt most. The high point of the efforts to harmonize indirect taxation came in 1977 with the adoption of a common basis of assessment for value added tax (VAT) by the Council. Since then very little progress has been made. Still the Member States apply different indirect taxation (VAT and customs duty) rates and some have more rates than others. These differences considerably distort competition.

As long as such major differences between the national indirect taxation systems persist, it will be impossible to remove frontier checks, since the Member States will wish to see for themselves that all the duties demanded by their national system have been paid on any goods imported. Consequently, before frontiers and frontier inspections can be ended, a Community clearing house system will have to be set up, together with a system for linking bonded customs warehouses and extensive approximation of indirect taxation.

Of course, any such approximation will encounter opposition and difficulties in the Member States. The Commission is well aware of the budgetary, economic and social problems which harmonization of indirect taxation could unleash in certain Member States. It will have to grant temporary exemptions. Nevertheless, it intends to keep up the pressure on the Member States to adopt the harmonization measures needed to complete the internal market and make it work properly.

In the relatively short time since it was submitted, the White Paper has spectacularly revitalized the Council's deliberations on the Commission's proposals, even if a few causes for concern persist.

In the second part of my talk I will therefore turn to the progress made on implementing the action programme and to the new working methods adopted by the Council and Parliament.

## 2. Progress made

Since the White Paper was submitted in June 1985, satisfactory progress has been made on the right of establishment for architects, pharmacists and general practitioners and on the free movement of capital and securities. In particular, a key proposal has been adopted on deregulation of a variety of operations connected with the movement of capital. And the outlook is promising, as the new approach to standardization is applied to specific cases (such as pressure vessels) and a system for mutual recognition of testing and certification procedures is put into place.

Similarly, the newly-established highly flexible legal structure known as the "European Economic Interest Grouping" will facilitate cooperation between businesses in different Member States.

One final point to note is the adoption of the COMETT programme by the Council to form a bridge between universities and businesses.

On the debit side, however, very few decisions have been taken on transport, despite the new political will and the speeding-up of work in this field since the Court of Justice ruling.

By contrast, the Council has paid little attention to taxation. Work on this subject was virtually suspended, pending the report by the ad hoc working party, until the Council meeting on financial affairs on 16 June 1986. In response to this report the Council called on the Commission to submit the proposals needed for the internal market to work smoothly. The central proposals were submitted in December 1986 or early January 1987. Within the Council, although the Council working party has resumed work, only one modest proposal has been adopted so far. The working party has yet to consider the standstill proposals which form the centre-piece of the new Commission approach.

Finally, although the Council has considerably speeded up its work on agriculture, plant health, animal health and agri-foodstuffs remain the areas with by far the longest backlogs. The same applies within the Commission too, where there have been lengthy delays in drafting proposals.

And the same three fields raise the problem of delegation of powers to the Commission.

### 3. Improved decision-making procedures

Despite the delays mentioned, the White Paper has injected a fresh impetus which has appreciably speeded up the drafting of proposals by the Commission and discussion of the proposals by the Council. One prime example of this fresh political will was the package of decisions adopted by the internal market Council on 1 December 1986, including measures covering commercial agents, pharmaceutical products, semi-conductors, standardization of information technology and telecommunications and the new directive on public contracts.

In a parallel development, in June 1985 the Council improved its working methods by introducing a rolling programme based on the White Paper and jointly agreed by the President in office and his two successors. The aim of this procedure is to achieve greater continuity and deploy efforts more efficiently. In addition, in October 1986 the Council decided to set up a high-level coordination group to prepare special sessions on the internal market more thoroughly and help find a compromise.

Another point to note is the importance of the Single European Act to completing the internal market. The new decision-making procedures originally planned to enter into force in January 1987 should expedite work within the Council and make it possible to catch up on the backlog and keep to the 1992 deadline.

Without entering into all the details of the Single Act here, the plan is for the Council to switch to qualified majority voting on most internal market issues. Once the Act enters into force, following ratification by Ireland, it will affect roughly two thirds of the measures sketched in the White Paper.

But measures affecting the professions and tax harmonization will still require a unanimous vote. Admittedly, there has been criticism of the limited progress made in the Single Act and of the risks inherent in some of the provisions. For instance, even after the Council has adopted a harmonization measure by qualified majority, Member States are still free to apply different national provisions under exceptional circumstances warranted by certain important requirements, albeit under the supervision of the Commission and the Court of Justice.

Finally, the Single Act introduces a cooperation procedure to give Parliament a greater say in European law-making in a variety of fields, including the internal market. Although the procedure will leave the Commission the right of initiative, it will give Parliament a direct influence on the Council's Decision; although it will still be for the Council to take the final decision, it will be more difficult for the Council to reach a decision ignoring any amendments proposed.

### CONCLUSIONS

Cautious optimism.

Delays have occurred.

Keep up the pace within the Council and allow greater delegation of power from the Council to the Commission, particularly in the case of adaptation of existing Community legislation to technical progress.

Mobilize public opinion behind this common challenge, as indicated in the White Paper. Europe is at the crossroads. Either it must press ahead firmly and resolutely or it must settle for mediocrity.

Let there be no doubt that the future of the Community depends largely on its ability to complete the internal market.









## INCENTIVES TO "BUY NATIONAL"

### THE "BUY IRISH" CAMPAIGN

#### The barrier to trade

The Irish Government funded an advertising campaign to promote the sale and use of Irish products, with the aim of reducing the volume of imports.

#### Community rule infringed

Article 30 of the EEC Treaty.

In its Directive 70/50/EEC the Commission classed "recommendations" among "measures" within the meaning of Article 30 et seq by including them in the definition "any instruments issuing from a public authority which, while not legally binding on the addressees thereof, cause them to pursue a certain conduct".

Even where these recommendations are not cast in the form of binding acts and do not legally bind their addressees, the latter feel compelled to comply for a whole series of reasons, ranging from respect for or obedience to authority or fear of unpleasant consequences to the appeal to civic duty, patriotism, etc.

#### Action taken and impact on the internal market

In its judgment of 24 November 1982 in Case 249/81, the Court said that the advertising campaign to promote the sale and purchase of national goods launched by a government and carried out with its assistance has an effect comparable to that resulting from government acts which are binding. "Such a practice cannot escape the prohibition laid down by Article 30 of the Treaty solely because it is not based on decisions which are binding upon undertakings. Even measures adopted by the government of a Member State which do not have binding effect may be capable of influencing the conduct of traders and consumers in that State ..."

The Commission initiated an infringement procedure under Article 169 of the EEC Treaty, and the Court found against the Irish campaign. Similar procedures have been initiated against other Member State, which have since put an end to the infringements involved.

The ban on recommendations to "buy national", which the Commission has unremittently pursued every time such a recommendation has come to its knowledge, is an effective weapon against these subtle expression of neo-protectionism, suggesting an appeal to nationalism and self-sufficiency, which are the very negation of the Community ideal and risk stirring up national prejudices based on the origin of a product.

"Buy national" campaign are still running and are the subject of complaints and infringement procedures (including Infringement A 467/86 Ireland (cement) and complaint 177/87 United Kingdom (Sizewell B)).

DISCRIMINATION IN THE GRANT OF FINANCIAL SUBSIDIES  
BY ITALY FOR THE PURCHASE OF VEHICLES BY  
TRANSPORT AUTHORITIES

The barrier to trade

Under Italian law central government subsidies may be granted for the purchase of vehicles by public transport authorities. The subsidies amount to 20% of the price of the vehicles purchased.

These subsidies are granted only if the vehicles purchased are of Italian manufacture.

Community rules infringed

Provisions of this sort infringe the EEC Treaty rules concerning the free movement of goods within the Community (Article 30 EEC). They cannot be justified on any of the grounds provided for in Article 36 or for any of the reasons considered by the Court in past judgments as "imperative requirements".

These provisions discourage the purchase of vehicles imported from other Member States and indirectly encourage the purchase of vehicles produced in Italy, in that the public transport authorities cannot claim the subsidies unless they buy vehicles made in Italy.

Community action taken and impact on the internal market

The Commission brought the matter to the Court under Article 169 EEC. In its judgment delivered on 5 June 1986 the Court uphold the Commission's position and declared that Italy had failed to meet its obligations.

When this judgment is put into effect - and the Commission will not fail to ensure that it is - the public transport authorities in Italy will enjoy the same conditions for purchase and subsidy whatever the origin (Community or national) of the vehicles. The legal and economic conditions will thus apply to ensure that the selection is made in accordance with non-discriminatory objective criteria.

The Italian authorities have given an assurance that the disputed condition will no longer be applied pending its repeal by a law now tabled.

NATIONAL CERTIFICATION PROCEDURES AND DUPLICATION  
OF INSPECTIONS REQUIRED BY SEVERAL MEMBER STATES

The barrier to trade

In some Member States the marketing of certain products is subject to a compulsory certification procedure. The purpose of such a procedure is first to check the conformity of a model with national technical requirements, and secondly to check the conformity of mass-produced products with the model approved. The result is to compel manufacturers in other Member States to adapt their products to these technical requirements and to prevent the importation of products lawfully manufactured in those States in accordance with technical specifications which are different from those in force in the country of destination.

In most cases the procedure implies that access to a national market is subject to inspections, tests or analyses when similar or equivalent inspections or analyses have already been carried out in the exporting country.

Certification can take several forms: type approval, authorization, model approval, type examination, inspection of conformity and so on.

Community rule infringed

For products lawfully manufactured in other Member States, the very principle of a compulsory certification procedure based solely on national technical specifications is contrary to Article 30 of the EEC Treaty.

In its communication on the "Cassis de Dijon" judgment, the Commission said:

" The principles deduced by the Court imply that a Member State may not in principle prohibit the sale in its territory of a product lawfully produced and marketed in another Member State even if the product is produced according to technical or quality requirements which differ from those imposed on its domestic products. Where a product 'suitably and satisfactorily' fulfils the legitimate objective of a Member State's own rules (public safety, protection of the consumer or the environment, etc.), the importing country cannot justify prohibiting its sale in its territory by claiming that the way it fulfils the objective is different from that imposed on domestic products."

Nevertheless, for products which are hazardous for human health or life the Court accepts that the Member State importing products lawfully manufactured in another Member State maintains a "watching brief" before the products are first marketed. The way in which this right is exercised must not constitute a disguised restriction on trade within the meaning of the last sentence of Article 36 of the EEC Treaty. Account must also be taken of the principle referred to above, namely the acceptance of products manufactured in accordance with technical requirements that are different from, but as safe as, those in force in the importing Member State. Account must also be taken of the principles deduced by the Court in its judgment of 17 December 1981 in Case 272/80 (Biologische Producten), to the effect that the authorities of the importing State are not entitled to require without good reason technical or chemical analyses or laboratory tests where the same analyses and tests have already been carried out in another Member State and the results are available to the authorities and can be transmitted to them upon request.

#### Action taken and impact on the internal market

On the basis of these principles the Commission has attacked a wide range of national provisions providing for compulsory certification or involving "duplicated inspections". It ensures strict compliance with these principles, especially as regards draft technical rules notified to it by the member States in accordance with the "notification" Directive 189/83.

By applying these principles the Commission can take thorough-going action towards "the mutual recognition of inspections, tests and analyses carried out" in other Member States which certify that a product meets requirements that are equivalent (not least as regards safety) to those required in the importing country.

This is a fundamental principle spelt out in the White Paper on completing the internal market.

The results achieved by the Commission so far are promising and make this legal approach an effective instrument in the service of the 1992 objective.

BAN ON THE SALE IN GERMANY OF MEAT-BASED TRADITIONAL  
PRODUCTS FROM OTHER MEMBER STATES

The barrier to trade

Under Sections 4 and 5 of the German decree "Fleischverordnung", meat-based products may not be marketed if they contain certain ingredients.

As a result, typical products from other Member States such as French pâté cannot be sold in Germany if they contain, for example, milk or milk products, or eggs or egg products.

Community rule infringed

The German provisions are an infringement of Article 30 of the EEC Treaty, which enshrines the principle of the free movement of goods lawfully manufactured or marketed in a Member State. These provisions are not justified for any reason to do with public health or consumer protection or fair commercial dealings.

By keeping national markets walled off from each other, national rules of this type run counter to the completion of the large single market, since typical national products, for example, cannot be marketed in all Member States. The results are twofold: fewer outlets for trade and industry, and a narrower choice of products for consumers.

Community action taken and impact on the internal market

The Court has repeatedly confirmed, in cases concerning "Cassis de Dijon", bread, liqueurs and vinegar, that a ban on marketing products lawfully manufactured in other Member States constitutes in principle a barrier to trade.

The very concept of a common market means that products can move freely without any artificial walling off of national markets. By ensuring respect for the principle of the free movement of goods, in this case meat-based products, the Commission affords German consumers the opportunity to discover the culinary delights of other parts of the Community.

A large number of similar provisions in almost all the other Member States concerning typical food products lawfully manufactured in a Community country have been abolished following action by the Commission.

The Commission considers that Community consumers will be the better protected when they are free to choose among a very wide and varied range of products of every origin, and can thereby discover and appreciate products from other Member States as "made and marketed".

This is a good way of enabling Community citizens to understand the practical meaning and effect of the great internal market, a primary Community objective, and to benefit from the advantages it offers.

## COMPULSORY MARKING OF PRODUCT ORIGIN IN THE UNITED KINGDOM

### The barrier to trade

The United Kingdom required that the country of origin of certain products (clothing, household appliances, etc.) should be shown on the packaging or at the point of sale.

### Community rule infringed

Compulsory marking of country of origin on products is contrary to Article 30/EEC. It cannot be justified on grounds of consumer protection, the Court having stipulated that consumers are equally well protected if it is left to the manufacturer to state the country of origin on the product if he wishes.

Origin marking or information is designed to enable consumers to distinguish between home-produced products and imported products and thus act according to any prejudice they may have against the imported products. As the Court has also emphasised, compulsory marking of origin within the common market handicaps imported products and makes them more difficult to sell.

### Community action taken and impact on the internal market

The Commission initiated an infringement procedure under Article 169/EEC. In its judgment of 25 April 1985 in Case 207/83 the Court found against this stipulation by the United Kingdom. The legislation concerned was abolished and the file is now closed.

Similar provisions in other Member States have been abolished following action by the Commission.

Abolition of the "made in" requirement promotes economic interpenetration in the Community by facilitating the sale of goods produced in accordance with a division of labour among Member States.

The Trade Descriptions Act 1972 requiring that the country of origin be shown when a product manufactured outside the United Kingdom is sold under a brand name registered in the United Kingdom is now being repealed, under a Bill now before the House of Commons.



BAN ON THE IMPORTATION OF MEAT PRODUCTS INTO  
THE UNITED KINGDOM

The barrier to trade

In September 1981 the United Kingdom introduced regulations restricting imports of poultrymeat and other poultry products into the United Kingdom from all Member States except Ireland and Denmark.

Community rule infringed

Article 30 of the EEC Treaty. The reason adduced (human and animal health protection) cannot be validly founded on Article 36.

Damage to the internal market: these regulations closed the United Kingdom market to poultrymeat and other poultry products from other Member States.

The measure's main effect was to stop imports of French poultry, which was selling at very attractive prices just before Christmas 1981.

Action taken and impact on the internal market

The Commission initiated an infringement procedure under Article 169 of the EEC Treaty against the United Kingdom, and the Court held that the regulations were not compatible with Community law and constituted a disguised restriction on trade between Member States.

Restrictions on imports of poultrymeat and poultry products into the United Kingdom were accordingly lifted and a major protectionist barrier to trade between Member States was abolished.

The French producers instituted proceedings for damages for loss of sales resulting from the import ban. The case was closed when the UK Government paid £ 3.5 million.

BANS ON THE SALE IN GERMANY AND GREECE OF BEER  
FROM OTHER MEMBER STATES

The barrier to trade

Both Germany and Greece have "purity laws" for beer. These laws provide that beer may be manufactured solely from four ingredients: hops, malted barley, yeast and water. In all the other Member States a large proportion of beer production uses other raw materials such as maize and barley and certain additives such as preserving, colouring, foaming agents, etc. This means that many traditional types of beer lawfully manufactured and marketed in other Member States are not allowed to be sold in Germany and Greece if they contain additives. Foreign types of beer manufactured from raw materials other than malted barley may be marketed, but may not be called "beer".

Community rule infringed

The German and Greek provisions on beer are incompatible with Article 30/EEC. By refusing to allow traditional beers from other Member States to be called "beer" because they are produced from raw materials other than malted barley, the Greek and German authorities are reserving a generic name solely for products made under a national method of manufacture and they are disparaging traditional products from other Member States, which may be marketed but not under the name of beer. The absolute ban on using any additive whatsoever in the manufacture of beer, although based on public health reasons, is obviously excessive. In past judgments the Court has stated that Member States may in principle extend a ban on additives in foodstuffs to imported products, provided that waivers are granted where the use of additives is justified by a real need and they do not present any risk for human health.

Action taken and impact on the internal market

The Commission initiated infringement procedures under Article 30 against Germany and Greece and brought a case to the Court in 1984 under Article 169.

In its judgment of 12 March 1987 the Court agreed with the Commission in every respect. It said that a Member State's legislation should not, in effect, crystallize consumer habits and reinforce the acquired advantage of the national industries serving them. This action by the Commission should open up access to the German and Greek markets to producers in other Community Member States and thus enable German and Greek consumers to discover the beers of other Member States.

UHT MILK: LICENSING AND REPROCESSING CONDITIONS

The barrier to trade

Over a long period the United Kingdom enforced a variety of restrictions on the importation and marketing of UHT milk and cream. This involved a compulsory import licence and, in effect, compulsory reprocessing of imported UHT milk.

Community rule infringed

Article 30 of the EEC Treaty: the United Kingdom tried to justify its requirements on health protection grounds, but the measures were out of proportion to the aim in view and therefore could not be justified under Article 36 (in that there were more suitable health protection methods that were less restrictive for intra-Community trade).

Import licences have long been regarded as a formality that is incompatible with Community law. Even when it was argued that the United Kingdom authorities were flexible in granting licences, the Court confirmed that the free movement of goods was a right, enjoyment of which could not depend on any discretionary power or concession granted by national authorities. Making this formality compulsory slowed down the marketing of milk and needlessly increased costs for importers.

Community action taken and impact on the internal market

The Commission initiated an infringement procedure under Article 169; the Court found against the UK measures, deeming them to be disproportionate and an unjustified barrier in trade between Member States.

Imports of UHT milk were liberalized and substantial markets were opened for EEC products. British consumers will henceforth be free to choose between milk as traditionally bought and products from other Community countries.

## RESTRICTIONS ON PARALLEL IMPORTS OF CARS INTO ITALY

### The barrier to trade

Pre-tax prices vary widely from one Community country to another. For several years prices have been on average 20 to 30% higher in Italy and the United Kingdom than in Belgium or the Netherlands for example. This has naturally encouraged "parallel imports" of cars. When parallel imports of cars into Italy were running at about 7 500 vehicles per month, the Italian authorities unilaterally introduced stricter registration conditions for parallel-import cars by first requiring authentication and official certification of the documents issued in the country where the vehicle was purchased, and then production of a "certificate of origin" issued by the make's representative in Italy. In practice the latter document turned out to be very difficult to obtain and parallel imports had almost entirely ceased by March 1985.

### Community rule infringed

"Parallel imports" are characteristic of any open internal market. If prices vary in different parts of the Community, consumers in a region with higher prices will understandably make their purchases in areas with lower prices, or dealers will obtain goods where they are cheaper and sell them where they are dearer. The Court and the Commission have therefore always made sure that the possibility of parallel imports should not be threatened either by the types of action by undertakings banned by Articles 85 and 86 of the EEC Treaty (competition rules) or by government measures prohibited by Articles 30 to 36 (free movement of goods).

In the case in point, the formalities introduced suddenly and unilaterally by the Italian authorities were clearly incompatible with Articles 30 to 36, as they made it difficult or impossible to register parallel-import cars.

### Action taken and impact on the internal market

As soon as it learned that parallel imports of cars into Italy had been blocked, the Commission initiated an infringement procedure under Article 169/EEC. When the Italian authorities did not comply with the Commission's reasoned opinion, it at once took the matter to the Court with a request for immediate provisional measures. By order of 7 June 1985 the President of the Court ordered Italy to suspend, until the Court had decided on the substance of the case,

the measures which made it virtually impossible to register parallel import vehicles. Thanks to the Commission's prompt action, parallel imports resumed at once and are now being carried out normally. As to the substance, the compatibility of the Italian measures with Article 30 to 36/EEC, the case is still before the court.

BAN ON THE MARKETING IN BELGIUM OF MARGARINE

FROM OTHER MEMBER STATES

The barrier to trade

It was stipulated by law that margarine and cooking fat could not be marketed in Belgium except in square packets. The idea was to prevent any confusion in the minds of consumers between butter and margarine. As there were no laws in the other Member States (except France) requiring that margarine be put up in square packets, margarine brands lawfully manufactured and marketed in a different shape in other Member States could not be imported into Belgium. If a manufacturer from another Member State wished to export margarine to Belgium in compliance with Belgian law, he was obliged to purchase entirely new wrapping and packaging machinery in order to meet Belgian requirements. As a result, little margarine was imported into Belgium at that time, even though margarine prices were considerably higher in Belgium than in the other Member States.

Community rule infringed

Although the Belgian law imposing square packets for margarine applied to domestic and imported products alike, it nevertheless constituted a measure having an effect equivalent to a quantitative restriction on imports incompatible with Article 30/EEC, in that it prevented the importing and marketing in Belgium of margarine lawfully manufactured and marketed in other Member States in a different shape. It was clear in this case that concern for consumer protection and information did not justify a measure which so heavily restricted trade, since proper labelling would have been sufficient.

Action taken and impact on the internal market

The question whether the Belgian rules imposing square packets for margarine were compatible with Community law was referred to the Court for a preliminary ruling (Judgment of 10 November 1982 in Case 261/81, Rau v De Smedt). The Court clearly stated that applying legislation requiring a particular form of packaging in one Member State to margarine imported from another Member State in which it was lawfully produced and marketed constituted a measure having an effect equivalent to a quantitative restriction within the meaning of Article 30/EEC, since consumers could be adequately protected and informed by means less restrictive of the freedom of trade.

Following this judgment the Commission asked the Belgian, French and German authorities to stop imposing certain types of packaging for margarine imported from other Member States. This case clearly shows how the abolition of barriers to trade under Article 30 can be a flexible tool in the service of the full internal market. It had even been suggested in some quarters that national laws on margarine would have to be harmonized so that it could move freely throughout the Community! Consumers should also be well pleased: henceforth they have the choice between the margarines of several countries, which should have a favourable impact on prices.

OBLIGATION TO HAVE A REGISTERED OFFICE IN GERMANY

IN ORDER TO MARKET MEDICINAL PRODUCTS

The barrier to trade

The German law on trade in medicinal products provided that pharmaceuticals could not be marketed except by pharmaceutical firms having a registered office on the territory of the Federal Republic. This provision was a barrier to intra-community trade in that it compelled pharmaceutical firms established in other member countries to incur the costs of becoming established in Germany and thus made access to the German market more difficult or even impossible for some undertakings, especially small and medium-sized enterprises.

Community rule infringed

This type of measure is incompatible with Article 30/EEC because it hinders imports from other Member States and is not justified on grounds of protection of human health and life within the meaning of Article 36/EEC. There is a harmonized Community procedure (Directive 65/65/EEC) for marketing medicinal products: all necessary public health guarantees can be ensured under this procedure without there being any need for the firm marketing the products to be established on the territory of the Member State concerned.

Community action taken

The Commission initiated an infringement procedure under Article 30/EEC against the German Government and brought the matter before the Court of Justice. The Court in its judgment upheld the Commission's view: the obligation to have a representative established in the importing country is incompatible with Article 30/EEC and cannot be justified under Article 36/EEC.

Similar provisions in other Member States have been abolished following the Commission's action.

This action by the Commission is firmly in line with the aim of creating a large internal market and it is far from symbolic. For small and medium-sized firms and for parallel importers, the obligation to be established or have a representative in a country can be an insuperable obstacle to access to that country's market.



RESTRICTIONS APPLIED BY ITALY CONCERNING PAYMENT  
FOR IMPORTED GOODS

The barrier to trade

The rules in Italy provided that advance payments for goods to be imported were subject to the lodging, by the importer, of deposits or a bank security to the order of the Italian foreign exchange office. Every payment was regarded as an "advance" payment if it was made before the importer had disposal of the goods. In international trade practice, this form of payment is common and quite customary. The bank carrying out the operation was required to pay the amount of the deposit into a current account without interest in the name of the importer, this account being blocked in favour of the Italian exchange office.

The deposit or bank guarantee was set at 5% of the equivalent in Lire of the payments to be made in advance and was required for imports of a value above LIT 10 million.

Failing proof that importation had taken place within the time limit laid down (30 days after the advance payment) the Ministry for Foreign Trade confiscated all or part of the deposit or enforced the recovery of the bank guarantee for transfer to the treasury.

Community rules infringed

These rules were certainly contrary to Article 30 EEC. The obligation to pay a deposit into a non-interest-bearing account or to lodge a bank guarantee when the goods imported into Italy had been paid for before they were released for home use, in conjunction with the obligation to import those goods within a fixed period subject to loss of the deposit if the deadline was exceeded, imposed on the importer very heavy charges which did not attach to national transactions. Such rules acted as a deterrent to dealings with other Community countries and encouraged operators to make their purchases in Italy.

Action taken and impact on the internal market

The Court delivered two judgments on 9 June 1982 (Joined Cases 206, 207, 209 and 210/80 and 95/81) on two cases concerning the Italian rules in question (one submitted by an Italian Court under Article 177 EEC and the other by the Commission under Article 169 EEC).

In both judgments the Court declared the Italian provisions to be contrary to Community law.

Italy has since complied with the Court's judgment.

Lifting these restrictions on payments placed national transactions and transactions with businesses elsewhere in the Community on an equal footing, allowing traders to make their purchases in conditions of competition proper to an internal market.

MINIMUM PETROL PRICES (FRANCE)

The barrier to trade

Under a French law minimum retail prices were fixed for motor fuels, mainly based on selling prices in French refineries.

Community rule infringed

This provision infringed the principle of the free movement of goods and could not be justified on consumer protection grounds (Articles 30 et seq. EEC). It was detrimental to imported goods by preventing them from freely competing on the market on the basis of more favourable cost prices.

Community action taken and impact on the internal market

The case was referred to the Court of Justice for a preliminary ruling by a French court. The Commission had argued before the Court that the rule violated the principle of the free movement of goods by discouraging imported products. In its judgment of 29 January 1985 (Case 231/83) the Court agreed with the Commission.

France complied with the Court's judgment by liberalizing the rules on petrol prices.

Similar provisions in other Member States concerning various products have been abolished following Community action. The effects of abolition are plain to see:

- importers can now sell products imported from other Member States at more competitive prices;
- consumers can find petrol at prices lower than the previous minimum prices and thus fully benefit from the effects of liberalizing the market in the Community.

TAX ADVANTAGES FOR NEWSPAPER PUBLISHERS USING  
FRENCH PRINTING FIRMS

The barrier to trade

Under a French tax law, certain tax reliefs (deductions from taxable profits) were withheld from publishers who had their publications (newspapers and magazines concerned mainly with politics) printed abroad.

Community rule infringed

This measure was contrary to the principle of the free movement of goods (Articles 30 et seq. EEC). It discouraged imports of newspapers or magazines printed in other Member States by encouraging newspaper publishers to use French printing firms for their publication.

Community action taken and impact on the internal market

Having received several complaints from other Member States, the Commission initiated an infringement procedure against France which led to a judgment by the Court of Justice on 7 May 1985 (Case 18/84).

France complied with the judgment by abolishing the measure in question.

French newspaper publishers can now have their publications printed in other Member States without losing the tax reliefs in question. This outcome should therefore be to the advantage of printing firms in other Member States.

## UNWARRANTED OR EXCESSIVE CUSTOMS PENALTIES

### The barrier to trade

Some penalties imposed by customs officials in various Member States are unwarranted or out of proportion to the offences committed. Such penalties often take the form of fines but also sometimes confiscation.

### Community rule infringed

Such penalties are contrary to the principle of the free movement of goods (Articles 30 et seq. EEC) as interpreted by the Court in several judgments, for they are a hindrance or downright discouragement to imports.

### Community action taken and impact on the internal market

When it receives complaints from traders or private individuals, the Commission approaches the national authorities and often obtains a reduction or even a full refund of the fines imposed or restoration to the owners of the items confiscated.

The Court has disallowed excessive penalties in such judgments as those handed in Cases 41/76 and 52/77.

The publicity received by some of these cases has enabled a growing number of traders and individuals to benefit by the Commission's action. In this way the Commission can fulfil to greater effect its role of protecting the legitimate rights and interests which every citizen enjoys by belonging to the Community.

A PREFERENTIAL POSTAGE RATE RESERVED  
FOR CERTAIN CATEGORIES OF NEWSPAPERS AND PERIODICALS,  
IMPEDING THE CIRCULATION IN FRANCE OF PUBLICATIONS  
FROM OTHER MEMBER STATES

The barrier to trade

Under the postal and telecommunications code a preferential postage rate was granted to French newspapers and periodicals, and to foreign publications provided that they were posted in France and that reciprocal advantages were granted in the country of origin.

This meant that newspapers and periodicals published and printed in another Member State and posted in France could not claim the preferential rate and were thus accorded less favourable treatment than French publications.

Community rule infringed

Such provisions infringe the principle of the free movement of goods set out in Articles 30 to 36 EEC and confirmed by the Court's judgments, in that they made it more difficult to circulate in France publications from other Member States.

The argument that readers would not choose according to cost did not justify maintaining these measures against the principle of free movement.

Action taken and impact on the internal market

The Commission consequently brought an action before the Court of Justice for failure to comply with Article 30 EEC, which led to the judgment of 14 March 1985 (Case 269/83) in which the Court found against France.

The resulting extension of the preferential postage rate to publications from other Member States permits their unrestricted circulation in France on a competitive basis as regards subscription costs and thus widens the choice available to readers, who can thereby benefit from the advantages stemming from the opening up of the internal market.

RESTRICTIONS ON ACCESS TO PUBLIC SUPPLY CONTRACTS IN GREECE

The barrier to trade

Several invitations to tender for public or quasi-public contracts in Greece state that only Greek products may be proposed. In other cases, the authority awarding contracts is required, when considering the tenders, to apply a price increase coefficient to imported products.

Community rule infringed

This sort of practice infringes the principle of the free movement of goods (Article 30/EEC) and cannot be justified under Article 36/EEC (for example on grounds of public policy) or for any of the reasons which the Court of Justice has in the past considered as imperative requirements (such as consumer protection or a reduction in public expenditure) or under any derogation clause whatsoever.

The result of such practices is that products from other Member States are excluded from a large part of the Greek market; in other cases where access to public or quasi-public contracts is not entirely prohibited, imported products cannot be sold unless their price is considerably lower than that of Greek products.

Action taken and impact on the internal market

The Commission has brought an action before the Court of Justice under Article 169/EEC.

A judgment confirming the Commission's position would open up public and quasi-public contracts in Greece to the products of other Member States under the same conditions as Greek products.

LOANS FOR THE PURCHASE OF AGRICULTURAL MACHINERY  
IN GREECE SUBJECT TO A "BUY NATIONAL" CONDITION

The barrier to trade

Loans from the Agricultural Bank, the principal financing institution in this field, for the purchase of agricultural machinery are available only for machines manufactured in Greece (where they exist).

Community rule infringed

This practice infringes the principle of the free movement of goods (Article 30/EEC) and cannot be justified under Article 36/EEC, for example on public health grounds, not for any of the reasons accepted by the Court of Justice as imperative requirements, such as the reduction of public expenditure.

The result of this practice is that purchasers of agricultural machinery are obliged to buy machines manufactured in Greece because they cannot obtain a loan if they wish to buy machines made in other Member States. Accordingly, imported agricultural machinery can be sold only to purchasers who are in no need of a loan.

Action taken and impact on the internal market

The Commission brought a case before the Court of Justice under Article 169/EEC. The Court's judgment of 11 December 1985 supported the Commission's position. Similar provisions in other Member States have now been abolished following the Commission's action.

Application of the principles thus upheld will permit access to credit for imported products under the same conditions as for national products. Purchasers will be able to obtain products other than those made by national manufacturers under full conditions of competition.







INFORMATION NOTES "CITIZENS' EUROPE"Chapter 9: "EUROPE WITHOUT FRONTIERS"9.1 WHY COMPLETE THE INTERNAL MARKET ?  
THE COST OF NOT DOING SO

1. When the European Economic Community was established in 1957, the Member States set themselves the ambitious political aim of creating a genuine common market. The first step in that direction was the setting up, during a period of unprecedented economic growth, of a customs union between the six founding Member States (1). Between 1958 and 1968, this customs union made it possible to do away with the quotas and customs duties which limited trade between these countries. At the same time, the Community adopted a joint customs tariff vis-à-vis the rest of the world. However, as the Community gradually grew in size (2), a process rendered even more difficult by the emergence of a world recession, it became essential to give a new impetus to a process of integration which was showing disquieting signs of running out of steam. The abolition of customs duties, important step though it was, was not in itself sufficient to create a genuine single market. The queues of vehicles at the frontiers and the administrative hassle and tax inspections which still exist when those frontiers are crossed are the most striking proof of this fact in the eyes of the general public.

It is that which illustrates the continued existence of barriers within Europe: all the obstacles which impede the creation of a vast European area without frontiers for people, goods, capital and services. According to a recent estimate published by the European Parliament it is costing the European economy more than 55.000 million ECU (3) per annum; that it is almost twice the size of the Community budget (4).

In view of these massive costs, this question deserves to be looked at more closely:

The fact that the European Community is still divided up into separate national markets instead of forming a single vast market means major handicaps for all economic agents and for the Member States of the Community in terms of commercial dynamism and economic competitiveness, as well as considerable financial losses. The persistence of physical frontiers with customs posts is not only the most shocking symbol of the imperfection of the internal market, but also has the effect of impeding the flow of trade within the Community and thus causing all kinds of costs for manufacturers, which are ultimately borne by the consumer.

Calculations by the Commission of the European Communities show that the administrative barriers to which trade within the Community is subject result in costs amounting, on average, to 5% of transport costs and representing some 12.000 millions ECU a year.

By the same token, the existing differences between technical standards and rules applying to goods deriving from other Member States result in a limitation of the consumer's choice and prevent him taking advantage of lower prices.

This lack of harmonization at the technical level not only involves additional costs for consumers and manufacturers, but also affects the production system. Manufacturers are obliged to multiply the types of goods they produce, which often prevents them from benefiting from a reduction in unit costs resulting from large-scale production series. To this must be added the costs borne by manufacturers in terms of the time needed to inform themselves about specific national regulations.

### 3.

The technical barriers referred to also mean an increase in storage costs, they discourage cooperation between undertakings established in different Member States and make the setting up of a common market in industrial products very difficult.

Furthermore, consumers have to bear the costs deriving from the persistence of discriminatory practices on the part of national public authorities with regard to the awarding of public contracts. It is a proven fact that the Member States continue to favour national undertakings, even though their prices may be higher and their products of lower quality. A report to the European Parliament in 1983<sup>(5)</sup> assessed the cost of such practices at 40 000 million ECU a year, close to 2% of the gross national product of the Community countries. Once again it is the European taxpayer who has to foot the bill.

Aware of this enormous supplement of expenditure, which comes close to a week's wages for each citizen of the Community, the European Parliament and the Commission have been stressing the need to extend the internal market until it has been fully achieved.

A genuine common market means abolition of all frontiers, so as to guarantee the free movement of persons and the free flow of trade from one Member State to another, as though between two regions of the same country.!

Furthermore, a unified European internal market will not only provide a natural outlet for the production of firms in the Member States, but will also provide vital support for their economic development. In this way it will enable them to regain their ability to compete with their major outside partners, the Americans and the Japanese, by enhancing their comparative advantages, making large-scale savings and emphasizing their specialization. The rising cost of research and development needed for the manufacture of new products can be absorbed by firms only if they are sure of a continental market freed from all barriers.

2. Aware of all these factors, the Heads of State and Government, meeting in Milan in June 1985, accepted the Commission's action programme for completing the internal market by 1992, a programme better known as the "Commission White Paper".

In this White Paper the Commission sets out a body of measures aimed at speeding up and completing the unification of the internal market. The overall aim is to make a definitive contribution to the development of prosperity for the Community as a whole. To that end it is necessary, as the Treaty of Rome lays down, to ensure the free movement of persons, goods, services and capital. At the same time, the entry into force of the Single European Act amending the Treaty, which is scheduled for 1 January 1987, will make it easier to achieve this aim in that it will enable decision-making procedures to be speeded up considerably.

#### WHAT ARE THE MAIN COMPONENTS OF THE PROGRAMME SET OUT IN THE WHITE PAPER?

The Commission's White Paper distinguishes between three different but interdependent fields of action: the removal of physical, technical and fiscal frontiers.

Obviously, the internal market cannot be completed all at once. Which is why the White Paper set out a detailed schedule for the implementation of the Commission's proposals between now and 1992, so that the adjustments needed to achieve the final dismantling of internal frontiers do not cause excessive upheaval.

##### (a) Abolition of physical frontiers

The existence of checks and barriers at internal frontiers brings home to the man in the street more than all else the continuing divisions within the Community.

Thus the White Paper sets out first of all the steps to be taken to alleviate formalities and transfer them to offices within the Member States and, in a second stage, to abolish all the checks and formalities to which Community nationals are still subject when crossing frontiers between Member States (cf information sheet 9.5). At the same time, these barriers have an equally serious impact on industry, trade and business. It is therefore essential to do away with all checks and formalities applying to goods crossing frontiers within the Community.

It will be necessary, for example, to do away with the checks on the weight and dimensions of lorries and those relating to the national quotas to which the carriage of goods by road is still subject. These quotas themselves must, of course, also be gradually abolished. At the same time, systematic safety checks can be done away with, if common safety standards are adopted.

By the same token, the free movement of live animals, animal products and vegetable products will have to be achieved by harmonising the national standards in question, so as to render frontier checks unnecessary and replace them by mutual recognition of health certificates.

(b) Removal of technical frontiers

As ambitious an aim as a Europe without frontiers may be, it has little point if Community nationals and Community firms continue to come up against the same barriers even within the Member States as those which are today preventing the free movement of goods and persons. For this reason the Commission has drawn up proposals aimed at dismantling, according to a specific schedule, so-called technical barriers such as, for example, the harmonization of rules and standards applicable to industrial products and intended to protect the health and safety of consumers, which differ from one Member State to another.

These proposals cover, in particular, goods, services, the free movement of workers and members of the professions, public procurement and movements of capital.

The new strategy of technical harmonization and standardization followed by the Commission affects a wide range of products such as motor vehicles, agricultural machinery, foodstuffs, chemicals and pharmaceutical products. The schedule set out in the White Paper provides, for example, that the motor vehicle market shall be completed by 1988. That will mean that the European motor vehicle industry, with access to a more extensive internal market, will be able to compete more effectively with its external competitors. The result will be advantage in terms of prices for the consumer.

As regards the free movement of pharmaceutical products, the last obstacles should be removed in 1990, which will also have a considerable impact on their sales prices, provided the market is open to free competition.

Furthermore, major initiatives are envisaged in the services sector, not only in such traditional branches as transport, banking and insurance, but also such new ones as information marketing, audiovisual services, etc. The result should be a general stimulus for this growth sector. In 1982, commercial and non-commercial services already accounted for 57% of added value in the Community, while industry's share had fallen below 26%.<sup>(6)</sup> By the same token, the services sector is the only branch of the economy with rising employment figures, although in Europe these are far below the level record in the United States. Between 1973 and 1985 there was an increase of nearly 12 million jobs in Europe in the services sector<sup>(7)</sup> as against 20.4 million in the United States. In the same period, Japan recorded an increase of close to 7 million jobs.<sup>(8)</sup>

Tangible advances are likewise planned for the transport sector. The freedom to provide sea transport services will be established by 1987. The freedom to engage in the haulage of goods on land will be established by 1988 and the freedom to transport passengers by road in 1989.

The White Paper also announces greater freedom to provide financial services, for example in the banking and insurance sectors. In the field of insurance other than life insurance initiatives will be launched in 1986; in 1989, freedom to provide services as regards motor vehicle insurance will be introduced and, in 1991, obstacles to the provision of services in respect of life insurance will be abolished.



FOOTNOTES :

- (1) Belgium, the Netherlands, Luxembourg, France, Italy and the Federal Republic of Germany.
- (2) The United Kingdom, Ireland and Denmark entered the Community in 1973 and Greece in 1981; Spain and Portugal joined the Ten on 1 January 1986.
- (3) 1 ECU (European Currency Unit) = roughly FF 6.9 or Bfrs 43.2 (on the basis of the exchange rates in force on 12 March 1987).
- (4) Cf Eurofocus 25/86.
- (5) Report on economic recovery in Europe in the eighties presented to the European Parliament on 7 July 1983 by Mr Albert and Mr Hall (EP Working Documents 1983-1984).
- (6) With respect to the industrial sector (industry, energy, construction) the employment figures for the 1973-1985 period are as follows (in millions) :

	EUROPE	USA	JAPAN
1973	49.99	28.23	19.57
1985	40.91	30.05	20.25

- (7) Services in the private and public sectors.
- (8) The overall employment figures (i.e. covering agriculture, industry and services) for the 1973-1985 period are as follows (in millions) :

	EUROPE	USA	JAPAN
1973	125.68	87.39	52.59
1985	123.92	109.38	58.07

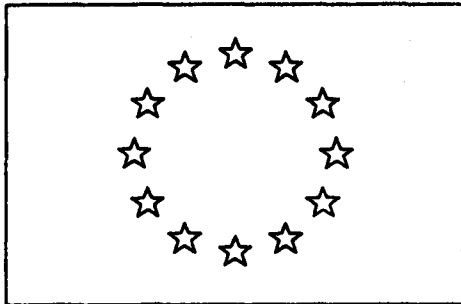






# **EUROPE, OUR FUTURE**

*1992: A EUROPEAN AREA  
WITHOUT FRONTIERS*



JUNE 1987



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**EUROPE, OUR FUTURE**

**1992: AN AREA WITHOUT FRONTIERS**

**I. FROM THE COMMON MARKET TO AN AREA WITHOUT FRONTIERS**

**Undeniable successes**

**Need for new stimulus**

- . the logic behind the common market: the proven effectiveness of joint action
- . the European economic area: a vital thrust forward in a changing world

**II. REMOVAL OF FRONTIERS**

**300 technical barriers**

**300 political decisions**

- . removal of internal frontiers
- . harmonization of rates for VAT and other indirect taxes
- . a new approach to standards: mutual recognition
- . opening-up of public procurement
- . common service contracts

### III. TWO BASIC CONDITIONS

Economic stimulation

Technological impetus

- . information technologies
- . telecommunications
- . energy
- . new materials and industrial technologies
- . biotechnology

Logical consequence and essential objective: financial progress  
towards monetary Europe

### IV. A EUROPEAN AREA WITHOUT FRONTIERS

A means to an end

A people's Europe

- . a balanced environment in which to live
- . solidarity
- . freedom of establishment and freedom of movement

living as Europeans

the road to European Union

In this global race against the clock with the countries of Europe fighting for their survival it was essential to seek and find a common objective which would enable us to surmount our everyday problems, concentrate our strengths and combine our energies. So, when I became President of the Commission, I proposed to Parliament and the Heads of State and Government of the Member States that an economic area based on genuine common foundations and solidarity be set up by 1992. Because of its size - the largest in the world - this frontier-free market is a unique asset in the quest for industrial recovery and competitiveness. It is one of the main driving forces of European union. This objective has been formally endorsed by the Community.

With the entry into force of the Single European Act, we have the institutional machinery to achieve our goal. It is now up to the Member States to demonstrate political determination and commitment commensurate with these new ambitions. The Commission for its part will not be found wanting.

Jacques Delors

President of the Commission  
of the European Communities

## I. FROM THE COMMON MARKET TO AN AREA WITHOUT FRONTIERS

Undeniable successes

Need for new stimulus

The logic behind the common market: the proven effectiveness of joint action

The European economic landscape has changed beyond recognition since the Treaty of Rome was signed in 1957.

With the setting up of the common market the objective was to stimulate economic activity and increase prosperity through the expansion of trade. The stimulus provided by the common market is undeniable.

- In thirty years per capita GDP - and thus the standard of living of Europeans - has virtually doubled; the increase in the United States over the same period was only 70%. The productivity of European industry has tripled; that of the United States has barely doubled.
- The European industrial fabric has gradually become stronger and more closely woven. The Airbus and Ariane projects show just what Europeans can do when they decide to pool their skills and resources. Fiat, Renault, Volkswagen, Peugeot and British Leyland have teamed up to develop a common engine, gearboxes, automatic transmissions or other components as the case may be. European cooperation is also being pursued in other sectors, affecting our everyday lives without us even noticing. Trade between Community countries has increased sevenfold in thirty years and our economies are now firmly interwoven.
- The common agricultural policy has been the driving force behind the modernization of European agriculture. Substantial technological progress has stimulated production. In recent years world consumption has failed to keep pace and this has resulted in excessive surpluses of some products; these must now be regulated firmly but sensibly. In this sector, as elsewhere, a deficit situation like the one which existed before the introduction of the common agricultural policy is a weakness when it comes to worldwide strategic confrontation; a powerful European agriculture is an asset which it would be stupid to squander. Those who attack this policy are often the very people who benefit from it the most.

- The effectiveness of joint action has been demonstrated in many other sectors as well.
  - . In the fisheries sector, it has enabled the Community to preserve its relatively slender resources, to establish common rules and to negotiate fishing rights with other countries from a position of increased strength.
  - . In the energy sector, the buffer stocks equivalent to ninety days' consumption built up at the Commission's instigation in 1968 helped the Member States to cushion the initial effects of the oil crisis five years later. The subsequent energy-saving measures and the development of new energy sources encouraged by the Community enabled them to reduce their dependence on imported oil from 62% to 31% in ten years.
  - . In other sectors too tedious to enumerate, we are clearly better equipped to negotiate effectively and put across our views on the world stage when we speak with one voice instead of twelve.
  - . In the textiles sector, with its industry on the brink of disaster as a result of competition from the countries of South-East Asia, Europe has been able to argue its case without closing its doors on them or engaging in suicidal confrontation.
  - . More recently, in the semiconductors sector, Europe united behind the Commission to react against the United States plan to take unilateral action to introduce new protectionist rules on industrial property.
  - . The same cannot be said of the motor vehicle sector where the conflicting positions of the various European countries have allowed Japan to pursue a vigorous penetration strategy which pays even more dividends since at the same time its own market is carefully protected against European imports.

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The European Community is not inward-looking: in the past thirty years its trade with the rest of the world has trebled. Mindful of its history, Europe knows better than anyone else the conflicts generated by isolation and protectionism. The accusation of protectionism sometimes levelled at it by its main rivals on the world scene cannot be taken seriously when we consider the scale of the subsidies granted to American agriculture or the volume of public aid channelled into American research into advanced technologies, or the ingeniousness displayed by Japan in adeptly avoiding the effects of competition in sectors in which it is not the world leader. The Commission is coolly but calmly determined not to allow the countries of Europe to turn the other cheek to the attacks, overt or covert, or courteous or insidious which threaten their legitimate interests and are in breach of the law.

### The European economic area: a vital thrust forward in a changing world

When it took up its duties in 1985, the new Commission headed by Jacques Delors drew a number of conclusions from a lucid and detailed analysis of the situation and came up with a major new objective which it put to Parliament and the European Council - the achievement of a genuine European economic area without internal frontiers by 1992.

Community integration, after progressing faster than expected in the first ten years, had run out of steam. Severely hit by the oil crisis and its repercussions the Member States had been tempted by an isolationism which offered relief in the short term but was a hindrance when it came to facing up to the future from a position of strength. Although they did not question the achievements of the common market, there was a tendency to interpret its rules restrictively and arrest its development.

This period was also marked by the accession of new Member States, a complex and necessarily gradual process which requires a period of adjustment before the enlarged Community of Twelve can resume its onward march. With 320 million inhabitants and a balance between the cultures and resources of north and south, the Community was in the best position to embody Europe.

But the main priority for the European Community was to define its economic, technological, cultural and defence role in a changing world in the knowledge that its competitors would not wait for the countries of Europe to settle their parochial disputes before pressing home their advantage.

The citizens of Europe, along with business managers, trade union officials and other actors on the socio-economic stage were becoming increasingly aware of what was at stake and of the need for joint action: none of our countries was large enough or strong enough to face up to major world powers like the United States, the USSR and Japan. The Europeans, acting in concert, with centuries of common history, culture and values behind them and with their interests now inextricably intertwined, had no reason for envy now that the time had come to take the future into their own hands.

So it was not only possible, it was also essential and a matter of urgency to provide fresh impetus for the Community by exploiting to the full, even exceeding the limits of the Treaty of Rome.

The countries of Europe were obviously not being asked to become unified in a single State, an idealistic dream which is not current among the Europeans of today. Aware of the inevitable need for a united Europe, heirs to a common cultural legacy and open to trade with one another, the citizens of the Community still see their diversity as an asset and would not want to be forced into a standardization which for them would be synonymous with impoverishment.

But in the attempt to formulate strategy it was necessary to look at all the areas where the European approach had to be consolidated, whether or not they were already covered by the Treaty of Rome, to be considered more as a point of departure than an end result.

It was also necessary to look at the links between these different areas: for example, economic development, monetary policy, technological research and defence are not mutually independent; similarly, technology and culture are now linked in this age of satellite broadcasting and television.

And lastly, as part of the tactical plan to revive Europe, it was necessary to select an area where the need for cooperation appeared most urgent, which would most readily obtain the approval of the Member States but which would also trigger the gradual development of a European policy in the other areas.

The Treaty of Rome grants the Commission sole right of initiative. Using this, Mr Delors proposed the objective of the single European market to the Member States, an objective which involved expanding and amplifying the Treaty.

Addressing Parliament in March 1985 Jacques Delors spelled out the plan: "Unifying this market presupposes agreement by the Member States on the abolition of barriers of all kinds, harmonization of rules, approximation of legislation and tax structures, strengthening of monetary cooperation and the necessary ancillary measures to encourage European firms to work together.

The goal is well within our reach if we are prepared to learn from the setbacks and delays of the past. The Commission will be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic, binding timetable."

On 14 June 1985 the Commission sent the European Council, meeting in Milan on 28 and 29 June, a White Paper on completing the internal market (drawn up by Lord Cockfield, one of its Vice-Presidents). This paper, which was well-received, sets out the measures to be taken to eliminate all physical, technical and tax barriers between the Member States by 1992.

## II. REMOVAL OF FRONTIERS

300 technical barriers

300 political decisions

The Treaty of Rome provided for the customs union; it also laid down the principle of freedom of movement for goods, persons, services and capital.

Customs duties and quotas on trade between the Member States were gradually removed between 1958 and 1968. There is also a common customs tariff for goods from non-Community countries, incidentally, one of the lowest in the world.

Be that as it may, thirty years on from the signing of the Treaty of Rome, the free movement of goods is far from a reality. The remaining physical, technical, fiscal, administrative and regulatory barriers have only been partly breached; some of them have even been insidiously strengthened.

These barriers prevent European firms from taking advantage of economies of scale and what is in effect a continental market and are a handicap in competition with the United States and Japan, which benefit from a unified internal market. To quote Mr Delors, European firms have to run the 100 metres hurdles while the others run the 100 metres sprint.

### Removal of internal frontiers

Everyone remembers the strikes by the European road hauliers in 1983 in protest against the hours they had to wait at the Community's internal frontiers and against the sometimes arbitrary nature of these delays. The inconvenience of frontier delays can be imagined; the cost is not such common knowledge:

- a major French cellulose manufacturer has estimated that the abolition of frontier formalities and associated insurance costs alone would save it almost 1% of its turnover, i.e. more than its current profits;
- a survey of 320 small businesses in Germany shows that costs arising from frontier formalities correspond to 1.3% of turnovers, a figure roughly equivalent to profits.



By 1992, the date set by Mr Delors and now enshrined in the Treaty of Rome, as amended by the Single European Act, the frontiers between Member States will be eliminated.

The customs signs will have been taken down by next year. The seventy different forms now in use will be replaced by a single customs document which, from 1992, will simply be drawn up at the point of departure since the frontier customs posts will no longer exist.

The tax, health and security controls which now take place at frontiers are still justified, but they will take a different form and will be carried out inside the Member States concerned (controls at the point of departure, as already exists for some goods, instead of at the frontier, mutual recognition of controls, tests and certificates).

For Europeans travelling privately or on business within the Community, this represents the logical outcome of the simplification measures which have been adopted from the outset: for many years they have no longer been required to fill in a declaration of particulars. The systematic controls still in force on trains and at airports will be replaced by spot checks as with motor vehicles. After this transitional period, the absence of controls at frontiers within the Community will be compensated for by a tightening of controls at the external frontiers.

From 1992 Europeans will cross the Community's internal frontiers in exactly the same way as provincial boundaries in their own country without having to worry about the number of cigarettes or bottles of perfume they are carrying.

Harmonization of rates for VAT and other indirect taxes

Despite the absence of customs duties in intra-Community trade, frontiers and customs officials still exist.

This is because goods are subject to VAT, the rates of which vary from one country to the next and controls are needed to prevent fraud.

The differences in taxation are sometimes considerable: a person buying a car like a Ford Escort pays 25% in Belgium, 33% in France and 173 % in taxes in Denmark.

Admittedly this is probably an extreme example in a sector where the taxes levied by some Member States have always been particularly high. However, looking at the situation in more general terms, we see that the number of different VAT rates in force in the various Member States ranges from one to five; moreover, these rates are not identical in the different countries; and lastly the proportion of VAT as a percentage of GDP may be twice as high in some countries as in others.

It has to be admitted that no progress has been achieved in the common market on this front, except for the introduction and generalization of VAT, which has simplified the tax system by replacing a number of indirect taxes which used to vary from one Member State to another. Community membership is now conditional on the adoption of VAT and the abolition of previous systems of taxation.

The aim now is to simplify the tax system even further and to harmonize VAT rates throughout the Community.

The Commission does not administer simply for fun. It is pragmatic and is determined to exert first the leverage needed to unblock rigid situations through joint action without any extra touches which would be justified only by the aesthetic pleasure gained from an ideal but impractical intellectual construction.

Provided they are small, differences in rates of taxation from one country to another do not in fact cause major difficulties. Would anyone really drive 100 miles to the nearest city in the country next door in the hope of saving a pound or so on the price of a television, which then has to be transported home? The cost of such an operation would be higher than the saving made, not to mention the time wasted.

The Commission intends to propose that two reference rates be introduced: a reduced rate and a normal rate, around which certain variations would be allowed. The VAT rates currently in force for many products in most Member States fall within this bracket.

The Member States will therefore have to make the necessary adjustments to their VAT systems by 1992; they have already promised to do so.

Excise duty, the special tax which Member States levy on tobacco, alcohol and petroleum products, will also be harmonized.

We do not underestimate the practical difficulties involved or the potential reluctance on the part of national administrations: it is always more difficult to change things than leave them as they are. However, the removal of physical frontiers in 1992 means that tax frontiers also have to be eliminated; any Member States which are not prepared will be particularly hit.

#### A new approach to standards: mutual recognition

The existence of different national regulations and standards for products represents a substantial barrier for European industry.

They prevent firms from benefiting from the economy of scale offered by the European market by forcing them to manufacture twelve different versions of the same product and subjecting them to twelve testing and type approval procedures. As a result production costs are higher, stocks increase, business initiative and cooperation are stifled, competitiveness on world markets declines and ultimately it is the consumer who foots the bill.

Instead of disappearing, these barriers have tended to increase in recent years:

- firstly, as a result of an insidious protectionism which has assumed new forms since customs barriers have been eliminated;
- secondly, because of intense technological development: national institutes have introduced new standards as new products appear on the market.

Standards are needed both in the interests of rationalization and to protect the consumer against products which do not measure up in terms of quality or safety. The problem is not that they exist but that there are discrepancies from one country to another.

Through the elimination of customs duties the common market offers the consumer a wider choice of products at lower prices. The Community also offers protection through the introduction of common rules. The information on sell-by dates or on ingredients in foodstuffs and the ban on certain additives, hormones and colouring agents are the outcome of European legislation, as is the ban on the sale of children's pyjamas containing inflammable or carcinogenic fibres.

However, the method of imposing harmonized technical standards and regulations from above, which has been employed by the Community for twenty-five years, has now been pushed to its limits and its shortcomings are now evident. Defining a single European standard from positions determined by competing national interests demands months, if not years, not only because of the actual technical difficulties but because it is not in everybody's interests in the short term. That is why it took ten years to reach agreement on the height of the rear lights on tractors.

Thousands of standards had to be drawn up and the number was increasing every year. At the same time, our competitors were not standing still.

A European group which manufactures lifts has estimated that the costs generated as a result of the differences in technical standards from one country to another account for almost 10% of manufacturing costs. In another sector, that of telephone exchanges, the absence of European standards means that costs here are 8% higher than in the United States, simply because of the large number of cumbersome procedures for testing and type approval; Were European firms to be forced to struggle to sell products sometimes better than those of their competitors?

It was therefore high time to take action and adopt a new strategy: the strategy of mutual recognition. What this boils down to is the application of a principle of reciprocal trust, which is fundamental to any community.

It means that a product legally manufactured and marketed in one Member State may automatically be sold freely in any other Member State even if the standards in force are different.

This does not mean that the Community is abandoning the objective of common European standards. It will continue to set binding basic requirements notably for health and safety. But in other sectors the Community considers it more realistic and less time-consuming to put European producers in a position where they can no longer shelter behind national standards and will be forced to stop arguing and come up with compromises. The transition from these to common standards will then be simpler and more efficient.

The effectiveness of this new policy is boosted by provisions which permit prevention and guarantee transparency.

All national proposals for technical standards have to be notified to the Commission and the other Member States for comment. In the light of the different reactions the Commission can then propose corrective steps or take legal action. In each case it has six months in which to act.

#### Opening-up of public procurement

Public procurement in every European country is highly protected and virtually reserved for national suppliers.

The contracts involved represent almost 10% of Community GDP for purchases financed from state budgets; when we include public undertakings the figure is almost 20%.

A large proportion of these contracts relate to advanced technology equipment and services, which play a decisive role in the development of a common technological and industrial policy. The main sectors are aerospace, telecommunications, data processing and energy, all crucial for Europe's future, all fields in which European firms most need a

continental market to outwit their competitors, and all areas in which it is vital to lay down European standards at the research stage to avoid technological dependence on the United States or Japan.

The basic principle of the Treaty of Rome - freedom of movement for goods and services - applies fully to public procurement. However, contracts for water, energy, transport, telecommunications and military equipment are still protected.

Even in the case of contracts which are not protected, the rules are complied with in only one case in four and, in practice, less than 2% of public contracts are awarded to firms in other Member States.

The Commission has recently taken decisions to achieve two objectives:

- the gradual opening-up of sectors not covered at present to be completed by 1992; this has already begun in the telecommunications sector; all the proposals will be made in 1988;
- more stringent application of Community rules in every sector, and in particular increased use of the Commission's powers of intervention, which extend to the suspension of a contentious tendering procedure.

The Commission is therefore taking steps to bring within the orbit of the single European market those sectors which, through their nature and size, are crucial for the future of Europe.

#### Common market in services

Freedom of movement for services is based on the same principles as freedom of movement for goods. But it has met specific obstacles:

- in the finance sector, exchange controls, credit containment and the specific characteristics of financial products very closely linked with State intervention (banking and insurance);
- in the transport sector, which accounts for 7% of Community GDP, a rigid, over-regulated structure heavily marked by national protectionism: rules such as those on axle weight or on driving hours for road hauliers are not always harmonized in Europe; transport quotas still exist; the difficult situation of the merchant marine makes it more problematical to open up the market for services without accompanying measures; the domination of certain rail or air companies tends to perpetuate practices incompatible with free competition;
- in the new services which are developing in the wake of modern technologies (in particular audiovisual and data-processing services) the weight of the structures is considerable even though the sectors involved are in full flux and new rules have to be laid down.

Here, as elsewhere, the Commission is formulating measures designed to ensure freedom of movement for capital and financial services, freedom of establishment for banks and insurance companies, the liberalization of transport services and the development of new services in a large market without barriers by 1992.

The aim then is that, by 1992, Europeans should be able to raise a loan at a favourable rate anywhere in Europe, buy insurance from the European company of their choice, use their magnetic payment cards to obtain cash from automatic dispensers throughout the Community, benefit from the advantages of competition to travel from one European city to another and pick up television programmes from other European countries as well as their own without any restraints.

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The Community is working towards achievement of the large market day-in and day-out. The Commission has produced 300 draft measures to that end. In the space of one year, almost a quarter of these have been adopted.

The progress made is obvious but the hardest part is still to come. Experience has shown that national protectionism is hard to kill off. References to the 1992 deadline, now fortunately beginning to sink in, must be more than just an alibi for putting off until tomorrow the bold measures which are needed today.

The Commission headed by Jacques Delors has got things moving, obtained agreements; it will now ensure that commitments are respected.

### III. TWO BASIC CONDITIONS

Economic stimulation

Technological impetus

The world is at a technological watershed. In some sectors, we are in the throes of a real revolution.

No single Community country has all the research workers, in all fields of science, nor all the financial resources necessary. But together we have all we need to put us in the forefront in most fields if we put our minds to it.

But we are lagging behind in some sectors and will have to mobilize all our forces if we are to catch up. Of every ten personal computers sold in Europe eight come from the United States, of every ten video-recorders nine come from Japan.

And yet in some sectors, such as aerospace and certain telecommunications technologies, we lead the field and here we must maintain and consolidate our position.

That is where the key to prosperity and employment in tomorrow's world lies. It is vital for the success of the large internal market and essential if we are to be masters of our destiny.

The values which Europe embodies as the cradle of technology will not continue to gain recognition unless it can play a fully integrated role in this change.

The rapidly gathering pace of technological advance now forces Europe to take decisive action and to take it together. Is it logical for the six European computer manufacturers to have six different operating and interrogating systems when we know the share of the world market held by the leading American manufacturer? Is it reasonable that the Europeans apply for only half as many patents as the Americans per head of population and only one third as many as the Japanese when they too often make basic discoveries?

The Commission has had to make a choice; it has laid down a principle and adopted a method.

- The choice: to concentrate efforts in the sectors which are most sensitive and most crucial for the future.
- The principle: not to duplicate national programmes or company schemes but to seek to complement them in order to reach the critical point at which research becomes profitable.

The Community is devoting itself primarily to the research stage well upstream of marketing where it can lay down common standards from the outset to avoid the absurdity of suicidal confrontations from which only our competitors benefit.

- The method: to involve all the people directly concerned by encouraging cooperation rather than imposing bureaucratic management: there are four times fewer European civil servants administering technological research budgets than there are national administrators for equivalent programmes. Information technology, telecommunications, energy, new materials and biotechnology are all covered by Community programmes which have already achieved impressive results. In 1982 only 17% of Community projects were in these sectors; today the figure is 80%.

#### Information technology

The 220 Esprit projects selected from more than one thousand valid proposals presented to the Commission have already chalked up considerable successes in less than three years:

- in microelectronics development of new gallium arsenide components to be used in the next generation of supercomputers and a novel method for designing complex and more reliable chips for compact-disc players; selection of a European microchip for the American supercomputer Cray project;
- development of digital devices and circuits for a future optical computer by eight laboratories in five Member States (Britain, Germany, France, Belgium and Italy);
- in software the PCTE project has come up with an answer to the major problem of incompatibility affecting software tools by providing a kind of "universal joint" for software engineers;
- in office automation, a new standard for the mixed voice-text-image electronic document of the future has been developed under the Herode project; it is being used as the starting point for ISO standards adopted by the twelve major European data-processing companies and imposed world-wide;
- in expert systems, where the United States enjoyed a near monopoly until recently, development of two high-performance systems under the Omega project; for the first time artificial intelligence software has been exported to the United States and Japan.

#### Telecommunications

The Race programme, organized more recently on the same lines as the Esprit programme, forms part of a strategy designed to help Europe maintain its lead in the telecommunications field, defining the structure of the future European broadband network, which will be the main artery of the new communications media within the large market.

One of the keys to the competitiveness of the European economy in the decades ahead and to its ability to create jobs will clearly be the possibility of communicating faster and more cheaply: videoconferencing, videophones, high-speed, colour facsimile transmission, videotex services, the decentralization of computer-assisted design, all these will vastly speed up information circulation and as a result reactions and decision-making in the business world.

The infrastructure needed here is the integrated broadband digital communications network.

Telecommunications also means television - currently in a state of complete flux with the growth of satellite broadcasting and cable networks. This is a field in which international specifications and standards will have a tremendous impact; witness the deplorable spin-off of the conflict between PAL and SECAM when colour television came in. It is also a field where technological dependence could imperil our cultural identity.



The Commission is currently prompting intensive consultations between representatives of national administrations, industry, programme producers and television broadcasting companies in order to evolve a common standard for a high-definition television and to prevent the Japanese with American support from imposing their technical standards. A major step has already been taken with the adoption of a common European standard for direct satellite broadcasting (MAC/packet).

#### Energy

Europe's JET is the largest fusion reactor in the world. None of the Member States could have designed or built its equivalent.

In the latest experiments temperatures in excess of 100 million degrees Centigrade have been reached, representing a further step towards demonstrating the scientific feasibility of fusion.

In the field of geothermy, tests are going on in Cornwall to exploit hot dry rocks under the non-nuclear energy R&D programme. The technique used involves injecting cold water into the rocks from which it emerges at a high temperature.

#### New materials and industrial technologies

Under the "stimulation action" and the Euram new materials programme, forty European laboratories have linked up to develop permanent supermagnets based on an iron-neodymium-boron alloy. These supermagnets will replace electromagnets in numerous applications.

Under the Brite programme, the aim of which is to promote the use of the new technologies in the traditional industries as well, four industrial laboratories belonging to leading automobile and aerospace manufacturers in Britain, France, Germany and Italy have combined to develop lasers for sheet welding.

#### Biotechnology

Under the biotechnology research programme, research workers from three laboratories in Ghent, Leyden and Cologne have achieved a world first in transferring foreign genetic information to a class of plants that includes cereals (monocotyledones).

The Commission is also involved in projects to promote communication and the exchange of information in the European scientific community; three recent ones were in the field of biology.

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Concerted action, cooperation, complementarity and cohesion are the four pillars on which European technological advance rests. There are 500 teams comprising over 2 000 research workers in all involved in Esprit, while 1 400 national teams are collaborating in the Community coordination programme on medical research. All twelve Member States are involved, large and small alike: Ireland and Greece played an active part in 25 of the first 100 Brite projects. Certain projects even involve companies and laboratories in European countries which are not members of the Community. Instead of closing itself off or jealously concentrating on its own programmes the Community lends its support to projects that complement its own even when it was not in at the start, as in the case of Eureka, launched on the initiative of a Member State (France) in 1985.

All the activities will be developed with an eye on 1992. The Single European Act does in fact provide for implementation of a framework programme for research and technological development designed to "strengthen the scientific and technological basis of European industry and to encourage it to become more competitive at European level".

To enable us to treble the effectiveness of our efforts, the European Community marshals its forces, provides the stimulus and looks and thinks ahead.

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Logical consequence and essential objective: financial progress towards monetary Europe.

The creation of a large internal market inevitably implies a financial dimension. Freedom of movement must apply equally to capital and to financial services, for companies and individuals alike. Here again technological advance is an inexorable force in the drive towards the opening up of frontiers and the abolition of barriers: nowadays, with the continuation of data processing and telecommunications, financial arbitrage can be conducted at the touch of a button, from one side of the world to the other.

But there is one essential prerequisite for the smooth running of a decompartmentalized internal market: stability of exchange as part of the move towards a harmonized European monetary policy.

For the last ten years, in a world unsettled by the uncontrolled fluctuations of the dollar, the European Monetary System has been the sole stabilizing influence and force for balance.

Its consolidation is not just an essential preliminary; it is also an absolute must if we are to secure convergence of economic policies in Europe.

This is clearly an area where caution and national sensitivity prevail: currency lies at the heart of sovereignty.

The ECU has spontaneously developed into the third currency for the flotation of international loans. We must now go further and gradually make it into a fact of life, a factor in Europe's independence, a symbol of its will to unite:

- A fact of life for companies and individual alike. When the Commission relaunched this aspect of integration in 1986, the interest aroused exceeded all expectations. President Delors himself concluded that currency was clearly part of the European dream for the man in the street.
- A factor in Europe's independence. Europe has nothing to fear from economic and monetary union, far from it. Europeans save twice as much money as Americans. So let it serve Europe's own development;
- A symbol for Europe. Just as the national currencies are and will remain the symbol of the individual Member States within the framework of a common policy.

#### IV. A EUROPEAN AREA WITHOUT FRONTIERS

A means to an end

A people's Europe

We want to live as Europeans. The economic area without frontiers, the technological thrust, the common currency are all essential objectives. But they must be made to serve the citizens of Europe, i.e. to respect their individual identity and values.

Living as Europeans means a balanced environment in which to live, by solidarity, and freedom of establishment and freedom of movement.

### A balanced environment in which to live

European agriculture has become highly efficient. And this has been achieved without any alteration to the nature of rural life and the countryside. An agricultural structure based on the continuation of family farming has been preserved in a more efficient form. Eleven million farmers have stayed on the land, local life goes on, tourism has developed in the countryside and other activities have taken root there. Our landscape has not turned into vast expanses of corn deserted by man.

The preservation of our environment also involves a whole series of practical measures which can be meaningful and fully effective only if applied at Community level. The Community has adopted over a hundred pieces of legislation on water pollution and coastline protection, air pollution and noise, waste management, wildlife protection, research into ecological problems and public information.

### Solidarity

The principle of equal rights for men and women is embodied in the Treaty of Rome. The Member States have been obliged to bring their legislation into line with a number of Community directives. Equal rights are now guaranteed in the case of pay, employment, vocational training, working conditions and social security.

Rules for the protection of workers are also laid down in Community directives, especially as regards health and safety: the use of asbestos, lead and benzene is controlled; noise levels at the place of work are subject to limits.

Every year the Community, through the European Social Fund, provides support for vocational training for two million people, most of them young. Training is vital for Europe's future and allows individuals more choice in deciding their own futures.

And last but not least, solidarity means firmly established relations with the Third World. The Community is the Third World's closest and most important partner in terms of trade and development aid.

The percentage of GNP devoted to this aid by the Community of Twelve is twice that of the United States. Cooperation extends to areas such as energy, trade promotion and training. While placing increasing emphasis on aid to rural development and the encouragement of self-sufficiency in food, the Community also supplies countries in difficulty with food aid in the form of cereals (1 400 000 tonnes in 1985), milk powder (nearly 109 000 tonnes) and other products.

When crisis, disaster or famine strikes, the Community - with its emergency aid teams on stand-by day and night, weekdays and weekends - is the first to come to the assistance of the victims.

At a time when the purse-strings of public spending are being tied ever tighter, the Community has increased its aid to the 66 African, Caribbean and Pacific countries linked with it under the Lomé Convention by 60%.

The Community's constant aim is to act as a partner to the developing countries within a clearly defined contractual relationship: no missionary zeal, no attempt at paternalism or hegemony, but instead the desire to act openmindedly as a centre of balance in North-South relations.

This benefits not only the Third World countries but ourselves as well; our exports to these countries represent three million jobs in Europe.

Freedom of establishment and freedom of movement

Essentially the Community is not just a centre for trade; more than that, it is a place where people can move and meet freely; not merely a market without barriers, but a Europe without frontiers in every respect.

Freedom of movement, in the highest sense, means freedom for people and for ideas. This implies the right for businesses, professional people, workers, and individuals to establish themselves anywhere in the Community.

This is already a reality.

It is a reality for workers: no-one can be refused a job on the grounds of nationality anywhere in the Community. Of course, this does not apply to civil service posts, since the Member States retain their national sovereignty in this area. But there is no valid reason for refusing to allow nationals of other Member States access to jobs say on the railways or in certain areas of education.

It is also a reality for some of the independent professions, particularly in the health field. And it is due to be extended to all of them through the introduction of a general system for the mutual recognition of diplomas.

The Community also encourages and promotes meetings and exchanges, with practical programmes designed to ensure that the right to move freely applies not merely in theory but in everyday practice too.

Under the Erasmus, Comett and YES programmes young people are able to spend part of their university course studying in another Community country, to undergo training in industry at the end of their studies, and to strengthen their links with their Community neighbours.

EuroTecnet provides links between those responsible for vocational training in Europe, while technological programmes are speeding up the forging of further links.

Living as Europeans

The road to European Union

Living as Europeans means sharing a common identity. But it also calls for a constant effort to consolidate what has been achieved.

Completing the large single market is essential for our future. It is the motive force for technological cooperation, progress towards monetary union, greater solidarity, a trade policy.

The Single European Act has extended the Community's areas of responsibility, improved the efficiency of its institutions (with wider use of qualified majority voting in the Council of Ministers), and strengthened the powers of the Commission.

We must make it an irreversible success. But this means that the Commission must have the resources, especially the budgetary resources, to implement its policies. These resources must be geared to the task in hand. Above all, they must be sufficient to enable the Commission to programme its work on a five-year basis. This is one of the objectives of what Mr Delors has called the "grand rendez-vous" between the Community and its Member States.

Looking beyond that, it is clear that there can be no strong European Union without common foreign and defence policies and institutional reform.

The Community plays a far from insignificant role on the international stage, apart from anything else because it is now the world's leading trading power, with a share of world trade that is greater than that of the United States and twice that of Japan. Its approach to development has attracted interest and is catching on in other parts of the world. And since 1969 the Community countries have cooperated with one another in the foreign policy field.

The Single European Act formally brings this foreign policy cooperation into the Community sphere; consultation is now compulsory "on any foreign policy matters of general interest".

This is a step in the right direction

Another innovation is that the Single Act also brings cooperation on questions of security - in plain terms, military matters - into the Community domain, though only hesitantly and with great caution.

This is an area where there are obvious links with the single market, for instance as regards cooperation on arms manufacture. But it has far wider implications.

Europe must not remain silent while the United States and the Soviet Union prepare to negotiate over its head. It cannot afford to allow others sole control of the keys to its existence and its future.







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COMMISSION OF THE EUROPEAN COMMUNITIES

FOUNDATION FOR FISCAL STUDIES

FIRST ANNUAL CONFERENCE

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"HARMONISING INDIRECT TAXES IN THE EEC"

DUBLIN, FRIDAY, 21 NOVEMBER, 1986



## "HARMONISING INDIRECT TAXES IN THE EEC"

### Introductory

1. This Seminar brings together both experts in the fiscal field and politicians closely involved in European affairs: and some perhaps who straddle both fields of competence. Forging a coherent structure for indirect taxes in the Community is one of the key elements in the great challenge which faces us of creating a Single European Economy. That challenge is one which presents problems as well as unparalleled opportunities for all the Member States of the Community. For Ireland the problems are far from negligible, but the opportunities are at least correspondingly great.

2. We must make sure that we work together to surmount the problems so that the opportunities can be fully seized. The Commission is at present at a formative stage in drawing up its detailed proposals on the approximation of indirect taxes in the Community. It is therefore particularly valuable for me (and, in the longer run, I hope, for you too) to have this opportunity of learning at first hand of your hopes, fears and expectations in this area.

3. I am sorry that I was not able to be here for the first part of your debate, but the Foundation for Fiscal Studies have been kind enough to let me see the papers of Dr Bacon and Dr O'Hagan in advance, so I know at least what they were to say - and very interesting and thought-provoking it was, too.

4. I see from the programme that I am billed to give you "Proposals for harmonising indirect taxes in the EEC". That is not quite right. Once we have drawn up our specific proposals, we shall of course be sending them first to the Council of Ministers and the Parliament. I am not, therefore, in a position to give you a sneak preview of our conclusions now. Indeed, there would be less point in my being here if we were already at that stage. I am here to listen to you as much as to speak to you. I hope and trust that the balance of advantage will satisfy us both.

5. Let me say briefly, therefore, what it is I do mean to talk to you about. First of all, it is vital to keep constantly in mind just what it is we are trying to achieve. We must never lose sight of our goal by getting lost in a labyrinth of technical complexities. I will start therefore by describing how the Commission views the origin and purpose of this whole enterprise. From there I would like to move on to why and how fiscal matters play such an important part in the realisation of that enterprise.

Then I shall do some thinking aloud about the main objectives and constraints to which and within which we must work if we are to succeed. In that connection I would aim to touch on some of the considerations that most particularly affect Ireland, and Ireland's relationship with the rest of the Community. But I shall not, as I have said, be in a position to tell you what our final proposals are going to be.

#### The need for completing the internal market

6. When we in the present Commission came into office at the beginning of last year, the Governments of the Member States had already been searching for some time for a strategy - a strategy which would revive the economy of Western Europe and reverse the relative decline into which we had steadily drifted. Governments were faced with the fact that our performance in terms of output had increasingly fallen behind those of our main competitors in America and Japan.

In terms of application of the new high technologies, whether in the new industries or in the old, we have again failed to match the performance of the United States and Japan. And meanwhile 16 million potential producers of wealth and growth stand unemployed. The simple truth is that we are failing to make use of the immense potential which Europe possesses.

7. The population of the European Community is nearly half as big again as that of the United States and well over twice that of Japan. We are the biggest and oldest-established bloc of trading nations in the world. Our scientific knowledge and our capacity for invention are second to none. But in considerable measure these resources lie fallow, failing to produce the growth and the rich harvest of prosperity of which they are intrinsically capable.

8. Why should this be so? It is in good measure because, in a mercilessly competitive world, we have failed to heed the words of the Psalmist and dwell together in unity. The countries of the European Community, for all their common heritage and common interest, remain a fragmented economy, divided into a dozen separate markets; each with its own rules; each manufacturing for its own market; each facing obstacles and difficulties if it wishes to sell into other Member States. The result can be seen in a rate of growth in demand for industrial goods in the Community since 1982 of barely two and a half percent a year, compared with six and a half percent in the US and Japan during the same period.

9. Faced with this appalling waste of opportunity, it became increasingly clear to the Heads of Government of the Member States that only a strategy on a Community level would tackle the problem at its root and on a scale capable of meeting Europe's needs. At successive meetings of the European Council the Heads of Government called for action to complete the Internal Market. And on each occasion with a growing sense of urgency. First at Copenhagen in 1982; then at Fontainebleau in the summer of 1984; and most interestingly of all at Dublin in the winter of that year.

10. It fell however to the Commission to take the initiative to transform these declarations into achievement. Immediately following our appointment at the beginning of last year, we produced our Work Programme in which we said we would "be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic and binding timetable".

The Heads of Government meeting in Brussels that same month (March 1985) responded to that call and asked the Commission :

"to draw up a detailed programme with a specific timetable".

11. Our White Paper with which you are all familiar, sets out to do precisely that. The White Paper was endorsed by the Heads of Government when they met in Milan in June of last year; and this endorsement was repeated at Luxembourg in December and again at the Hague this summer.

12. The programme in the White Paper is an ambitious and comprehensive one and the timetable for completing it sets a demanding pace. It is in recognition of that that the Community decided to give itself the means to bring these ambitions to fruition. The Single European Act, agreed in Luxembourg in December and now in course of ratification by the Member States, provides a clear definition of our objectives and a number of valuable improvements in decision-making procedures.

These improvements include qualified majority voting for the generality of internal market issues. All this is within a framework of enhanced democratic and Parliamentary control. In the area in which this conference is particularly interested - the fiscal area - the Single Act does not alter the principle of Council decision by unanimity. That comes out in the new Article 99. But it does focus more clearly than hitherto on the precise purpose of our activity in the field of indirect taxation, as I will now explain.

13. There have, of course, been real achievements in the fiscal field - most notably the introduction of the VAT as the common turnover tax for the Community and its gradual harmonization. But accusations of harmonisation for harmonisation's sake have also, on occasion, been fair comment.

The new Single Act sets us a much more practical task, namely "harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and functioning of the internal market" by 31 December 1992.

14. That, then, is the purpose of the proposals which we have been asked by the ECOFIN Council of Ministers to put forward by April next year. Our task then is to provide a fiscal framework within which Member States can, by 1992 at the latest, create what the Single Act defines as an "area without internal frontiers within which the free movement of goods, persons, services and capital is ensured". A Europe without internal frontiers - not a Europe with fewer or simpler frontier controls, but one with no such divisive frontiers at all. Only such an integrated, undivided Europe can offer the benefits of the sort of single large home market on which the performance of our most successful competitors is based.

#### The role of fiscal frontiers

15. The present controls at the internal frontiers of the Community are used by Member States to enforce a wide range of policies. They are used for instance as physical barriers to control the movement of individuals and goods, to check their nature and purpose and even, in some cases, to try to keep them out altogether. They are also used as technical barriers to enforce national standards and regulations governing both goods and services.

Finally, of course, they are also used in the business of collecting taxes on goods going from one Member State to another. These fiscal frontiers, just like the physical and technical ones, inhibit Europe's manufacturers and traders from using the markets of other Member States as the European home market of 320 million potential customers which should and could be their natural economic base.

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

17. 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.

18. At present we ensure that the tax accrues to the country where goods are finally consumed by the system of remission of tax on export and imposition of tax on import. You are all, I am sure, familiar with how that works and I will not dwell on the details here. But the crucial thing about this solution to the problems of allocation of revenue is that it is critically dependent on the operation of frontier controls. Correspondingly the protection of this system against fraud and evasion equally depends on the frontier controls.

19. 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 including the tax element in the price but then pocketing it. Either way the revenue authorities would lose out.

Without frontier controls, there would also be a great temptation to 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.

20. 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

21. That taxes on exports are treated differently from taxes on domestic trade is in itself an obstacle - partly practical, partly psychological, but certainly powerful - 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.

22. 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.

23. This approach - hallowed by history - would have several immense advantages. First, as I have said, 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.

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

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

25. To meet the first of these problems, the Commission has proposed a clearing mechanism, detailed proposals for which we shall be producing by April next year. Understandably, the Finance Ministers of the Member States are anxious that there should be a satisfactory mechanism for making sure they get the revenue to which they are entitled.

The notion of a clearing system is not a new or a mysterious one. The banks, the railways and the airlines are but 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.



26. I turn 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 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.

27. It does not need me to tell an Irish audience what the driving force behind such illicit traffic would be. In the absence of any frontier controls, significant difference 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 need to bring tax levels closer together

28. The only way to remove the 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. To take the words of the Single European Act which I quoted to you earlier, we must approximate the levels of indirect tax in the Member States "to the extent that such harmonisation is necessary to ensure the establishment and functioning of the internal market".

29. It is perhaps worth making the point that the present system with widely different rates and coverage, cuts across the grain of market forces. What we propose goes with the grain of market forces. It is therefore inherently more likely to be stable.

30. What "the levels of indirect tax" which emerge will be I cannot as of now tell you. But it is no secret that, in the proposals which we are due to put forward to the Council of Ministers, we shall be suggesting one or more target VAT rates with specified margins of flexibility on either side. Analogous arrangements will also be needed for the main excise duties.

In our White Paper we illustrated this notion with an example based on the average of the rates in force in the Community as a whole: I cannot, however, stress too strongly that that was only an example, deliberately chosen as a neutral and arithmetically straightforward illustration of the principle we had in mind. Our aim when it comes to the proposals themselves will not be so simplistic. We shall be looking for whatever best meets both the needs of the internal market and the concerns of the Member States.

31. It is clearly in the interests of all concerned that the structure we put forward should, as well as providing the necessary conditions for the completion of the internal market, go as far as possible to reconciling the political, economic, budgetary, fiscal and other preoccupations of the Member States. That is going to be a tall order, and we are under no illusions about it.

But the Commission is not, as is sometimes said, trying to devise unpalatable medicine to force down Member States' throats. What possible interest, after all, would we have in doing so? We are in business not to create resistances, but to propose ways in which the problems perceived by Member States can be overcome and the objectives which they themselves have identified can be achieved.

32. There is no doubt that there will be acutely difficult problems to be resolved. The structure of particular Member States' VAT systems, of their excise duties, of their national budgets and of the balance and levels of their direct and indirect taxes will present potential strains which we will all have to work together to try to ease and ultimately resolve.

But there is no cause to despair. The Community is an old hand at finding ways of enabling its members to deal with particular difficulties, to ease the strains and pains of transition and adjustment, to compensate for the disparities in economic, social, geographical or other advantages and disadvantages, while at the same time moving steadily together towards a common goal.

33. This Conference is not the first occasion on which I have been reminded that in Ireland, as elsewhere, there are preoccupations and anxieties, both among those in government and among people operating in the economy at large. The prospect of any change in taxation brings out the most fundamental concerns in both; the ordinary man fears that taxes will be too high; the Finance Minister fears they will be too low; both fear that they may not be able to make ends meet.

34. Let us consider very briefly the overall fiscal position of the Irish taxpayer and the Irish government in so far as they might be affected by the changes proposed in the White Paper.

35. Indirect taxes do indeed form, in Ireland, a higher proportion of government revenue than in the majority of Member States. In the light of this many people fear that approximation will present insoluble problems. I am not entirely convinced, however, that these fears will necessarily prove well-founded.

Thus the present yield of VAT in Ireland, measured as a proportion of GDP, is not very far from the middle of the Community pack: there is no a priori reason therefore why the completion of the internal market should substantially change that underlying position. Fears that the overall burden of VAT on the Irish taxpayer will change dramatically as a result of implementing the White Paper's proposals are, to say the least, premature. Changes indeed will be needed. But it does not follow that these changes would be unmanageable.

36. I now turn to excise duties, which make a very large contribution to the governmental kitty in Ireland. If the Community were to align, the main excise duties at rates appreciably below those in Ireland, as I believe some in Ireland fear that would present substantial problems. But how realistic a possibility is such a low-taxation regime?

There are good economic, social and historic reasons for preferring high rates of excise on such goods as oil products, tobacco and alcohol: I should be frankly surprised if the Community and its Member States reversed entirely their traditional approach of high rates on the main excise duty products. Once again, as in the case of VAT, the practical changes necessary to complete the internal market may not be as radical as is sometimes suggested. Indeed it may well be that the changes necessary in indirect taxation will prevent some Member States with the opportunity of making changes they would regard as necessary or desirable on other grounds.

37. Finally, a word about direct tax in Ireland. We all know that income tax in particular is the method of government revenue raising most directly and resentfully felt by the working population. But equally all governments have to arrange the levels of income tax in the light of their other revenue-raising capacities and in the light of their short-term and long-term economic and political goals. All an outsider like me can say is that there are many other Member States where the proportion of GDP taken in direct taxes is higher than in Ireland.

38. 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.

39. It should be borne in mind that nobody is suggesting that major changes should happen from one day to the next. From when we publish our proposals for the future rates and rate structures of indirect taxes in an integrated internal market, Member States will have six years within which to move towards the common goal. Member States 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 harmonisation will leave them free to adjust to particular national needs and changing circumstances.

40. Indeed we have throughout said quite clearly that we recognise 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 in to our proposals themselves and the considerable transitional time available for implementing them, we have always acknowledged that there may be a need for derogations to meet particular cases of political and economic sensitivity. This may or may not turn out to be a route which, in some respects, Ireland may seek to follow.

Ireland's geographic and economic circumstances are not those of, say, Germany or France. The rest of the Community has no desire to minimize or ignore the problems peculiar to Ireland. Article 8C of the Single European Act specifically envisages the possibility of temporary derogations for individual countries, in the light of "the effort that certain economies showing differences in development will have to sustain" while the internal market is completed.

41. But let us not deceive ourselves. 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.

Conclusion

42. I hope I have made it clear that the Commission has no illusions about the difficulties which lie ahead if we are successfully to accomplish the task we have all set ourselves. We were asked by the Heads of Government to produce a programme which would meet the objective they had identified, namely the creation of a single European market. That we have done. And the component parts of that programme will almost all soon be on the table of the Council of Ministers, for them to take the necessary decisions.

43. A great deal of hard work, of good will, of hard bargaining and of give and take will be needed over the coming months to reach agreements acceptable to all concerned. Agreements which satisfy the political, economic and financial concerns of each and every Member State; and which at the same time satisfy our common aspiration to a united, prosperous and growing European economy no longer divided by the physical, technical and fiscal barriers which at present prevent us from achieving our full potential. There is a race to be run, a prize to be won. The race will be long and hard: but the prize more than worth while to win.



FINANCIAL SERVICES AND COMPANY LAW

Presentation by Mr. G.E. Fitchew,

Director-General

Directorate-General Financial Institutions and Company Law

November 1987

What I would like to do in the time allotted to me is to consider two areas which are of vital importance to the creation of the Internal Market : first of all, Financial Services and then the area of Company Law.

### FINANCIAL SERVICES

In the field of financial services, clearly I cannot in the time available go into detail on all the aspects of our work but I think it is useful to indicate why it is felt to be important to pursue the liberalisation of the financial services sector. In the White Paper we argued that a common market to a large extent already exists for goods and that it was therefore a logical step to foresee a similar development in financial services. Financial services play an increasingly important role in the economy of all Community countries. Confronted with an increasingly globally organised financial market it is thus essential that Europe becomes an efficient and liberal market place if it is not to lose business and the employment that goes with it. From the Consumer's point of view it is important that he or she should have access to a wide range of competitive financial products irrespective of their country of origin. Last but not least, financial services are an important input for the rest of the Community's economy. It is essential for the manufacturing sector's competitiveness that the financial sector should be as competitive as possible. Community industry has to be able to finance itself on the finest possible terms and buy its insurance as cheaply as possible.

The general approach we have adopted on the creation of a Community financial services sector is closely linked to the question of the liberalisation of capital movements

Some Member States have never imposed significant exchange controls. In the last few years they have been joined by others. The present position is that Germany, the Netherlands, Belgium, Luxembourg, the UK, Denmark, France and Italy now have few if any exchange controls. In the light of these encouraging developments, the Commission took the view that the time had come to complete the process of liberalising capital movements.



The first of two directives - liberalising long-term capital movements - was adopted last November and is now in force. The second directive to liberalise all remaining transactions, i.e. short-term monetary instruments down to and including personal bank accounts and purely financial loans, was put forward last month.

There has already been an informal agreement by financial ministers that the time is now ripe to take this final step. We hope therefore for speedy adoption of these latest proposals.

But whilst liberalization of capital services is nearly always a necessary condition for freedom of financial services, it is not always a sufficient condition. This is for three main reasons. First, in some cases, there are national regulatory barriers which would obstruct freedom of establishment and free trade in financial services even after exchange controls are fully removed. Second, if capital movements are liberalised without agreement being reached at the same time on common rules for the supervision of financial operators, business will tend to migrate to the centres where supervision is most lax. Third, for obvious reasons, there have to be broadly equivalent standards for investor protection. Our objective in the White Paper proposals is therefore to remove the administrative and other barriers, which still exist to freedom of services, but at the same time to reach agreement on the indispensable elements of supervision and investor protection.

The general method of achieving unified financial markets is set out in the White Paper and it is perhaps useful to reiterate the three main elements of that approach. These can be summarised as :

- the harmonization of essential standards for prudential supervision and for the protection of investors, depositors and consumers ;
- mutual recognition of the way in which each Member State applies those standards ;
- based on the first two elements, " home country control and supervision of those financial institutions which wish to operate in other Member States either by establishment or by offering the services directly across frontiers.

Our approach, set out in the White Paper, contains three main elements :

First the harmonisation of essential standards (not minimal standards) for prudential supervision and for the protection of investors, depositors and consumers ;

Second, mutual recognition of the way in which each Member State applies those standards ;

Third, based on the first two elements, " home country " control and supervision of those financial institutions which wish to operate in other Member States either by establishment or by offering services directly across frontiers.

There are a number of misunderstandings about " mutual recognition " which I would like to try to clear up. First, it is not a polar opposite to harmonization. On the contrary, in our approach mutual recognition depends on the broad equivalence of national regulatory systems and this will often require some prior degree of harmonization. The crucial question is how much harmonization is required. Second, when we speak, as the White Paper does, of minimum harmonization, that certainly does not mean harmonization at the lowest possible level. What we mean is harmonization of the essential elements. In some cases, e.g. insider trading, our proposals will require some Member States to introduce controls in areas where they have not existed before.

I should now like to set out briefly where we have got to in the various sectors and what remains to be done.

In the banking sector, the co-ordination or harmonisation of national legislation was expressly provided for in the Treaty of Rome. It soon became apparent, however, that the simple elimination of discriminatory practices restricting the freedom of establishment would not alone create a unified banking market.

The first banking co-ordination directive of 1977 achieved three main goals :

- it cleared away most, but not all, of the obstacles to freedom of establishment across the Community ;

- it laid down common standards ("fitness and properness") for the granting of banking licences ;
- and it introduced the basic principle of " home country control " which was extended in 1983 by a directive on supervision on a consolidated basis.

As regards freedom of establishment, the Community is thus already more advanced, for example, than the United States. But there are still obstacles to be overcome before we have a genuinely unified banking market. In particular :

- a bank still has to get authorisations from eleven different supervisors to set up branches in all Member States ;
- there is no general freedom to provide banking services across frontiers.

Our current plans for legislation in the banking sectors are intended to remove these remaining obstacles : to liberalise the market, and agree on strong common standards of supervision.

These two objectives - liberalisation and agreement on strong common standards or supervision - are complementary. We have moved away from the concept of full detailed harmonisation towards that of " mutual recognition and equivalence " based on common standards for the essential prudential rules. In this context there is one point I cannot emphasise too much : the White Paper referred to " minimum harmonisation " and this must not be confused with minimal standards. It is the Commission's goal to ensure a sufficiently high standard rather than a lower common denominator not only in the banking field, but also generally, similarly, the Commission fully accepts the need for banking supervisors, and thus the legislation governing their work, to be flexible and responsive to rapid market change.

By the end of this year, we will have transmitted to the Council our proposal for a second banking co-ordination directive, which aims to complete the first co-ordination directive by removing the remaining obstacles to freedom of establishment and freedom of services.

The central concept in the new directive is the idea of a single banking licence valid throughout the Community. What this means is that once this directive is in force, together with three accompanying instruments, any authorised credit institution will be able to supply core banking services throughout the Community, either by branches or by means of the provision of services, on the basis of a single licence issued by its home country supervisor. This "single banking licence" will be mutually recognised by other community supervisors; subject only to the provision that credit institutions may only undertake those banking activities in other Member States which their home country authorisation allows them to do domestically and for which they are supervised by them.

In addition to establishing this framework, the draft directive actively pursues the goal of ensuring adequate prudential standards.

The development of new payment media, such as payment cards, containing magnetic strips and microchips, involves questions of technology, infrastructure and rules of use, and clearly has implications for the internal market. The Commission has therefore put forward a Communication to the Council on such media, the aim of which is to encourage a mutual opening-up of the different card systems in the Community and common technical standards and to avoid the fragmentation of the market. In October, the European Council on Payment Systems approved a European Accord for Bank Card usage.

In the insurance sector, freedom of establishment of insurance companies was already established in the 1970s by the First Life and Non-Life Directives. More recently, the Commission has proposed Directives on the annual accounts of insurance companies and the procedures for winding them up with the aim of ensuring greater compatibility of accounts of insurance companies. This is important for the debtors and creditors as well as for policy-holders in general.

Following last year's major Court Judgements in the insurance sector, work has resumed on the Second Draft Directive on Non-Life insurance with a view to reaching agreement on rules to facilitate freedom of services in this sector. Once adopted next year, this will ensure a very liberal régime for those consumers, primarily, though not exclusively, larger commercial consumers, who wish to obtain insurance from any Community insurance company. Free choice of insurance supplier will be guaranteed. The interests of the man in the street will be protected, but, at the

same time, it will be possible for insurance companies and for their industrial and commercial customers to benefit fully from the internal market.

The Commission's aim is to ensure full protection for the mass consumers of insurance. For this reason, and in the light of the Court Judgements, proposals for freedom of services for life insurance and compulsory motor insurance are being re-examined and will only be made in 1988. Nevertheless, as a result of earlier Community legislation, the control of motor insurance green cards is no longer necessary and divergences between Member States on obligatory motor insurance cover have been reduced. A new proposal to be made later this year will deal with problems related to disagreements between insurance guarantee funds and an insured person, with the aim of speeding up payment to the accident victim. If a Community citizen has the misfortune to have a road accident anywhere in the Community, he will be sure that he will benefit from insurance cover. This clearly has important benefits for the free movement of businessmen and of tourists throughout Europe.

In the field of securities markets, the Council in 1985 adopted a Directive to liberalise the activities of undertakings for collective investment in transferable securities (UCITS) which exist in all Member States. Once a UCITS has been authorised in accordance with the rules of this Directive, it may, on the basis of a single authorisation given in its own Member State, market its units to investors in any Member States. This is a major step forward in liberalising securities markets, covering as it does all the main-line types of mutual funds investing in domestic or foreign securities.

The Commission's other major concern in this sector has been to ensure adequate investor information and protection and Directives have already been adopted on :

- harmonizing the conditions for the admission of securities to official stock exchange listing ;
- harmonizing the requirements for the listing particulars to be published for the admission of securities to official stock exchange listing, including the mutual recognition of each other's listing prospectuses ;

- information to be published on a regular basis by companies, the shares of which have been admitted to official stock exchange.

Proposals have also been made to harmonise the contents of the first public offer prospectus, to require the disclosure of major shareholdings in excess of 5 % and finally, but not least, to prohibit insider dealing in securities in the Community.

The main objective is full and proper disclosure of information to ensure that all investors are provided with the information they need to make the proper assessment of the risks associated with an investment. In addition, the aim is to make it easier for the corporate borrower to treat the Community as a single market for the issue of shares and for getting stock exchange listing. The intention is that all Member States will be in a position to mutually recognize any prospectus approved in any one Member State.

In the case of the insider trading proposal, the aim is to prohibit insider trading in all Member States (this is not at present the case) and to ensure the creation of genuine European securities market which is efficient, fair and clean. This will ensure that investors are fully safeguarded and that they will be treated on an equal basis in all Member States.

#### COMPANY LAW

The second part of what I want to say covers the whole area of company law. Clearly harmonisation of company law is an important element for the creation of the internal market.

Why is company law harmonization needed ? Two reasons. First, with the growth of intra-Community trade investment freedom of capital movements there will be more and more people in the Community, who, as employees shareholders or creditors, find themselves dealing with companies whose head offices are in another Member State. They need to know that they are guaranteed broadly equivalent standards of protection in whichever Member State the company is located. Second, full exercise of the right of establishment.

The development of an internal market without barriers implies the removal not only of obstacles to intra-community trade, but also the removal of obstacles to freedom of establishment and the creation of a common environment for companies all over the community. Article 58 of the Treaty of Rome guarantees the exercise of the free movement of persons, goods, services and capital as well as free competition to all companies and firms, provided they pursue an economic objective. Companies wishing to establish a subsidiary or branch in another Member State need to know that the rules of the game are broadly equivalent throughout the Community.

Despite the wide scope of Article 58, the work of the Community to date has been confined largely to limited companies since these are economically and socially the most important enterprises in the Community. You are probably aware of what has been achieved : the seven company law directives can be summarised as follows.

- The First Directive of 1968 provides a system of publicity for all companies. The Member States must maintain registers open to the public, and also ensure the publication of information in a gazette. The system ensures that information on the same areas is available to the public in respect of all companies in the Community. It also deals with the validity of obligations entered into a company.
- The Second Directive of 1976 provides common standards and procedures for the raising, maintenance and alteration of the capital of public limited companies, since their capital represents the major essential guarantee for creditors and shareholders.

The Third and Sixth Directives make available the legal elements necessary for important types of company reconstruction :

- the Third Directive of 1978 introduces in the legal systems of all Member States the transaction of merger, whereby simultaneously the assets and liabilities of the acquired company are transferred to the acquiring company. The process avoids cumbersome procedures by way of winding-up to effect mergers. The shareholders of the acquiring and acquired

companies receive an equivalent stake in the merged company guaranteed by the valuation of the share exchange ratio by an independent expert.

- the Sixth Directive of 1982 provides analogous safeguards for the process of scission whereby an existing company divides into entities.

These two directives apply to transactions confined to a company or companies in the same Member State. Given the increasing diversity of capital holdings and intra-community trade, the necessity to extend the possibility of mergers to companies in different Member States is clear. In March 1984, the Council of Ministers stressed that progress on international mergers was essential for the economic and industrial development of the Community. The Commission has proposed a draft directive on such form of reconstruction and in parallel with it a directive on the tax treatment of such mergers.

The Fourth, Seventh and Eighth Directives provide a codex of European accounting law, harmonized at a high level although by no means fully complete :

- the Fourth Directive of 1978 fulfils the commitment of the Community in the First Directive to cover the accounts of all limited companies. Standard layouts and detailed requirements on the contents of the notes are given for the balance-sheet and profit and loss account of companies, with the possibility of a more flexible regime for small and medium-sized undertakings. Accounts must give a true and fair view of the company's assets, liabilities, financial position and profit or loss in accordance with principles such as the going concern, consistency, prudence and attribution to the financial year in question. The valuation rules are also defined. The usual basis is historical cost, but Member States may permit alternatives such as current cost valuation provided certain basic conditions are respected.
- The Seventh Directive of 1983 deals with the consolidated accounts of " groups " of undertakings, i.e. of parents and subsidiaries, the Fourth Directive being necessarily confined to individual company accounts. Under the directive, the consolidated accounts aim to give a true and fair view of the



assets, liabilities, financial positions and profit and loss of the undertaking in the group if they were a single entity. In particular, therefore, the book values of shares of the undertakings consolidated are set off against the proportion they represent of the capital and reserves of those undertakings. Intra-group transactions are also eliminated.

- The Eighth Directive of 1984 defines the qualifications required of those who audit the accounts required by Community law. Both the Fourth and Seventh Directives provides for an independent audit of the relevant accounts. Without high common standards for the auditing profession, results might vary widely.

What of the future : it is clear there already exists a framework covering most aspects of the operation of limited companies and also a body of European accounting law.

Taken together, these constitute the basis for facilitating increased cooperation between enterprises in the Community. As I have already said, what has been missing has been a Community legal framework for cross-border activities between enterprises and for cooperation between enterprises of different Member States. From 1 January 1989, however, companies in the Community will be able for the first time to cooperate with each other on the basis of the Regulation on the European Economic Interest Grouping. The flexible form of association permitted by the Regulation will allow companies in different Member States to integrate parts of their activities whilst maintaining their legal and economic independence.

In order to encourage cross-border mergers within the Community, the proposal for a Tenth Company Law Directive would extend the scope of existing legislation on mergers of companies into the transnational or multinational field. This facility would complete all the possibilities for cooperation across frontiers between companies. In the accounting field too, the Commission has made a proposal concerning disclosure requirements in respect of branches set up in one Member State by companies established in another. This Directive when adopted will result in limitations on the amount of documents and particulars to be disclosed, thus facilitating the task of companies in establishing branches in the Community.

This progress towards an environment in which cooperation between enterprises within the Community becomes easier will be facilitated by the adoption of four Directives in the company taxation sector aimed at encouraging cross-border cooperation between companies, namely the proposals for Directives on :

- a common system of taxation applicable to mergers, divisions and contributions of assets ;
- a common system of taxation applicable to parent companies and their subsidiaries ;
- elimination of double taxation (arbitration procedure) ;
- indirect taxes on transactions in securities.

All of these proposals will increase substantially the attractiveness of cross-border activities, including cooperation between small and medium-sized enterprises which are very much aware of the cost, the complexity and length of existing procedures. The suppression of taxes on transfer of securities by 1990 will facilitate investments and stimulate company investment.

In the longer term, it is possible to envisage a European company statute offering European incorporation for limited liability companies, as an alternative to national incorporation. An evaluation of the proposal already put forward in 1989 is currently under way in the light of the call by last June's European summit to achieve rapid progress in the company law sector to arrive at a European Company.

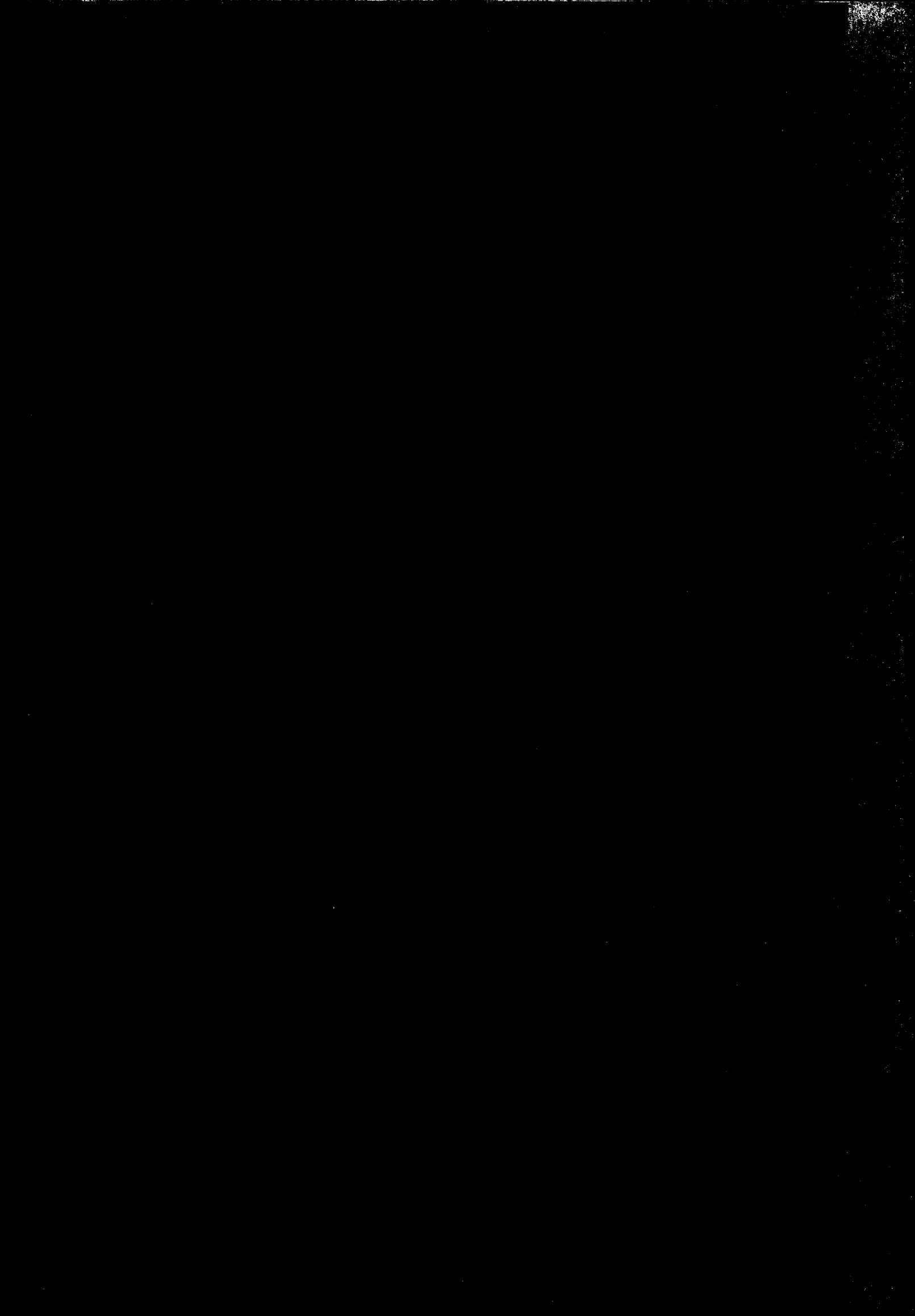
#### **CONCLUSION**

The programme for achieving the Internal Market in both of these areas by 1992 is moving forward and will be facilitated, we hope, by the new decision-making procedures introduced by the Single European Act. In the financial services sector by 1992 we hope to be in a position to speak of a single European banking market where it is as easy for a bank to establish branches anywhere in the Community as in its home Member State, and offer the full range of its banking services across the entire Community ; of a European securities and capital market with enough

capacity to meet European industry's financing needs and to attract investors from all over the world. The Company law programme's main aim is to create conditions likely to favour the development of cooperation between undertakings. Such cooperation is designed to strengthen the industrial and commercial fabric of the internal market.

All of this clearly has implications for you here in Austria and these can perhaps be picked up in the course of the discussion.







~~ED 4021~~

2<sup>e</sup> partie p. 3

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 292 final

Brussels, 23 May 1986

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

PROGRAMME FOR THE LIBERALIZATION OF CAPITAL MOVEMENTS  
IN THE COMMUNITY

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COM(86) 292 final





## Introduction

The communication on Financial Integration which the Commission presented to the Council in April 1983(1) gave new impetus to Community discussions on the liberalization of capital movements. Today there are two essential reasons for placing this question among the Community's top priorities.

First, the Luxembourg Act makes new demands on the process of financial integration which has already begun. The Act clearly affirms the need for the large internal market to assume its full financial dimension, since the objective of free movement by 1992 also applies to capital and financial services.

Already, a considerable effort is in progress to remove the technical, administrative and legal obstacles to trade: the effort covers the harmonization of standards, the opening up of public procurement contracts, the ending of excessive controls at frontiers and the approximation of indirect taxation. It would be difficult to imagine that it should not extend to exchanges of capital.

The result will be the closer coordination of economic and monetary policies, which is important for the Community's integration. This will have to be accompanied by appropriate measures to bring levels of development as close together as possible and to reduce the structural differences between the Member States. Article 130(b) of the Single Act provides that the implementation of common policies and of the internal market shall take into account the objectives of cohesion. The proposals set out in this communication while ultimately beneficial for all, may create difficulties for some Member States. In such cases, it may be necessary to take additional measures, outside the scope of this communication, in order to help those Member States to participate fully in the creation of a genuine common market in financial services with full freedom of capital movement.

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(1) COM(83) 207 final.

- Second, there is a close link between the development of the EMS and the free movement of capital: this link was established by the Commission in its communication to the Council of November 1984 on developing the European Monetary System(2). The EMS experience has played a decisive role in the evolving attitude of the Member States. The opinion which has prevailed is that the stability of exchange rate relationships must reflect and be nurtured by a genuine convergence of monetary policies and economic performances.

The purpose of this Communication is:

- to trace the logic behind the Commission's proposed approach and the major phases in that approach, so as to arrive at as liberal as possible a Community system of capital movements;
- to set out the resultant implications for the effective integration of the financial markets and for the coordination of the monetary and financial policies of the Member States.

I. The proposed approach for the liberalization of capital movements

A. The logic behind the liberalization of capital movements

1. Analysis and experience show that there are three degrees in the progressive liberalization of capital movements which, in simple terms, correspond to three categories of operations:

(2) COM(84) 678 final.

- capital operations - such as commercial credits, direct investments or various personal capital movements - which are directly linked to the effective exercise of the other fundamental freedoms of the common market (the freedom of trade in goods and services, the free movement of persons, the freedom of establishment);
- operations in financial market securities (bonds, shares and other securities of a participating nature), the liberalization of which determines the existence of a single European financial market; liberalization in this area has to cover the operations carried out by investors as well as those carried out by issuers;
- operations involving financial credits and operations relating to money market instruments, the liberalization of which is necessary for the establishment of a unified financial system in the Community.

2. As each threshold is crossed, growing constraints are imposed on the Member States in the conduct of their monetary policy.

The first group of operations requires merely that the inevitable consequences, in terms of balance of payments, be drawn from a system of freedom of establishment and the free movement of goods, services and persons. The liberalization of operations in securities also opens the possibility of choosing between the financial markets of the Member States and therefore places them in direct competition. The extension of liberalization to monetary transactions imposes not only a greater constraint in terms of the balance of payments, it also affects the organization and functioning of national banking and financial systems and the methods of controlling the external indebtedness of financial institutions and the external circulation of the national currency;

3. In the face of these constraints, the Member States are not in identical positions. Three factors determine their room for manoeuvre in settling potential conflicts between the internal and external objectives of their monetary policy:

- their level of development and the structural characteristics of their balance of payments, which determine the speed and ease with which the requisite adjustments can be made;
- the international status of their currency (its importance as a vehicle of trade and a reserve instrument) and of their exchange regulations (whether or not they participate in the EMS exchange rate mechanism);
- the level of development of their domestic financial system (size, liquidity, diversification of techniques, methods of regulation).

B. The main phases in the liberalization of capital movements

In this context, two phases could be involved in the process of continuing to liberalize capital movements.

1. In the first phase, the objective would be to achieve the unconditional and effective liberalization throughout the Community of the capital operations most directly necessary for the proper functioning of the common market and for the linkage of national markets in financial securities.

Two types of measure are required for the attainment of this objective:

(a) the ending of exceptional arrangements

- certain of these exceptional arrangements derive from the application of the safeguard clause provided for in Article 108(3) of the EEC Treaty and is within the Commission's field of competence. The Decisions relating to France, Ireland and Italy were revised, and made stricter, in December 1984. A target date was fixed for the expiry of the Decisions (the end of 1986 for France, the end of 1987 for Ireland and Italy). Similarly in November 1985 Greece was authorized to maintain certain restrictions on capital movements normally liberalized under Community law, but only for a period of three years.

Also, the revised Decisions referred to the need for restrictions to be gradually relaxed before the expiry date, in line with the results achieved in the recovery of the balance of payments. This partial progress is to be consolidated at regular intervals by the modification of the original authorizations.

- Other exceptional arrangements were introduced on a temporary basis by the Treaty of Accession of Spain (until the end of 1990) and Portugal (until the end of 1992). Here too, and chiefly in order to avoid the difficulty of bringing all the authorized restrictions to an end at once, on the expiry date, the Commission will ensure that every opportunity for partial liberalization is taken.

(b) An extension of Community obligations as regards liberalization

As a result of the discussions held on this question in the Monetary Committee, two main guidelines have been identified.

First, the legislative progress in view, which will not assume its full significance unless it is applied by all the Member States, must not make it more difficult to dismantle the existing exceptional arrangements. It is logical for these exceptional arrangements to apply, initially, to the new liberalization obligations, insofar as they relate to the same type of operations or present an equivalent risk to the balance of payments. (For example, could a Member State be compelled to liberalize transactions in securities not dealt in on a stock exchange if restrictions on operations in listed securities were still authorized?).

Secondly, the extension of Community obligations must mean that all the capital operations involved in the free movements of goods, services and persons or which are the very basis of a financial market can be reclassified within the rules of unconditional liberalization. On the basis of these criteria, the Commission is preparing a proposal for a Directive, which it intends to present shortly to the Council, and which would make the following additions to the Community's liberalization rules of 1960-62:

- (1) The obligation of unconditional liberalization applying to the operations in Lists A and B of the present Directives(1) would be extended to:

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- (1) Lists A and B cover direct investments, personal capital movements, short and medium-term credits related to commercial transactions or to provision of services in which a resident is participating, transfers in performance of insurance contracts, and the acquisition of securities dealt in on a stock exchange. Liberalization of these operations is unconditional and may be suspended only by the implementation of the safeguard clauses provided for in Articles 73, 108 and 109 of the Treaty.

The capital movements contained in List C (in particular the issue of securities, the acquisition of securities not dealt in on a stock exchange and financial credits) are subject only to conditional liberalization, in that a Member State may maintain or reintroduce restrictions on these operations provided that they were operative on the date of entry into force of the Directive or on the date of accession, when such free movement of capital might form an obstacle to the achievement of the economic policy objectives of that Member State.

For the other operations - chiefly short-term capital movements (securities dealt in on the money market, the opening and placing of funds on current or deposit accounts, etc.) - the Member States can choose whether or not to impose restrictions.

- long-term commercial credits;
- the acquisition of financial market securities, whether or not they are dealt in on a stock exchange;
- the admission of securities to the capital market (introduction on a stock exchange, issue or placing). On this point, the Commission had first envisaged that, in the initial stage, the liberalization obligation would be restricted to the admission of certain categories of securities only: shares, units of undertakings for collective investment subject to Community coordination rules, and bonds issued by Community institutions. But it felt that liberalization which immediately covered the admission of all bonds (except the public securities referred to in Article 68(3) of the Treaty) would be closer to the objective of achieving the close linkage of national financial markets, and would avoid giving preferential treatment to certain categories of issuers, as recommended by the Monetary Committee.

ii) It would also be proposed that, for all liberalized capital movements (Lists A and B), uniform conditions would be laid down for the functioning of any dual exchange market which might exist, by aligning these conditions on the most binding provisions of Article 1 (List A operations) of the present Directive. As a result, Lists A and B of this Directive could be merged.

2. In a second phase, the realization of a large internal market, in full possession of its financial dimension, means that a decisive step must be taken towards the total freedom of capital movements.

- (a) In the White Paper, "Completing the internal market", the Commission stressed the need to achieve the liberalization of financial services in the Community by 1992 at the latest. The attainment of this objective, and more generally the logic of a European financial system without internal frontiers, inevitably leads to the ending of all restrictions on capital movements. The free movement of capital will therefore have to extend to operations which, under Community law, would still remain excluded, i.e. financial loans in both domestic and foreign currencies, money market operations, deposits and balances on current account. Such liberalization is necessary if the financial intermediaries are to compete fully on the European market and derive full advantage from the freedom to provide services which they will be offered. Complete exchange liberalization will make it possible to do away with control procedures for the purposes of verification which have to be maintained, even on liberalized operations, so long as restrictions continue to exist.
- (b) The question which arises is whether all the Member States are capable of moving towards this objective at the same speed of the complete freedom of capital movements. This question is especially relevant since, as indicated above, a link has been established between the liberalization of capital movements and the development of the EMS in which not all the Member States fully participate. Moreover, the Luxembourg Act provides for the possibility of special arrangements for the most vulnerable Member States in the realization of a large internal market.

In any event, any differentiation to be made between the Member States in the liberalization process should not be introduced below a uniform level of Community obligations as previously defined (point B.1 above). Also through its instruments for supporting balances of payments, the Community must be able to offer Member States which are faced with special constraints the means of overcoming these difficulties so as to enable them to take part in the full process of the liberalization of capital.



(c) Consequently, the approach required for completing the process of liberalization without doubt differs from the one followed up to this stage and based on the progressive transfer of certain categories of operations to a system of unconditional liberation (save where recourse is had to the safeguard clauses of Articles 108, 109 or 73 of the Treaty).

1) For operations involving financial loans and credits, monetary operations or deposits, the liberalization rules should be more flexible and better suited to their nature. One possibility would be to provide, for this category of transactions, a specific safeguard clause which was less binding than the one in Article 108 of the Treaty(1). A safeguard clause of this kind, incorporated in the basic Directive, could be activated by the Commission, after consulting the Monetary Committee, if the corresponding movements of capital lead to disturbances in the conduct of the monetary policy of a Member State and are liable to harm the stability of

(1) Article 108 applies to situations in which a Member State is in difficulties or seriously threatened with difficulties as regards its balance of payments. Under this Article, the Commission may grant protective measures only on completion of a prior procedure consisting of : (i) examination by the Commission of the position of the Member State and the sending of a recommendation; (ii) the adoption of a position by the Council on the possible granting of mutual assistance. The scope of the protective measures is not confined solely to capital movements, but may concern any other Community obligation.

exchange rates in the Community. The derogations authorized would be the subject of a periodic examination within the Monetary Committee.

Consequently, the instruments provided for by the 1972 Directive on regulating international capital flows and neutralizing their undesirable effects on domestic liquidity could be put into operation between the Member States only pursuant to this safeguard clause.

ii) This important step towards the full liberalization of capital movements should logically be accompanied by:

- ending the possibility of resorting to a dual market, save by invoking a safeguard clause;
- a tighter formulation of the obligations applying to unconditionally liberalized operations: such obligations would have to cover not only the lifting of exchange restrictions and measures having equivalent effect which do not directly derive from the exchange control regulations, but also all other types of discrimination, taken for reasons of domestic control (in particular tax treatment or placement rules imposed on institutional investors).

iii) In the light of experience and of the development of financial techniques, the revision of the rules governing the liberalization of capital movements should be seized as an occasion for clarifying and bringing up to date certain definitions and provisions which are over 25 years old. This would mean taking account of the new techniques which have emerged, for example, in the field of transactions in

securities or with regard to lending instruments; or clarifying the content of certain headings, e.g. those relating to blocked funds or to transfers of assets by migrants.

On the basis of these guidelines, the Commission intends to prepare a new Directive which could be presented to the Council in the first half of 1987.

## II. The other implications of financial integration

A high degree of liberalization of capital movements is a necessary but not sufficient condition for the Community's genuine financial integration. It is therefore important for liberalization to be paralleled by provisions designed to ensure the cohesion and identity of this financial area. Also, a truly integrated financial market is bound to have consequences for the conduct by the Member States of their monetary policies.

The Commission intends to embark immediately on a forward-looking analysis of these questions. Only the broad lines of this analysis are presented here.

### A. The cohesion of the European financial area

1. The objective goes beyond the establishment of a financial free trade area in Europe; it is the establishment of a Community-wide integrated financial system. The intensification of intra-Community financial relations, favoured by the lifting of restrictions, will naturally derive support from the progress already made and to be continued in commercial integration and the convergence of economic and monetary policies. It will have

to be accompanied by parallel progress towards the creation of a common market in financial services. The objective is to establish fair conditions of competition which will favour the development of a diversified range of high quality financial instruments and to enable users to exercise their activities throughout the territory of the Community without having to fragment their financial relationships.

2. The integration of the European financial area must therefore be preceded by some standardization in the Community of the laws or administrative provisions governing access to financial activities and the exercise thereof.

The main guidelines adopted in this area were described in the White Paper, completing the internal market(1). The Luxembourg Act offers additional legal means of advancing along this road.

- Harmonization must as a priority concentrate on the establishment of a minimal basis of common rules for the protection of the users of financial services and the supervision, by the country of origin, of the suppliers of these services. This harmonized system of prudential rules would guarantee the quality of the financial services offered in the Community.

- It would also be necessary to establish rules for the mutual recognition of financial techniques rather than to carry out standardization of an administrative nature, which would damage this sector's innovative capacity.

- Lastly, the liberalization of financial services within the Community implies the establishment of common rules applying to third country suppliers.

Also, as the Monetary Committee has noted, the development of the use of the ECU as a vehicle for trade could play a useful role in unifying this market.

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(1) COM(85) 310 final of 14 June 1985.

The forward-looking analysis which the Commission intends to make would inter alia have as its object to identify the obstacles to the creation of a homogeneous network of financial services, and in particular the structural difficulties characteristic of certain countries; it would define its links with the liberalization of capital movements and evaluate its economic significance.

3. Apart from its function of mobilizing and allocating savings in the Community, an integrated financial system must permit the establishment of an effective network of payments between the residents of the various Member States for the performance of all current transactions.

The complete liberalization of capital movements will do away with the indirect barriers which may result from national provisions relating to exchange control (e.g. rules governing forward cover for import and export operations), the organization of the foreign exchange market (e.g. the use of multiple exchange rates) or rules on methods of payment (restrictions on the free choice of method of settlement).

In the communication of November 1984 on developing the EMS, the Commission indicated a need for enhanced surveillance, by the Community, of the external payments systems of the Member States. The achievement of an integrated market by 1992 reinforces this need so long as the process of liberalizing capital movements has not reached completion. This would mean, for example, defining at Community level, in a legal form to be agreed, certain rules of conduct with the aim of prohibiting certain practices of a restrictive nature, unless a derogation were granted by common accord.

**B. The conduct of monetary policies**

1. Substantial progress towards the full convertibility of the European currencies, while respecting the exchange rate disciplines of the EMS, will inevitably create new conditions for the management of the System.

At the present time, there are two classes of participant in the EMS exchange rate mechanism. Five Member States operate a liberal system, or one which at least complies with existing Community obligations in respect of movements of capital. In this first group of countries one currency performs a guiding role on the monetary policy of the other Member States, which are smaller in economic dimension and, for the most part, are extremely open to the outside world. By contrast, the other three participating Member States maintain a relatively strict system of exchange controls and one of them benefits from a wider margin of fluctuation for its currency. In this mixed situation, the system has been managed satisfactorily in terms of the objectives pursued of stability and convergence, and the progress made in these areas opens the way to the greater liberalization of financial flows.

A system broadened to include other participants and in which the principle of the free movement of capital would become the rule would inevitably be far more sensitive, from the point of view of the variability of interest and/or exchange rates, to cyclical lags and to the expectations of economic groups. It would therefore require a substantial reinforcement of

convergence but also of the effective coordination of the monetary policies of the Member States. In its turn, this closer coordination will increase the dynamism of economic policies and increase confidence and investment throughout the Community.

2. The pace at which coordination can be reinforced and the procedures for achieving it will have to be determined in the light of experience and it would be largely artificial to wish to specify all the details in advance. Especially since the chief requirement, as the Commission stressed in its Communication to the Council of November 1984, would be to make full use of the coordination system which exists, by a more explicit affirmation of the objectives pursued and a stricter application of existing procedures. In other words, coordination should be brought in at a fairly early stage in the definition of the monetary policies of the Member States, in order to prevent divergences rather than to aim for a correction, however rapid, of the imbalances.

As for the management of monetary policy instruments, account will have to be taken of the fact that a higher degree of liberalization of capital will make management by interest rates and the removal of barriers between domestic sources of financing inevitable in the long run, and this will lead to greater uniformity within the Community of the techniques of monetary control.

3. The reinforcement of coordination will raise similar questions with regard to the Community's external monetary relations.

In the first place, closer coordination of the monetary policies of the Member States will contribute, at international level, to the stabilization of exchange rates between the major currencies.

Also, Article 70 of the Treaty gives the Community the legal means for the progressive coordination of the exchange policies of Member States in respect of the movement of capital between those States and third countries. Clearly there can be no question of establishing a Community system of exchange control between it and other countries. The principle, adopted by the Monetary Committee, must remain that of liberalization "erga omnes". However, it would be appropriate to update in good time the 1972 Directive on regulating international capital flows, notably in order to limit the use of the instruments provided for therein solely to relations with third countries and to coordinate their implementation.

### III. Timetable for the Commission's forthcoming initiatives

- In view of the easing of exchange controls which has taken place in France and Italy, the Commission will without delay repeal the Decision taken pursuant to Article 108(3) of the Treaty relating to France - this Decision being no longer applicable - and will revise the Decision relating to Italy, so as to reduce its scope solely to the protective measures which remain in force; the period for which the Decision is valid will not be changed.
  
- Taking account of the discussions which will have taken place within the specialized Committees, the Commission will present, early in the summer of 1986, a proposal for a Directive extending Community obligations as regards unconditional liberalization to long-term commercial credits, transactions in securities not dealt in on a stock exchange and operations for the admission of securities to the capital markets, and introducing uniform conditions for the functioning of a dual market.



- In close collaboration with the Committee of Governors and the Monetary Committee, the Commission will initiate a forward study on the implications of financial integration for monetary cooperation and on the liberalization of financial services, and more generally on the inter-relationships necessary between the different aspects of the internal market (including the approximation of tax systems). The results of this study will as soon as possible be the subject of a communication to the Council.
  
- On the basis of this study and the guidelines which will be adopted by the Council and the specialized Committees consulted for this purpose, the Commission will prepare a new proposal for a Directive establishing the principle of extending the liberalization obligation to all movements of capital. The text of this proposal could be presented to the Council in the first half of 1987.





**INFORMATION - INFORMATRISCHE AUFZEICHNUNG - INFORMATION MEMO - NOTE D'INFORMATION  
ΠΑΡΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ - NOTA D'INFORMAZIONE - TER DOCUMENTATIE**

Brussels, May 1986

**PROGRAMME FOR THE LIBERALIZATION OF CAPITAL  
MOVEMENTS IN THE COMMUNITY**

On 21 May the Commission adopted a Communication to the Council setting out a programme for the liberalization of capital movements in the Community.

In the programme, the Commission has assigned top priority to the liberalization of capital movements, for two main reasons :

- in line with the objective laid down in the Single Act a uniform financial area needs to be established as part of the moves towards the creation of a large internal market by 1992 ;
- experience has shown that the free movement of capital in the Community is a necessary condition for the strengthening of monetary cooperation ; the further development of the EMS and the ECU must be able to count on the existence of a Community-wide financial area.

As regards the creation of the large internal market, a major drive is already under way to remove technical, administrative and legal obstacles to trade ; harmonization of standards ; opening up of public contracts ; abolition of unwarranted frontier checks ; alignment of indirect tax rates. It would be difficult to imagine capital movements not being involved in this exercise.

To be specific, the liberalization of capital movements will reinforce the attractiveness of a Community-wide financial area for the world at large. It will prompt the financial centres in the Community to introduce a full range of instruments that incorporate the latest techniques.

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(1) COM (86) 292

It should, therefore, make it possible to mobilize savings in Europe on a broader scale and with a view to their use for investment purposes and to create jobs at a lower cost. It will be one aspect of the Community's economic strength.

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Liberalization cannot, though, be carried through in disregard of the diversity of economic circumstances in the Member States, which are unequally placed when it comes to tackling liberalization, irrespective of whether it is a matter of accepting the risks it represents for external payments or seizing the opportunities it affords for internal development.

It was for this reason that the Treaty of Rome here envisaged a cautious, progressive approach based on the moves towards economic integration in the Community. With the progress that has been made since 1962, when the most recent general directive on capital movements was adopted, it is now possible to take further steps forwards, and these are described in the Communication as part of a medium-term approach.

The progressive nature of the general approach envisaged will not though be sufficient to allow full account to be taken of the differences between Member States, which are rooted in history or which stem from their particular economic situations. A further way in which to tackle these difficulties is to apply protective clauses in a balanced fashion, although the difficulties must be looked at in a broader and more dynamic context.

This context is provided by the Single Act, which creates a parallel link between achievement of the internal market and the development of cohesion between Member States, in particular via implementation of all the structural instruments and by way of increased efforts to foster economic, financial and monetary cooperation.

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To this end, the proposed programme envisages two sensible stages :

- In an initial stage, the aim would be to achieve effective liberalization throughout the Community of the capital transactions most directly necessary for the proper functioning of the common market and for the linkage of financial markets.

This implies first the progressive dismantling of the existing derogations from the requirements applicable at Community level.

The liberalization requirements would then need to be extended to all transactions involving the acquisition and issue of financial securities shares or bonds, whether or not quoted on a stock exchange.

The first stage will be of benefit to investors in the Community, who will be able to diversify their long-term investments and take a direct part in the development of the Community. It will also open up corresponding opportunities for firms. For example, financial institutions specializing in the placing of venture capital will be able to do business throughout the Community, and this will act as a spur to firms to become more competitive. Similarly, promoters of major European projects in the field of infrastructures or industrial cooperation will be able to take advantage immediately of the opportunity open to any firm in a particular Member State to issue new securities on the different financial markets ;

- In a second stage, the principle of full liberalization of capital movements would be recognized and would thus extend to all monetary and financial flows, including the entire range of banking and financial transactions and not simply transactions of a commercial nature.

Transactions with resident or non-resident banks, such as the holding by private individuals of cash balances in the different Community currencies, would be authorized automatically. For example, certain means of payment now in wide use (credit or payment cards, Eurocheques) would offer everyone the same possibilities throughout the Community. Likewise, savings and instruments for lending to individuals, e.g. mortgage credit, would no longer be restricted to the relevant national market. In view of the frequency of such transactions and because of their role in everyday life, this would constitute an important step in the direction of a People's Europe, as envisaged at a number of European Council meetings.

Like individuals, firms in the Community would, by the end of this second stage, be able to compete for the financial services (credit, insurance and guarantee transactions) on offer in different Member States. This would widen beyond national frontiers their scope for raising finance, something that has hitherto been the exclusive preserve of very large firms.

However, this second stage, which calls for a high degree of financial integration in the Community, should be the subject of a detailed forward-looking study. What degree of harmonization does it entail between the financial regulations in force in individual Member States? How does it tie in with other approximation or harmonization measures, notably in the tax field? To what extent should monetary policy cooperation between Member States be strengthened in the interests of an effective economic policy and of cohesion within the Community? These questions will be examined in a study on which the Commission is now embarking in close association with the Community's specialized agencies.

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The first step in implementing the programme will be to discontinue or adjust the protective clauses from which France and Italy at present benefit. Before the summer, a proposal will be tabled for a first directive covering the transactions to be liberalized during the first stage. A proposal for a second directive covering the second stage will be forthcoming by the middle of next year.

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 550 final

Introduction only

Brussels, 4 November 1987

## CREATION OF AN EUROPEAN FINANCIAL AREA

(Communication by the Commission)

COM(87) 550 final





COMMUNICATION FROM THE COMMISSION

(Creation of an European Financial Area)

## Creation of a European Financial Area

### Introduction

In April 1983, the Commission sent the Council a Communication on Financial Integration<sup>1</sup>. This gave new impetus to Community discussions and was followed in May 1986 by a programme for the liberalisation of capital movements<sup>2</sup>, which is a vital element in the creation of an integrated financial area. The first stage of that programme was put into effect by the Council in November 1986 when it adopted a Directive which entered into force on 1 March 1987 extending the list of liberalised transactions.

Several Member States have taken measures which go beyond their Community obligations; and the relaxation of exchange controls in France and Italy has made it possible to terminate the protective clauses under Article 108 of the Treaty from which they previously benefited.

The programme adopted in May 1986 stipulates that the Commission will study with the Monetary Committee and the Committee of Central Bank Governors the implications of financial integration for monetary cooperation and on the liberalisation of financial services. It also stated that proposals for a Directive establishing the full liberalisation of capital movements will be submitted to the Council in 1987.

A link was established between the strengthening of the EMS and the liberalisation of capital movements during the discussions which followed the realignment of January 1987. At their informal meeting in Knokke in April 1987, the Ministers of Finance agreed that the measures under examination for strengthening the EMS should be adopted in September and that the Commission would present as soon as possible afterwards its proposals on the liberalisation of capital movements.

The informal meeting of Ministers in Nyborg in September approved a package on the strengthening of the EMS and welcomed the Commission's intention to send its proposals for the implementation of the final stage of the liberalisation of capital movements to the Council meeting of November.

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<sup>1</sup> COM(83)207 final

<sup>2</sup> COM(86)292 final

The first part of this document outlines the main options on which those proposals are based.

The second part considers the following three complementary questions, which have been posed during the Commission's considerations on the implications of the full liberalisation of capital movements and in the notes sent by the President of the Commission to the President of the Council for the informal meetings of the Finance Ministers.

- How should the programme to liberalise capital movements fit in with the programme to harmonise national supervisory structures, whose purpose is to facilitate the full freedom of financial services while ensuring the protection of savings and the conditions for fair competition between financial intermediaries?
- With no restrictions, capital movements will be determined to a greater extent by fiscal considerations. What measures may be necessary to ensure that there is no misallocation of capital; and to combat a possible increase in fiscal evasion?
- Maintaining stable exchange rates is necessary both for achieving and preserving the large internal market. What relationship is there between financial integration and participation in the exchange rate mechanism of the EMS?

The Commission's view is that solutions to these questions must not be regarded as pre-conditions for the programme of liberalisation of capital movements. An integrated financial market will not be achieved by simultaneously implementing all the necessary measures. On the contrary it will be achieved by creating a dynamic movement towards integration and accepting some disequilibrium within an overall programme which is both coherent and binding. The liberalisation of capital movements will itself provide the momentum for this process.

#### I. Legislative Proposals for the Final State of the Liberalisation of Capital Movements

The Commission's proposals are based on three texts:-

- A proposal for a Directive for the full liberalisation of capital movements
- A proposal for the amendment of the 1972 Directive on regulating international capital flows
- A proposal for a Regulation amending and combining the existing two Community instruments which are available to provide medium-term balance of payments assistance.

## 1. The Directive to Implement the Full Liberalisation of Capital Movements

The purpose of this Directive, which will be based on Article 69 of the Treaty is to extend liberalisation to all capital movements. This extension will cover mainly the following operations:-

- investments in short-term securities;
- current and deposit account operations;
- financial loans and credits;

As the Directive will also stipulate that transfers made for the purposes of capital movements must be effected on the same exchange rate conditions as those for current payments, a dual exchange market could not be maintained or introduced except under a safeguard clause, provided for in the Treaty or in this Directive.

The obligation to liberalise will be worded in a general way. This will remove any ambiguities over its scope, which may remain even after the decisions of the Court of Justice on this subject. The obligation must be interpreted to imply:-

- not only the elimination of restrictions on capital transfers but also on the underlying transactions;
- the possibility for a resident in one Member State to have access to the financial system of another Member State and all the financial products that are available there; this resident therefore puts himself in the regulatory framework of the market in which he deals;
- the elimination in domestic rules of discriminatory measures, for example fiscal discrimination, and restrictions imposed on certain types of investor, in so far as they are not strictly necessary for prudential reasons.

The new Directive will contain a safeguard clause which would permit the re-introduction of controls, on short-term capital movements if they were seriously endangering a Member State's monetary or exchange rate policy.

Exercise of the safeguard clause would be subject to Community procedures. Either the Commission, after consulting the Monetary Committee and the Committee of Central Bank Governors, would authorise the implementation of protective measures; or in an emergency the Member State would do so itself, in which case it would inform the Commission and the Member States. The Commission may then decide whether the measures taken should be amended or suspended. In all cases the measures would be limited in time to a maximum of six months and could only affect transactions newly liberalised by the Directive.

A safeguard clause in the Directive itself is necessary, despite the fact that the Treaty provides safeguard clauses through Articles 73, 108 and 109, for the following reasons:

- Articles 108 and 109 require that the Member State has balance of payments difficulties, but there can be disruptive short-term capital movements without a balance of payments crisis. Article 73 refers to "disturbances in the functioning of capital market". There are risks in encouraging a wide interpretation of this to cover monetary and exchange rate difficulties connected with short-term transactions.
- As the measures would affect short-term and monetary transaction, the Committee of Central Bank Governors should be consulted; but the safeguard clauses of the Treaty do not provide for this.
- It is desirable to have a short fixed time limit.

Four Member States - Spain, Portugal, Greece and Ireland - are not in a position to proceed to the final stage of the liberalisation of capital movements at the same pace for a variety of reasons such as : precarious balance of payments positions, high external indebtedness, less developed domestic financial systems, etc.

The new Directive will provide for a longer time-table over which these countries would remove controls on the transactions covered. This would not affect the special provisions which already apply in these countries on other transactions covered by previous legislation.

For Spain and Ireland it is proposed that the transitional period would terminate at the end of 1990; and for Portugal and Greece at the end of 1992.

## 2. Amendment of the 1972 Directive on regulating international capital flows

The purpose of amending this Directive is the following:-

- To include a declaration of intent that the degree of liberalisation of capital movements to and from third countries should be equivalent to those within the Community. This solution is preferable to the introduction into Community law of an obligation to liberalise "erga omnes". Although this would probably be done in practice, such a legal commitment, which would be more difficult to reverse than to make, could compromise the Community as a whole or individual Member States in negotiations with third countries.
- To give operational content to the notion that there should be a Community dimension, which is contained in the preamble to the existing text but not in the Articles. The proposal is that Member States would keep the Commission informed of measures taken vis-à-vis third countries, and that the Commission, after consulting with the Monetary Committee would be able to make recommendations to the Member States.
- To extend the range of instruments covered by the Directive, to make them the same as the instruments which would be necessary for the implementation of the safeguard clause in the new Directive implementing Article 67 of the Treaty.

It is desirable to include these aims in an amended version of the 1972 Directive rather than in the new Directive because they have to be based on different Articles of the Treaty.

### 3. Mechanisms providing medium-term balance of payments assistance

The purpose of the proposal, which takes the form of a Regulation based on Articles 108 and 235, is to:

- establish a single instrument to provide medium-term financial support (MTFS) by combining the existing Community loan and medium-term financial assistance mechanisms;
- make the Community loan the primary instrument for medium-term assistance;
- extend the conditions under which medium-term assistance can be granted to cover needs associated with the liberalisation of capital movements as well as general balance of payments difficulties.

It is desirable to fuse the two instruments for the following reasons:

- it will unify the conditions under which they can be granted, while preserving their different financing methods;
- it reflects the current reality that the MTFA is not used;

The granting of the loan, or the opening of a credit line, would be made by a Council decision taken by a qualified majority on a proposal from the Commission after the Monetary Committee had been consulted. The decision would cover: the amount of the loan, its length, procedures (e.g. single or phased payment) and the economic policy conditions to be attached. The nature of the conditionality would depend on whether the loan was activated for purely balance of payments reasons or whether it was granted to assist the process of liberalisation of capital movements.

The broadening of the mechanisms' scope and the order of precedence introduced between the two financing methods will mean that the upper limit on the outstanding amount of financing in the form of market borrowing should have to be raised to /ECU X 000 million/, instead of the present ECU 8 000 million).

## II. Complementary Questions

### 1. The Protection of savers and depositors: the Harmonisation of Supervisory and Prudential Rules

The liberalisation of capital movements, combined with the full liberalisation of financial services, will not only allow capital to move freely throughout the Community, but will also make it possible for banks, the many different categories of savings institutions and other financial intermediaries to offer and advertise their services to savers and depositors throughout the Community either through establishments in the Member States or across frontiers without establishments.

It is important that this liberalisation should take place in a framework which ensures: a satisfactory level of protection for savers and depositors; high standards of disclosure and information for investors and shareholders; equal conditions of competition in financial markets; and the solvency and stability of banks and other financial institutions.

The Commission's approach to the question of investor and depositor protection distinguishes between two different situations. The first case is where a resident in one Member State addresses himself on his own initiative to a supplier of financial services in another Member State. The second case is where a supplier from one Member State wishes to market his services and solicit business from the residents of another Member State, either from an establishment in that other Member State or across frontiers under the freedom of services provisions of the Treaty.

In the first case the residents of any one Member State should be free to address themselves to the suppliers of financial services and products in any other Member State on the same terms and conditions as residents in that Member State. In doing so, the client or purchaser of financial services is deemed to place himself under the regulatory framework of the Member State of the supplier and accordingly he cannot invoke the rules of his country of residence to protect himself. Banking and other savings institutions in all Member States of the Community are in general subject to strict regulation by the national authorities both as regards their solvency and liquidity and as regards the protection of investors and depositors.

To deal with the second case, the Commission has initiated a substantial programme of legislation to harmonise national rules for the prudential supervision of financial institutions and for the protection and information of investors. Many of these measures have already been adopted or are under discussion by the Council; the remaining proposals will be put forward by the Commission before end of 1988. The objectives of the measures proposed are:

- (a) the removal of the remaining obstacles (i.e. other than exchange controls) to the freedom of establishment and freedom of services;
- (b) harmonising prudential rules to ensure the solvency and financial stability of financial institutions;

- (c) ensuring equivalent standards of investor, depositor and consumer information and protection.

The method of approach in the legislation as set out in the White Paper comprises three main elements:

- (i) the harmonisation of the essential elements of prudential rules and standards;
- (ii) the mutual recognition of the way in which these standards are applied in the different Member States;
- (iii) based on (i) and (ii), the principle of "home country control", i.e. the principle that all the activities of banks (and other financial institutions) throughout the Community, whether carried out through a branch or by cross-frontier provision of services, will be supervised by the authorities of the Member States of the head office.

Although it is important that rapid progress should be made in the adoption of the harmonising measures described above, their adoption should not be regarded as a precondition for the final phase of liberalisation of capital movements. Many of the measures in question indeed relate to transactions which have already been liberalised. In the view of the Commission this programme provides a sufficient level of protection for savers and depositors; no further specific prudential measures are required for the completion of the liberalisation of capital movements.

## 2. Taxation questions

The liberalisation of capital movements highlights the following four issues in the field of direct taxation:

- harmonisation of company taxation;
- tax evasion;
- discriminatory provisions in national tax systems that provide an incentive for private individuals to invest in national securities.
- restrictions on investments by pension funds in Member States.

### 2.1 Harmonisation of company taxation

The full benefits of the liberalisation of capital movements will not be obtained if investment decisions are distorted by significant differences in company taxation between Member States. Such decisions include not only decisions by companies as to where to set up their head office and where to do business, but also decisions by shareholders and individual investors as to where to place their funds.

The Commission takes the view that these distortions should be substantially reduced by a closer approximation of the systems, the taxable base and, tax rates of company taxation in the different Member States. Its approach to this issue will be set out fully in a White Paper on the taxation of enterprises to be issued before the end of this year. The Commission will take as the starting point the Directive



for the harmonization of company taxation systems which it put forward in August 1975. This proposal will be complemented by a proposal to harmonise the tax base and some aspects of the 1975 proposals will be amended. In particular, the bracket of tax rates then proposed (45%-55%) is now too high in view of recent and prospective developments in Member States.

## 2.2 Tax Evasion

The final stage of liberalisation of capital movements carries with it a risk of increased tax evasion. This is because investors in all Member States will be able to have investment income paid into bank accounts held by them outside their country of residence and this will heighten the risk that this income will not be declared in their country of residence. The Commission takes the view that an increase in tax evasion would be a matter of serious concern both because of the loss of budgetary revenue and because of the damage to fiscal equity, and that practical measures should be taken to minimise this risk.

This risk is less in the case of income arising from dividends than from interest from bonds or bank deposits. In the former case, in a large majority of Member States a substantial part of the tax due from the shareholder is deducted at source (usually through a withholding tax) by the company. The proposals in the Commission's 1975 Directive for the harmonisation of corporate taxation would ensure a common Community system for ensuring such a deduction.

The risk is greater in the case of interest income, because most industrial countries either impose no withholding tax at all on such income or exempt non-residents from its application.

Tax evasion already takes place, even where exchange controls have not been removed, and the extent of any increase in evasion, when these controls are removed, must be uncertain. If, as capital movements become completely liberalised throughout the Community, the threat of increased evasion proves substantial two main types of remedy (which are not mutually exclusive) could be considered:

- a generalised withholding tax applied either to all residents and non-residents alike or at least to all Community residents;
- an obligation on banks to disclose information about interest income, received by Community residents, to their tax authorities.

Either of these solutions would ensure that any interest income paid into a bank account within the Community would be taxed. The withholding tax would be administratively more simple. But it would probably have to be levied at a relatively low rate and the revenue would accrue to the country where the income arises. The obligation on banks to declare income would ensure that the taxpayers concerned paid the full tax due to their country of residence. But it could only be operated if banking secrecy requirements, applying in several Member States, were removed.

The problem of fiscal evasion presents Member States with a dilemma. The more effective are any measures taken within the Community to combat such evasion, the greater the risk of capital movements to third

countries. A fully effective solution can therefore only be achieved through international agreements either for the more general extension of a withholding tax on interest or for stronger cooperation between fiscal administrations. So far as a generalized withholding tax is concerned, the prospects for such an agreement seem remote at present. As regards stronger cooperation between tax authorities, prospects seem somewhat brighter, since a Convention has now been negotiated in the Council of Europe and in OECD and will soon be open for signature.

### Conclusions

The final phase of liberalisation of capital movements entails a risk of increased fiscal evasion. There is no watertight solution to this problem, but everything possible must be done to minimise the risks.

Action to strengthen cooperation between fiscal administrations, e.g. in cases of suspected fraud, would be helpful and should in any case be set in hand. The other two main options are a withholding tax on all forms of interest payment to be paid at least by all Community residents and/or a general obligation on all banks to declare interest income to Community fiscal authorities.

The Council is invited to give its views on these solutions and on any other solutions which may be considered feasible.

### 2.3 Discriminatory provisions in national tax systems that provide an incentive for private individuals to invest in national securities

There has been an increasing tendency in Member States in recent years to introduce tax incentives for the purchase of domestic securities (shares and bonds). These measures could be regarded as discriminatory and might lead to distortions in capital movements and to a misallocation of capital investment. Such measures may take the form of a deduction from taxable income of sums invested in such securities, generally up to a specific ceiling, and/or of an exemption, likewise normally subject to a specific ceiling, for income arising from such securities. They are normally limited over time.

The Commission takes the view that such distortions should be eliminated. It is proposing to open discussions with the Member States concerned with the view to imposing a standstill and gradually removing any distortion or discrimination. In the latter case Member States would have the choice of discontinuing the tax concession or extending it to securities issued in other Member States.

### 2.4 Restrictions on investments by pension funds in Member States

Some Member States do not allow pension funds to invest in foreign securities, or restrict their scope for doing so, thereby impeding the free movement of capital.

The Commission is aware that some form of prudential supervision might be justified in the case of pension funds. However, the restrictions are, in its view, excessive. It is planning to start discussions with the Member States concerned with a view to their gradual removal.

### 3. The Relationship between Liberalisation of capital movements and the EMS

Full participation in the exchange rate mechanism of the EMS and liberalisation of capital movements are complementary. On the one hand liberalisation can be undertaken because of the support given by the System to the stabilisation of exchange rates. On the other hand, liberalisation increases the need to fully co-ordinate policies and hence requires a strengthened System. Those countries which do not fully participate and which have not liberalised capital movements should complete the two processes in parallel.

Sterling present a different case. The UK has fully liberalised capital movements but does not participate in the exchange rate mechanism. This has a number of disadvantages both for the UK, its closest partners, and for the Community as a whole.

- For the UK it has been recognised that the exchange rate is a valuable policy target and the authorities maintain a degree of stability vis-à-vis the Community currencies. The credibility of this policy would however be enhanced if it were formalised.
- For its closest partners, Ireland especially, which has very close commercial and financial links with the UK, sterling's non-participation causes problems. The very large potential for capital flows between the two countries has made it more difficult for Ireland to move fully towards liberalisation of capital movements.
- For the Community as a whole, the overall purpose is to complete a large internal market. This goes beyond the establishment of a free trade area and a zone of unimpeded capital mobility and requires exchange rate stability throughout the European financial area. The creation of an integrated financial area implies a degree of joint management through a reasonably homogeneous regulatory and supervisory framework and close and structured co-ordination between monetary authorities.

**PROPOSAL FOR A COUNCIL DIRECTIVE FOR THE IMPLEMENTATION  
OF ARTICLE 67 OF THE EEC TREATY**

**(Liberalization of capital movements)**

**(presented by the Commission)**

**PROPOSAL FOR A COUNCIL DIRECTIVE**

for the implementation of Article 67 of the Treaty.  
**Liberalization of capital movements**

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**EXPLANATORY MEMORANDUM**

**I. General aims**

1. This proposal for a Directive is the main element implementing the second phase of the programme for the liberalization of capital movements, which the Commission set out in its communication to the Council of 21 May 1986 (1).

Its aim is to lay down arrangements for the complete liberalization of capital movements in accordance with the objective of completing the internal market set by the Single Act.

A further two proposals which the Commission regards as closely complementing the present one are being presented to the Council at the same time. They concern :

- revision of the provisions governing the Community instruments for providing medium-term support for Member States' balances of payments and the widening of their scope (2);
- amendment of the Directive of 21 March 1972 on regulating international capital flows and neutralizing their undesirable effects on domestic liquidity (3).

2. The present proposal forms part of a broader approach involving the implementation at Community level of two other types of measure :

- a) Full convertibility of the Community currencies as between themselves represents a vital step towards monetary integration in the Community. In that context, maintenance of exchange rate stability, which is also necessary for the completion and viability of the large internal market, calls for closer coordination and convergence of Member States' economic policies. The package of measures to strengthen the EMS agreed by the Central Bank Governors and the Ministers for Economic and Financial Affairs in September will contribute to greater cohesion of the system in a financial environment which has become much more fluid.

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(1) Doc. COM(86) 292 final  
(2) Doc. COM(..) ...  
(3) Doc. COM(..) ...

b) Free movement of capital is a necessary but not a sufficient condition for setting up an efficient, stable and attractive Community financial system. Though not a prerequisite, it is important that a framework of harmonized rules - proposals for which have, incidentally, been put forward by the Commission - should be established by 1992 in the prudential and tax fields. The aim in these fields is to bring about effective freedom to provide financial services while at the same time guaranteeing an adequate level of protection for savers, satisfactory competitive conditions and tax systems which are sufficiently close as to rule out the danger that the functioning of the capital market will be unduly distorted.

3. Free movement of capital will impose a more pronounced external constraint on the conduct of Member States' monetary policies. The effect of this will be attenuated by cooperation within the EMS. Some room for manoeuvre must be retained, however, to allow Member States to maintain adequate control of monetary regulation when faced with major financial disturbances. The safeguard clauses in the Treaty are not enough.

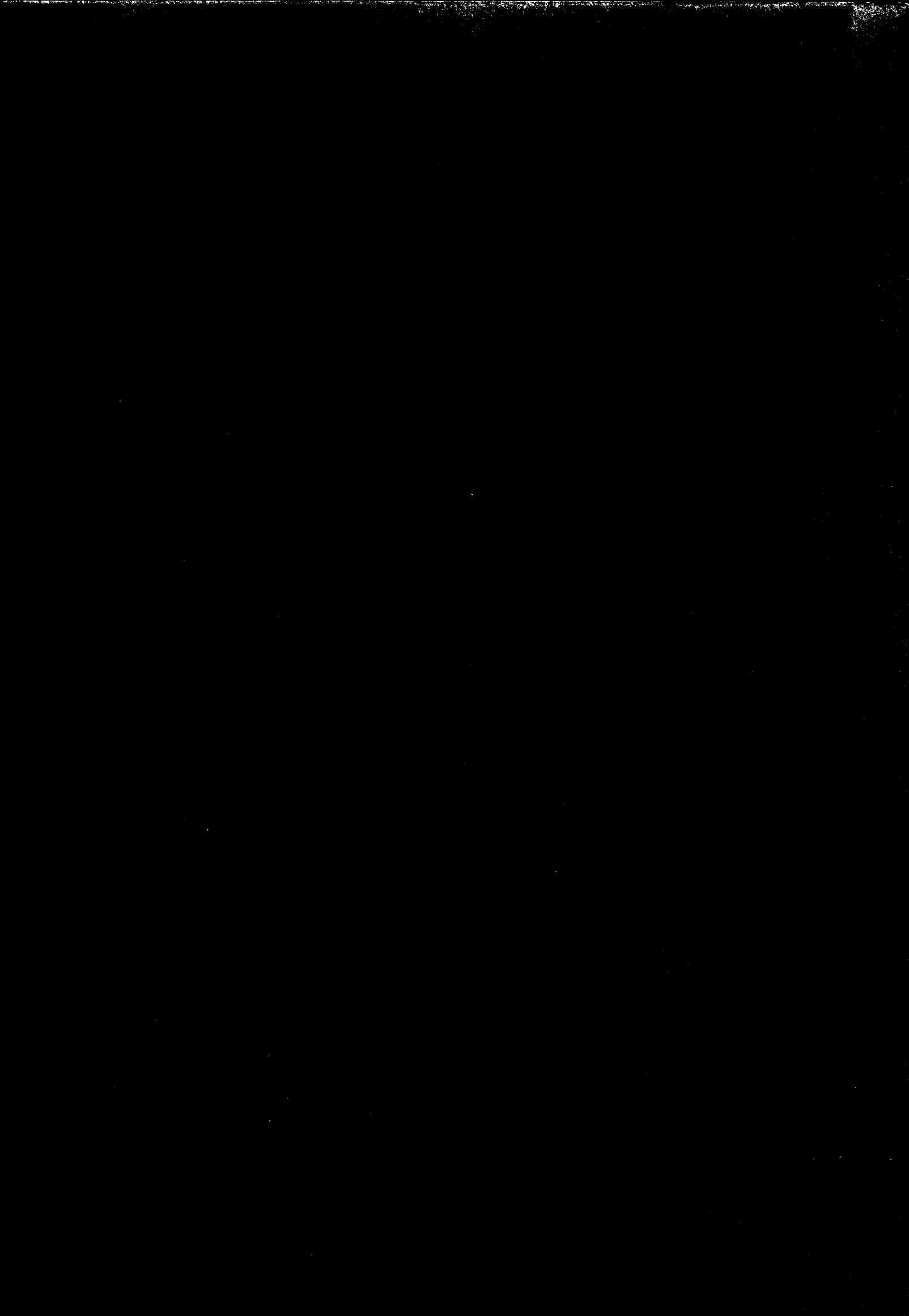
In the financial integration process, not all States are starting from the same position. This might be because they have only recently joined the Community, because of difficulties with their balance of payments, because of a high level of external debt, or because their domestic financial system is less developed. Transitional arrangements must be made for those with the greatest leeway to make up.

4. In accordance with Article 69 of the Treaty, the Commission has consulted the Monetary Committee on this proposal for a Directive, the content and scope of which are explained below.

## II. Extension of the requirement to liberalize capital movements

1. The proposal aims to extend the liberalization requirement to all capital movements.

The unconditional liberalization requirement, which currently applies to the capital movements contained in List A of Annex I to the Directive in force (as last amended by Directive 86/566/EEC of 17 November 1987), would therefore be extended to :







Brussels, March 1987

THE OPENING UP OF PUBLIC PROCUREMENT  
ON THE SCALE OF THE INTERNAL MARKET

I. The stakes

The creation of an open market for public procurement is one of the Commission's paramount aims; it was already set out in its 1985 White Paper on completing the internal market.

This top priority was endorsed by the European Council at two consecutive meetings, at The Hague in June and in London in December 1985.

By opening up public contracts to Community-wide tendering, the Commission intends to promote the interpenetration of the economies of the Member States. The process should expand the opportunities for industry and commerce to extend their activities to the scale of the large market; it should put an end to policies of supporting "national flagships" in non-competitive conditions.

At the same time it should reduce public expenditure, an aim shared by all Member States.

Opening up public procurement on a Community scale will also exert powerful leverage for other action to make a reality of the large market, such as progress on standardization.

The stakes are high. Public procurement now accounts for 10% of Community GDP (about 200 000 million ECU); the figure rises to 20% if we add in the purchases of public undertakings. And the additional costs and wastage caused by today's narrow markets and lack of competition are generally estimated at some 40 000 million ECU every year.

II. New laws and a fresh impetus

Present situation

Two Directives of 1971 and 1977 already cover the procedures for awarding public supply and work contracts. These Directives introduced a Community-wide system of publication in the Official Journal of the European Communities to publicize invitations to tender and award procedures operated by public authorities in the Member States. In 1986 the Commission put forward proposals to expand the scope of the Directives, especially as regards public works.

Yet entire sectors of the economy are excluded from the scope of the Directives, and they are precisely the ones where the scale of public procurement is largest: telecommunications, energy, transport, water supply, armaments. The result is that over three quarters of public procurement is shielded from any form of Community competition. And in practice less than 2% of public contracts are let to firms in other Member States.

#### Action taken

The Commission has now decided to advance on two fronts:

- Adoption of basic guidelines for opening up public contracts in sectors excluded under the present Directives;
- Stronger methods of applying the Community rules to public contracts.

#### A. Excluded sectors

At present public supply and work contracts let by energy, water and transport authorities are expressly excluded from the scope of the Community Directives.

Telecommunications are excluded from the "supply" Directive. Military contracts are the subject of a derogation under Article 223 of the Treaty and will be re-examined in due course in the light of the provisions of the Single Act as regards the development of cooperation between Member States in security matters.

Given their particular economic and technical features but also their historical background, these four excluded sectors demand a flexible and progressive approach, particularly when they are organized on an oligopolistic basis. Here we are often touching on the implementation of basic public service tasks which in the long run must be seen from a Community perspective. At this stage, however, opening up public procurement in these fields does not affect the functioning and organization of the public service itself but rather the upstream supplies and work needed for its organization and for the delivery of services to the public.

In 1987 the Commission is to propose that a general framework should be laid down for these sectors, in form of one or more Directives setting a few necessary requirements for organizing and supervising their opening up to Community-wide competition. The Directives will be followed up either by Commission recommendations or by more binding requirements.

Under the Treaty the Commission has the power to impose competition rules on public undertakings and on undertakings granted special privileges by the authorities. The new provisions will seek to introduce greater transparency in order to create the right conditions for Community-wide competition.

As regards telecommunications, the Member States, if they abide by recommendation 550 of 1984, should already be committed to opening up public supply contracts for terminals for new services. For traditional terminals and transmission equipment, the recommendation advocated that 10% of the contracts should be open to Community-wide competition. During the year the present situation will be looked at and a proposal will be made for the gradual opening up of these contracts to Community competition, with a countdown to 1992.

The Commission will also ensure that the public supply and work Directives are strictly applied as regards operations receiving financial assistance from the Community (under the structural Funds, the EIB and so on).

B. Stronger methods for applying Community rules

This is being done through a proposal for a Directive and two internal Commission Decisions.

The proposal for a Directive translates into action the guidelines set out in the 1985 White Paper and in the Council's communication of 19 June 1986, which aimed to give a tougher edge to Community provisions concerning public contracts.

There are far too many public contracts awarded in the Community for the Commission to consider setting up a central supervision agency.

Possible infringements of the Community rules are so specific and the contract award procedures are so short that what is needed at both national and Community level is a fallback system which will afford proper protection to tenderers and facilitate any necessary troubleshooting before the event rather than after, at administrative level or in the courts.

The nub of the proposal is that Member States should so order their administrative and/or judicial procedures as to guarantee throughout the Community, in comparable conditions, fast and efficient channels of appeal and to ensure the possibility of claiming damages in the event of contract awards which infringe Community law.

The Commission would also be able to appear before local courts or administrative bodies to defend Community law, and would have the power to suspend a contract award procedure for up to three months. The point of the latter measure is to facilitate the prior settlement of a dispute wherever possible in preference to imposing penalties later through the infringement procedures under Article 169 of the Treaty.

The Commission has taken two further measures:

- (i) It has set up a committee of experts reporting to the Commission to inform and advise it on the opening up of public contracts, in particular in the excluded sectors. This committee will be the link between the Commission and parties concerned. The committee will enlarge the Commission's understanding of the economic, technical and legal realities of such contracts and keep it fully informed about the manifold national practices which inhibit competition. It will also enable interested parties to understand the complex matter of applying the Directives.
- (ii) The Commission has decided to speed up and streamline its internal procedures for dealing with infringements to Community rules regarding public contracts.

2<sup>e</sup> partie p<sup>te</sup> 2

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 375 final

Brussels, 19 June 1986

## PUBLIC PROCUREMENT IN THE COMMUNITY

(Communication by the Commission to the Council)

COM(86) 375 final



## PUBLIC PROCUREMENT IN THE COMMUNITY

The opening up of public procurement represents an essential element of the will to complete the internal market. The necessity to give the highest priority to this opening has been confirmed not only by the repeated requests of the interested parties but also by the political initiatives originating from the Member States.

The Commission, for its part, has expressed in the White Paper on "Completing the Internal Market" its resolution to make propositions with a view to a gradual opening of the totality of the market to Community wide competition. This resolution has been endorsed by the Heads of State and the governments and has been favourably received by the interested parties.

### I. Size and Industrial Importance of Public Procurement

The actual requirements in 1983 and 1984 of the state in the 10 Member Community in terms of goods and services are currently in the region of 200 billion EUA per annum or 8-9 % of gross domestic product. It is interesting to note that with the growth of decentralisation considerably more than half of the procurement activity is in the control of organisms at regional and local level. This figure also includes total defence procurement, representing presently 40-50 billion EUA annually. A significant proportion of this figure falls under the dispositions of Article 223 of the Treaty.

The above estimate of procurement volume only covers that part of the industrial and service activities of government which falls under the budget of the state. Thus, procurement by the not insubstantial number of public enterprises established under private as opposed to public law is not included in this figure.

Statistics on the impact of public procurement by industrial sector are few and many of them are partial and scarcely comparable. In fact only one Member State in the Community collects and maintains statistics of sufficient detail to permit such analysis. These latter statistics do offer a global view of the industrial aspect of the public procurement market.

In the particular Member State mentioned above 75-80 % of all purchases over the most recent five years were in fact concentrated in the following 5 sectors :

- Building and Public Works;
- Liquid and Solid Fuels;
- Electrical, Electronic and Telecommunications Equipment;
- Mechanical Engineering;
- Shipbuilding, Aerospace and Armaments.

In these five sectors public procurement accounted on average for some 16 % of the total output reaching 24 % in one particular branch.

In fact it is only in some 25-30 of the 600 sub-sectors identified in the statistical classification of the Member State in question that the impact of public procurement relative to total output is significant. There are indeed a number of sub-sectors where the part of the public sector in total output surpasses the higher percentages cited above. Notable among these are telecommunications, heavy electrical equipment, professional electronic/radio-electrical equipment, railway rolling stock and equipment, boiler-making, onboard marine equipment, aircraft fuselages engines and equipment, precision and optical instruments, electrical and electronic medical equipment, turbines and wire/cables.

There are limited numbers of other sub-sectors such as control and measuring instruments, metal machine tools, utility vehicles, wooden furniture, batteries and transformers where the share of public procurement in the total production of the sub-sector, while not reaching the levels of the aforementioned sectors, remains significant.

The major consumers in the public sector of the above products of these branches of industry, where public procurement plays a significant rôle in the overall activity of the branch are to be found in the energy, telecommunications, transport, water and defence (warlike materials) sectors which are currently exempted from the coverage of the directives. In those few product areas such as medical equipment, where the consumers fall under the coverage of the directives, there has been extensive abuse in the application of the directives which can only be detected long after the event due to the inadequacies in terms of transparency and control of the present directives.

## II. The Present Situation - Legislation and Application

The Community has fixed as an objective the opening of the public procurement market to Community-wide competition and to establish an internal market in the public sector. The bases for the achievement of this objective are already to be found in Articles 30,



52, 59 and 60 of the Treaty which respectively treat the free circulation of goods, the right of establishment and right to perform services and thus prohibit quantitative restrictions, measures of an equivalent effect and discrimination on the basis of the origin of a product or the nationality of the persons physical or moral exercising their right of establishment or to perform a service.

Experience has shown that these obligations, by their nature negative, were far from being sufficient to achieve the interpenetration of the markets and that to arrive there "positive obligations" were necessary.

The Community has thus adopted directives to harmonize the procedures on the award of public contracts in respect of public works in 1971, and supplies in 1976. The latter was modified in 1980 to take account of the results of the Tokyo Round. In the telecommunications sector the Community has selected a pragmatic approach with the adoption by the Council of two recommendations, the most recent concerning the first phase of the opening up to access to public telecommunications contracts.

The Commission has presented to the Council of Ministers in December 1984 the report demanded by the Council in its resolution of 21st December 1976 on the subject of the effectiveness and experience of the Supplies Directive 77/62/EEC and its GATT counterpart 80/767/EEC. This report has been pronounced on by the Parliament in the form of a resolution in June 1985 and by the Economic and Social Council in April 1986, but it has not yet been considered by the Council of Ministers.

The application of Public Works Directive has also been the subject of a similar examination during 1983/84. The conclusions of these studies coincide with the analysis by the Commission services on the basis of their own experience.

Both reports have in common the following points:-

- the environment within which the directives have had to operate has not contributed to their success. Both directives were implemented in a period of recession where the purchasing authorities preoccupied by the economic situation were more sensitive to the pressures of national suppliers. Other factors such as the lack of harmonisation in the area of standards has not facilitated competition and transfrontier movement in Government procurement and the obstacles facing cooperation between enterprises over frontiers has particularly in the Public Works area not encouraged the opening of markets;
- interpenetration of market in public procurement within the Community has been virtually non existent on the basis of the traditional statistics based on the address of the winning tenderer. It should however be recognized that local subsidiaries, with or without a production capacity, and local agencies do play a rôle of varying importance in the market place;

- it would not be excessive to state that neither the letter or the spirit of the directives have not been generally respected. We can identify over extensive interpretations of the exempted areas, deliberate project splitting to avoid the disciplines of the directives, and major abuse of the procedures of the directives. The restricted procedure has been frequently used under both directives to exclude the participation of non national and non traditional supplies in tender procedures. Misinterpretations of the conditions under which non-competitive tendering is permitted under the directives has led certainly under the supplies directives that such procedures have become the rule rather than the exception - one in every two contracts is let by such procedures with some agencies reaching 95 % of their contract volume. The use of non-competitive tendering is lower under the Works directive reaching on average 25% of all contracts, a level considerably in excess of that which might be expected for an exceptional procedure;
- the directives are inadequate to ensure the achievement of their objectives. They, in assuring publicity solely at the moment of the launching of the tender procedure, do not permit sufficient transparency to give an equal chance to all potential tenderers. The bid times allowed by the directives are too short to allow foreign participation, the control mechanisms are lacking;
- those areas where public procurement is of importance in industrial terms have been excluded from the coverage of the directives.

Not a great deal has changed since these reports have been published. Some organisations which have previously chosen to ignore the directives have been persuaded to publish tender notices. Thus the number of notices published in the S Supplement of the Official Journal have increased in the period 1983-85 from 3 300 to 4 400 in respect of the works directive and from 2 583 to 3 300 for the suppliers directive. However project splitting, abuse of procedures continue virtually at the same levels as in the past since the present directives do not provide any means whereby such abuses can be controlled.

Such modest improvements as have been achieved can be largely attributed to the strict monitoring of the respect of the publicity rules of the directives in projects where Community funding is involved. It is now virtually impossible to obtain a grant from the Regional Fund or a loan from the EIB in the domains covered by the directives without at least observing the basic publication obligation laid down therein. The Commission and the Bank are also recommending to their clients in the non-covered sectors the benefits of voluntary opening up their projects to international competition.

The Commission has developed solutions to the problems indicated above. They are outlined in the action programme which follows.

### III. Action Programme

However despite the fact that the number of tender notices published in the Official Journal by central and local administrations have constantly increased it can only be concluded that the public works and supplies directives, of which the objective was to open up to competition at Community level have not fulfilled the expectations placed on them.

In addition, the exclusion of the transport telecommunications and energy sectors has hindered the opening up to competition at Community level of the most attractive markets. Like the Presidency, the Commission is convinced that it is necessary to establish a community discipline for the totality of the excluded sectors and to adapt existing instruments to meet that objective.

The objectives of the White Paper on completion of the internal market can only be attained if all of the interested parties - Commission, Member States, economic operators - are convinced of the mutual advantages which will result in the short and long term for the Community of the application of the directives in conformity with their letter and spirit.

It is in that spirit that the essential points of an action programme should be read.

#### 1. Application of the directives

1.1 It is essential to ensure that the directives are correctly transposed into the national law of the Member States, whether it be the old or new, in such a manner that the level of obligations which they impose shall be the same for all purchasing authorities including those at regional and local level.

1.2 To assure a more uniform and complete interpretation and application of the directives in order to arrive at a situation where the exemptions (single tender and public services presently exempted) shall be as reduced as possible and - in any case - the same for all Member States.

1.3 To use in a more systematic manner the procedures of Article 169 to sanction the non respect of the dispositions of the directives.

1.4 To condition the grant of all Community finance to the respect of the procedures of the directives, whoever may be the beneficiary, as well as the publicity of the outcome of the contract awards.

1.5 To eliminate the obstacles which result from the disparities of a technical nature, i.e. between standards, technical regulations as well as ad hoc national specifications, by turning to the new approach in respect of technical harmonisation adopted by the Council on 7th May 1985 or by applying the jurisprudence of "Cassis de Dijon".

1.6 To launch campaigns of information and to increase awareness both at national and Community level "in a double sense" in order to ensure that the purchasing organisations are informed of their obligations in terms of the directives and give to all the markets the required publicity and to encourage potential suppliers to seek more actively the outlets which the public procurement market offers.

Such an action can only be effective if it is supported by the competent authorities in the Member States. Thus it may be preferable to concentrate at the beginning on "pilot" sectors, that is to say precise areas which are relatively easy to control and which would permit the Commission to play the role of catalyst between the purchasers and the industries likely to respond to their requirements.

## 2. Improvement of the Directives

2.1 The "supplies" directive is an instrument which, once transposed and applied correctly, can lead to a real opening of the market at Community level, in particular if the Commission and Member States can exercise a continuous control of its application.

The modifications which have just been proposed to the Council<sup>(1)</sup> seek essentially :

- to establish a system of pre-information of the interested supplier;
- to limit the use of the restricted and single tender procedures;
- to impose the obligation to use European technical standards;
- to rationalize the publication procedures and lengthen time limits.

The extension of controls and the extension of the coverage to organisms controlled directly or indirectly by the public authorities will be achieved in taking account of the changes to the works directive and the outcome of the current GATT negotiations.

2.2 In respect of the public works directive, which requires a more fundamental examination, relating as it does to a more complicated domain which covers essentially non repetitive markets (in contrast to the supplies directives) and which must be assessed in terms of the interest which they present for enterprises in other Member States, the following improvements are envisaged :

2.2.1 to increase the threshold in such a manner as to ensure that the directive covers all the complex markets demanding major specialised works and excluding the simple markets of a local character;

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(1) This paragraph assumes that the transmission of the proposition to the Council will have taken place at the time of appearance of the present document.

2.2.2 to better the methods for assuring the equality of opportunity for Community enterprises by :

- . the pre-publication of future works programmes and projects;
- . the rationalisation of the publication procedures and the lengthening of the time limits;
- . the possibility given to enterprises to verify their capacities in advance;
- . the limitation of the use of the restricted and single tender procedures to those cases where it is justified, and the improvement of the manner in which these procedures are employed;
- . the modification of the directive to take account of the new forms of contracts in awarding contracts (promotions, management contracts, etc.);
- . the extension of the application of the dispositions of the directive to organisms controlled directly or indirectly by public authorities;

2.2.3 to organise efficiently the possibility to put together at any moment with rapidity information on the potential markets and thus facilitating their opening to competition.

2.3 In parallel with this upstream control, the Commission has the intention to establish a public procurement unit which will undertake the following tasks:-

- . serve as a point of contact to furnish enterprises and awarding authorities with information;
- . survey permanently tenders which have been published, in order to detect cases of non or bad application of the directives;
- . intervene to prevent or punish cases of breaches of community discipline;
- . establish a system of rapid redress permitting even intervention during award procedures;
- . study the possibility of imposing sanctions in the case of non application of the directives.

In order to accomplish these tasks, it is necessary that the unit has the active collaboration of the administrations of the Member States and in particular can obtain complete information of a qualitative and quantitative nature.

### 3. Sectors presently excluded

3.1 At the time of the adoption of the directives in 1971 and 1976, the difference between the legal status of the purchasing entities in the different Member States was considered by the Council as sufficient grounds to provisionally exclude certain sectors from the coverage of the directives.

These sectors include transport services and the production and distribution of energy and water, as well as those bodies which operate in the telecom area.

The statistical data cited earlier shows that the purchase of the public sector has precisely the greatest impact in the areas of activity of those public enterprises and of those enterprises to which the State has granted special or exclusive rights, which have been excluded from the coverage of the directives regardless of their legal standing. It is thus not only because of their volume, but also because of the strategic importance of the products involved for industrial development that is necessary that markets become accessible to the totality of Community industry.

3.2 It is of interest to the Community industry to have at its disposition a larger market, without barriers, to permit it to undertake the necessary investments to introduce the most advanced production techniques in order to bring into play the economies of scale and to be competitive on the world market.

It is also of interest to the operators of networks (railways, airlines, electricity/gas and water distributors) and the enterprises operating as concessionaires in these services in the public utility area to have available more diversified sources of suppliers in order to bring into play the forces of competition and to procure equipment having a better "quality-price" relationship.

It is finally in the interest of the user who has a right to demand a quality service at the lowest possible price, that the totality of these markets are open to competition at Community level.

The Community interest in an opening of these markets is thus clear, but the passage from declarations of intent to actual measures is delicate, the sectoral obstacles to overcome being of major dimension.

3.3. The Commission considers that the establishment of an effective system of undistorted competition in these sectors is indispensable. The achievement of this objective implies putting into operation means which entail obligations for the enterprises.

3.3.1 to open to Community wide competition the contract awarding procedures used by these enterprises;

3.3.2 to assure for the interested parties, through a system of information, a knowledge of the market intentions which would permit them to make known their interest and their qualifications to participate in those markets;

3.3.3 to assure prior knowledge and objectivity of the criteria for the selection of candidates and for the award of the contract;

3.3.4 to accept a system of surveillance of these obligations.

3.4 The Commission considers that in such a way the bringing together of the supply and demand side at Community level for large markets would be assured without it being necessary to change the traditional system of award procedures whether they foresee a large or limited participation of suppliers. Thus public and private enterprises could then operate under comparable conditions.

In this optic, the necessity for transparency of relations between Member States and entities offering services in the previous exempted areas is now greater than in the past in view of the changes in the competitive situation in those services and progress already achieved and to be achieved towards greater economic integration.

3.5 In order to arrive, by the time limit of 1992, at a complete opening of the public procurement market a major operation to create an awareness of the action and a phased introduction of the proposed system are necessary.

The opening of the markets in question must be made by choosing the sectors and sub-sectors in function of an industrial logic, technologies involved and the requirements of the markets.

The achievement of this objective will be facilitated by the launching of a programme consisting of a major effort on standardisation at European level.

This does not exclude that efforts undertaken should follow in the footsteps of the action already underway, such as in the case of telecommunication.

Particular attention should be given, therefore, to those domains where potential for development of new technologies is particularly promising.

3.6 In order that the recourse to the system of undistorted competition lead to a real opening of the markets covering all of the Community, it is important that interested parties participate in an active manner in the achievement of this objective and this programme.

The Commission, for its part, will utilise all the means which it disposes; having recourse in particular to the Articles 30, 53, 59 and 60 of the Treaty, it has also the intention to bring into play Article 90.

4. Public procurement in services

In respect of the area of services used by the procurement agencies, it should be recalled that their liberalisation has a vital importance for the future of European economy (see point 87 of the White Paper), taking into account equally the upcoming multilateral negotiations.

The economic development modifies in effect more and more rapidly our environment in the sense of a strong expansion and diversification of the services.

The liberalisation of the services used by public authorities, achieved by the measures and programmes of actions, analogous to those which have been indicated previously eliminating the differences of legal treatment contained in the national regulations:

- to reduce the artificial fractioning of the Community market and create an optimal framework for the expansion of the initiatives by the enterprises, for the allocation of their resources and their deployment;
- to allow those Member States and those public entities to benefit from the increase of dynamism, the professionalism and the economics resulting from the opening up of the competition of the markets at Community level.



NUMBER OF CONTRACT NOTICES PUBLISHED  
IN THE OJEC FROM 01.01.85 TO 31.12.85

PUBLIC WORKS CONTRACTS

COUNTRY	Open procedure	Restricted procedure	Accelerated restricted procedure	TOTAL	%
B	204	14	0	218	4.96
DK	31	13	0	44	1.00
D	623	90	9	722	16.44
GR	181	6	0	187	4.26
F	157	572	14	743	16.92
IRL	54	18	3	75	1.71
I	11	898	248	1.157	26.34
L	3	2	1	6	.14
NL	104	58	7	169	3.85
UK	8	1.002	61	1.071	24.39
TOTAL	1.376	2.673	343	4.392	100.00

PUBLIC SUPPLY CONTRACTS

COUNTRY	Open procedure	Restricted procedure	Accelerated restricted procedure	TOTAL	%
B	70	39	7	116	3.51
DK	3	66	8	77	2.33
D	146	295	18	459	13.88
GR	8	1	0	9	.27
F	437	422	41	900	27.21
IRL	26	1	2	29	.88
I	11	611	91	713	21.56
L	3	1	1	5	.15
NL	0	132	18	150	4.54
UK	113	646	90	849	25.67
TOTAL	817	2.214	276	3.307	100.00









## DIRECTIONS FOR USE

This information pack on "the large market: the fields covered" is a sequel to the information pack on "the large market: the general picture". It describes the main fields affected by completion of the large market.

The 1992 target date calls for a fresh approach to standardization. The objective must be to remove all technical barriers until a genuine free market in goods and services has been created between the Twelve. In view of their importance to the economy, public procurement contracts cannot be excluded from this movement. Opening them up is the most fundamental way of showing the will to complete the internal market.

By the same token, harmonized indirect taxes, free movement of capital, and transport services geared to the new situation are all guarantees of a twelve-member economic bloc thinking and growing as one.

All this calls for effective mobilization of the Europeans whose everyday life will be changed by the progress made towards free movement of persons. Cooperation on new technologies and common standards is another challenge for Europe which, if met, will herald break-throughs in fields as far apart as television and food.

This information pack describes how the Commission plans to go about this.









Brussels, 23 June 1986

### STANDARDS: THE NEW APPROACH

The need to revise the Community's policy on technical barriers became clear from the facts of the matter, as industry never failed to remind the Commission.

While technical harmonization work has certainly led to important results in some fields, it must be admitted that :

- in some industries the results are almost negligible against the growing profusion of technical rules and standards in every country;
- even the cases where directives have been adopted, too often they regulate only certain aspects while other aspects continue to hamper the emergence of a true internal market;
- technology is now changing so fast that there can be no hope of the Council's harmonization and decision-making procedures ever being able to achieve an ever-receding objective;
- the procedure are now so protracted as to remove all credibility from a policy still based on guidelines that are now clearly obsolete in parts;
- the optional harmonization method usually adopted, though it smoothed the way to compromise within the Council, often proved an inadequate vehicle towards a true internal market with tangible benefits for all sectors of the economy - industry, workers, users and consumers;
- most difficulties probably stem from a faulty division between the roles of the public authorities and the standards institutes, in which the former too often take over responsibilities in the detailed definition of product specifications which more properly belong to the latter.

The Commission accordingly decided that future legislation should increasingly, like the "low pressure" directive, do no more than set product safety requirements and refer to standards, preferably European but if necessary national, for the definition of technical specifications.

Wherever this approach is possible, the following conditions must be met:

- all Community countries must recognize the equivalence of the objectives of technical regulations and standards, in particular public safety and health aspects;
- there must be certification bodies and laboratories ensuring mutual confidence among the authorities concerned;
- procedures must be adopted to ensure that the national authorities retain effective safeguards as regards safety and health protection for their citizens.

On 7 May 1985 the Council adopted the new guidelines presented by the Commission, which can be summed up in the following four principles:

- legislative harmonization is limited to the adoption, by means of directives under Article 100 of the EEC Treaty, of the essential safety requirements (or other requirements in the general interest) with which products put on the market must conform, and which should therefore enjoy free movement throughout the Community,
- the task of drawing up the technical specifications needed for the production and placing on the market of products conforming to the essential requirements established by the directives, while taking into account the current stage of technology, is entrusted to organizations competent in the standardization area,
- such technical specifications are not compulsory but remain voluntary standards,
- but at the same time the authorities are required to recognize that products manufactured in accordance with harmonized standards (or, provisionally, national standards) must be presumed to comply with the "essential requirements" laid down by the Directive; this means that the manufacturer may if he wishes produce goods which do not comply with the standards, but in that event the burden of proof is upon him to show that his products comply with the essential requirements laid down in the Directive.

For the system to operate there are two further requirements:

- the standards must afford quality guarantees reflecting the "essential requirements" laid down by the directives,
- the authorities must retain their full responsibility regarding safety protection (or other requirements) on their territory.

The quality of the harmonized standards must be ensured by standardization mandates from the Commission, to be carried out in accordance with the general guidelines already agreed between the Commission and the European standards bodies.

(Note by DG III. Contact: Mr M. Previdi, tel. 54253)

25 June 1986

STANDARDIZATION POLICY AND NEW TECHNOLOGIES

1. The Commission generally encourages action by the European standards bodies in preference to the legislative approach of the past, except where such legislation is warranted for health protection reasons (pharmaceuticals, agrifood products and chemicals).

The new approach to technical harmonization should enable the community to complete the internal market for industrial products in all fields where the principle of the mutual recognition of national rules and standards will not be possible because of imperative general-interest requirements (Court judgment in the "Cassis de Dijon" case). The new approach will therefore always be subsidiary compared with the application of the principle of mutual recognition.

The policy of reference to standards under the new approach seeks to preserve the voluntary nature of the European standards and, in the transitional period, of national standards deemed to be equivalent. This means that a product may be placed on the market even if it does not comply with any particular standard provided that proof is given that it complies with the safety principles set out in the directives.

2. Being in line with a trend towards legislative simplicity (in the sense of stripping public protection legislation of the mass of technical detail, which can slow down technical innovation), the new approach ought to be applicable in every field as a basic principle. There will always be a problem in every technical harmonization directive of pruning away the technical details which are not essential to the object in view. For example, it was after consulting the European Parliament that the Commission struck out a large part of a technical annex to a proposal for a Directive on agricultural tractors even though in this field, as in that of motor vehicles, the harmonization process which has long been well advanced still follows the old approach.

3. The field in which the method of "reference to the standards" would be fully applicable is safety, which means manufactured goods in general.

The first examples which have been or will shortly be laid before the Council are pressure vessels, consumer information on the noise levels of electrical household appliances, and toys. A proposal for a Directive will shortly be put forward in the major industrial sector of dangerous machinery and production equipment. Other proposals will follow concerning electro-medical equipment and electrical interference.

The new approach needs certain adjustments when product compatibility must be maintained in a given field. This problem arises particularly in telecommunications and information technologies, where it is essential:

- to ward off any risk of captive markets being held by dominant firms which would set the standards;
- to ensure the interoperability of different systems which integrate both telecommunications networks and information processing equipment;
- to ensure recognition of the approval given by the telecommunications administrations in order to guarantee such interoperability.

If the Commission intends to promote standardization in these fields as well through European bodies and the CEPT, the standards thus obtained will be made compulsory by means of directives based on the outline proposal discussed in the Council. An example is given by the Directive on standards for television by satellite. This approach allows the standard to evolve but prohibits any authorization to place on the market or install equipment not in conformity with the standard; this explains the importance of the reference to international standards in the preparation of European standards.

A similar set of problems also arises in the building sector, where components that must be compatible have to be assembled.

4. Standards are an important factor in opening up public procurement; one of the reasons for amending the "public supplies" Directive is to make it compulsory for purchasing bodies to stipulate conformity with European standards or the equivalence of national standards.

The Directive on the recognition of telecommunications equipment approvals which the Council recently adopted also stipulates that procurement must be opened up to all products approved as conforming with the European standards; the draft Directive on standardization in information and telecommunications technologies which is being increasingly trimmed down in order to avoid emphasizing the specific nature of the IT sector) also provides for compulsory reference to these standards in public contracts.







# **INFORMATION PACK ON THE "LARGE MARKET"**

## **Part Two: The fields**

### How to use

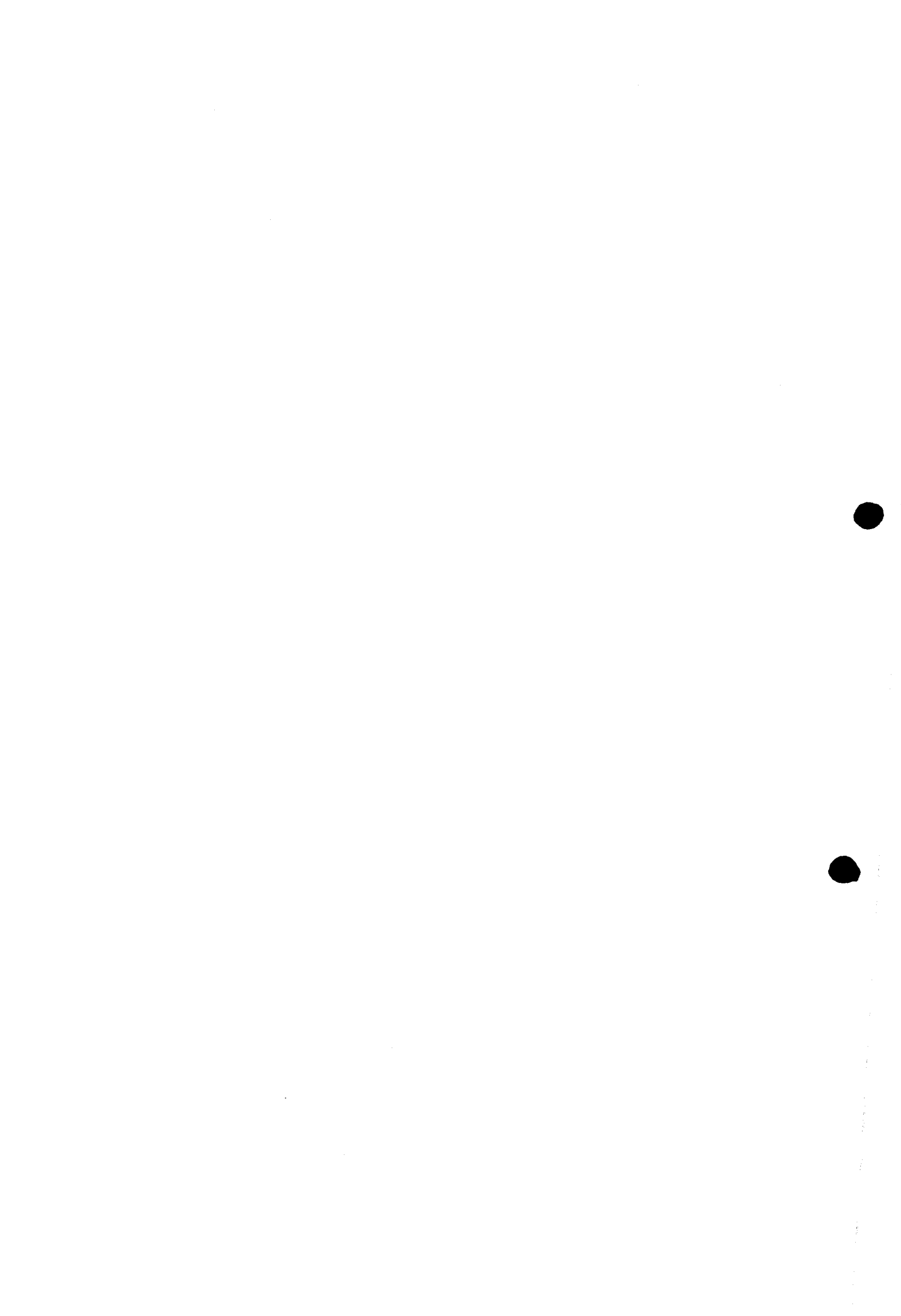
1. Standards: the new approach  
Standardization policy and new technologies
2. Public procurement - opening up of public procurement procedures  
- COM(86)375 final
3. Liberalization of capital movements (COM(86)292)  
Présentation of Note P-41  
Création of an European Financial Area (Communication by the Commission)
4. Financial services and Company Law
5. Speech by Lord Cockfield "Harmonising indirect taxes in EEC"
6. A people's Europe (COM(86)371)
7. Foodstuffs
8. Speech by Lord Cockfield on TV (London, 3 July 1986)
9. Transport (Pressreleases)

## **Part Three: Industrial Cooperation**

1. Research programs (ESPRIT, BRITE, RACE (with annexes 4, 5, 6, 8, 9))
2. Pelkmans' Report
3. M. Vignon's article
4. Investigation on European market fragmentation (The Wall Street Journal)
5. Note P-15 (business competitiveness)
6. The development of concentration, competition and competitiveness  
(extract from the 15th Report on the competition 1985)
7. Information notes on PME - P-66, July 1985  
- COM(87)152 final

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20. June 1986

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(86) 371 final

Brussels, 29 June 1986

EUROPEAN COUNCIL (26-27 JUNE 1986)

A PEOPLE'S EUROPE

Note from the Commission

COM(86) 371 final





ACTION IN HAND

The ad hoc Committee on a People's Europe, chaired by Mr Adonnino and made up of representatives of the Heads of State and Government, met for over six months and produced two reports for the European Council. The first, datelined March 1985, identified practical measures that would enable the citizen to enjoy individual freedom of movement and right of residence within the Community, in either an occupational or a private capacity. The second, datelined June 1985, purported to give the Community a new political, cultural and social dimension by proposing practical measures such as new citizens' rights, scope for mobility for young people within the Community, and measures to promote culture and health protection. The Commission has made numerous proposals and floated many ideas for implementing the recommendations of the two reports.

In a communication to the Council dated 19 November 1985 the Commission appraised the outcome of this European Council initiative. Its verdict then, still valid today, is that results have been disappointing. The Council has failed to adopt any of the more meaningful proposals in terms of popular impact, with the notable exception, as indicated in the Presidency's report, of those on freedom of establishment for certain professions (architects, pharmacists). But these had been with the Council for several years before the Adonnino report.

The opposition of one delegation is still blocking agreement on the proposal to relax controls at internal borders, a first step towards the objective set in Fontainebleau of abolishing "all police and customs formalities for people crossing intra-Community frontiers" by mid-1985.

## A PEOPLE'S EUROPE: A MAJOR POLITICAL OBJECTIVE

The Fontainebleau European Council in June 1984 undertook to give the Community a new dimension to bring it closer to the people of Europe. To that end it instructed an ad hoc Committee to identify, from a series of suggestions, measures which would enable the Community "to respond to the expectations of the people of Europe by adopting measures to strengthen and promote its identity and its image both for its citizens and for the rest of the world."

The Milan European Council in June 1985 endorsed the ad hoc Committee's proposals and urged the Community institutions to take the necessary steps to implement them as soon as possible.

Two years after the impetus given by the Fontainebleau Council, the Commission finds that the political resolve of Heads of State and Government to make Europe more meaningful to the man in the street has yet to be translated into practice. The gradual improvement in the economic situation offers a real prospect of the Community regaining its vitality, but its inhabitants still have no feeling of belonging to a single entity. The average European feels so little concerned by joint implementation by the Member States of policies involving cumbersome decision-making procedures and complex, technical rules that the gulf between him and the institutions has widened if anything.

A People's Europe must remain a prime political objective if the undertaking in the Single Act to make the Community into an area without frontiers, within which everyone may move "without let or hindrance" and study, live and work where they will is to be honoured without too much delay.

Also blocked in the Council are two general proposals essential to the creation of a frontier-free area: they deal with generalized right of residence and the equivalence of university diplomas. Last but not least, the proposal for a regulation on support for television and cinema co-productions was rejected by the Council and is being reworked by the Commission along broader lines.

#### THE NEED FOR FRESH IMPETUS

The Commission considers that it has, by and large, discharged its obligations in relation to A People's Europe under the mandate given it by the European Council. It urges the European Council to provide fresh political impetus, making it possible to unblock the proposals still pending and to implement new ideas for bringing Europe closer to its citizens. It should be directed essentially towards the young, who must be given new faith in the European venture.

The Commission has come up with proposals for youth and student exchange programmes. These were designed to facilitate such exchanges and constitute a key component of A People's Europe. The Council, which has just adopted the COMETT programme - on the basis of a financial commitment that limits its scope - should give the go ahead to the YES and ERASMUS programmes as a matter of urgency. The Commission intends to take new initiatives, notably on work camps for projects relating to protection of the environment and the cultural heritage. It will also draw on the







# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 603 final

Brussels, 6 November 1985

## COMPLETION OF THE INTERNAL MARKET : COMMUNITY LEGISLATION ON FOODSTUFFS

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(Communication from the Commission to the Council and to the European Parliament)





## INTRODUCTION

1. In its White Paper of 14 June 1985 on completing the internal market<sup>1</sup> the Commission recognized that a genuine common market could not be achieved by 1992 if the Community relied exclusively on the traditional methods of harmonization. It therefore recommended a new strategy combining the principles of the mutual recognition of national regulations and standards based on Articles 30 to 36 of the EEC Treaty, together with a more efficient mechanism for the harmonization of laws based, in particular, on Article 100 of the Treaty.

The Commission took the view that this general policy would be particularly appropriate in certain fields, one of which is foodstuffs. It announced two communications in this sector<sup>2</sup> :

- one before the end of 1985 on more efficient procedures for the implementation of Article 100 harmonization,
- one in 1987 setting out the legal situation resulting in particular from Articles 30 to 36.

This paper is the first of these two communications.

## OBJECTIVES

2. Two significant advances have recently been made in areas not directly related to the food sector.
  - a) Directive 83/189/EEC obliges Member States to notify the Commission in advance of draft technical regulations and standards<sup>3</sup>. The Commission will shortly be proposing that this Directive be extended to foodstuffs<sup>4</sup>.

1. COM (85) 310 final

2. Section 71, last indent, and Section 156, first sentence

3. O.J. N° L 109, 26 April 1983, p. 8

4. White Paper, Section 71, last indent, and timetable, Part 2, I.1

- b) Council Resolution of 7 May<sub>5</sub> 1985 on a new approach to technical harmonization and standards is designed to simplify and speed up the decision-making process for opening up the internal market. The principles underlying this new approach could usefully be extended to the food sector. It is only realistic to recognize, however, that it will not be possible merely to apply this resolution as it stands to foodstuffs, because of a number of specific features of the food sector:
- the extreme sensitivity of public opinion in this field,
  - the very detailed nature of many national laws,
  - the almost complete lack of standards (in the sense of Directive 83/189/EEC) defining the composition of products.

#### RECOMMENDED METHODS

3. The orientation for food legislation described below has two aspects:
- a) A clear dividing line will be drawn between matters which still require legislative action and those which do not require the adoption of a binding legal act.
  - b) A new distinction will be made between subjects calling for the Council's legislative powers and matters that can be delegated to the Commission.

#### BACKGROUND AND ANALYSIS

4. In the past, it was generally accepted that, as a rule, a technical barrier to trade in foodstuffs resulting from mandatory national provisions could be eliminated only by adopting a Community provision of the same nature ("a national legal act in principle calls for a Community legal act").

The programme for harmonization adopted in 1969 and updated in 1973 was based on that approach. It lists about 50 sectors falling within the general category of food legislation.<sup>6</sup>

5. So far, directives have been adopted in 14 of these sectors<sup>7</sup>. Proposals are before the Council in six more sectors and in some other sectors the Commission is carrying out preparatory work. It is therefore clear that only two fifths of the 1969/73 programme has been or is being implemented. There are also sectors that are not yet included in the programme. The current situation is as follows<sup>8,9</sup>:

6. The number of directives under consideration far exceeds 50 since there may be several directives in each sector.
7. Two other sectors were already covered by directives before the adoption of the 1969 programme.
8. The sectors not included in the 1969/73 programme are marked with an \*.
9. International activities, in particular under the Codex Alimentarius, are not mentioned since they are not directly covered by the concept of "internal market".

- Sectors covered by directives

1. Labelling of foodstuffs in general
2. Colouring agents\*
3. Preservatives\*
4. Antioxidants
5. Emulsifiers, stabilizers, thickeners and gelling agents
6. Materials and articles in contact with food (framework directive  
+ several specific directives)
7. Foods for particular nutritional uses (framework directive)
8. Cocoa and chocolate
9. Sugar
10. Honey
11. Fruit juices and similar products
12. Jams, jellies and marmalades
13. Preserved milk
14. Caseins and caseinates
15. Coffee and chicory extracts
16. Natural mineral waters

- Sectors before the Council<sup>10</sup>

1. Methods of sampling and analysis
2. Flavourings
3. Extraction solvents
4. Chemically modified starches
5. Frozen foods
6. Infant formulae and follow-up milks

- Sectors in preparation within the Commission<sup>10</sup>

1. New categories of additives\*
2. Irradiation
3. Inspection measures

<sup>10</sup>. This list does not include proposals for the implementation of framework directives nor for the management of Community acts.

6. This review shows a marked imbalance between the "horizontal" sectors (additives, labelling, other general matters) in which substantial progress has been made and the "vertical" sectors (specific foods) in which there has been relatively little progress.

The Member States appear therefore to be able to agree on the general principles of food legislation, but find difficulty in reconciling their differences of opinion on requirements for the composition of various individual foodstuffs.

#### BASIS OF THE NEW ORIENTATION

7. The legislative approach followed in the past was implicitly based on the assumption that all specific requirements in national legislation on foodstuffs necessarily met an essential public need.

This approach needs to be revised by drawing a distinction between, on the one hand,

- matters which by their nature must continue to be the subject of legislation,
- and, on the other hand,
- those whose characteristics are such that they do not need to be regulated.

8. The principles developed by the Court of Justice subsequent to the "Cassis de Dijon" judgment now enable the Community to define a system of food legislation only containing provisions that are justified as being necessary to satisfy essential requirements in the general interest. The touchstone is the "principle of proportionality" which means that legal measures must not go further than is genuinely necessary to achieve the desired objective.
9. For foodstuffs, the criteria for legislation are "the protection of health and life of humans" referred to in Article 36 of the Treaty and "essential requirements" which could also justifiably override the application of the principle of free movement of goods enshrined in Article 30 of the Treaty.

In more concrete terms, future Community legislation on foodstuffs should be limited to provisions justified by the need to:

- protect public health,
- provide consumers with information and protection in matters other than health,
- ensure fair trading,
- provide for the necessary public controls.

#### MATTERS REQUIRING LEGISLATION

##### PUBLIC HEALTH

10. The need to protect public health is recognized by all Member States and this is reflected in all national legislation. Consequently, the Council has recognised that the objectives being pursued by the various Member States to protect the health of their people are equally valid in principle, even if different techniques are used to achieve them<sup>11</sup>.
11. As a result, the national regulations and inspection systems, despite their differences, attempt to achieve these same objectives and should therefore normally be accorded recognition in all Member States. Pursuant to Art. 30-36, trade in a product lawfully manufactured and marketed in one Member State may only be hindered by the rules of other Member States if those rules are necessary to satisfy mandatory requirements and to serve a purpose which is in the general interest and for which they are an essential guarantee.

However, the application of this principle, although allowing the Commission, the Community and national courts to remove all unjustified barriers, comes up against drawbacks that must be overcome.

<sup>11</sup>. Conclusions on standardisation adopted on 16 July 1984, O.J. N° 136, 4.6.1985, p.2

Firstly, the lack of a clear position, involving frequent recourse to the courts to determine, case by case, whether a barrier is justified or excessive, creates uncertainty for national administrations and above all for businessmen. Therefore, the Commission has announced that in 1987 it will be publishing a Communication setting out the legal situation resulting from Articles 30-36 for the food sector, which will serve as a guide to public authorities on their obligations and to Community citizens as to their rights.

Secondly, the principle of mutual recognition is not applicable in those cases where barriers are justified in Community law and can thus be removed only through harmonization. Furthermore, there will be cases in which the introduction of common regulations and standards is essential for reasons of industrial policy; or for consumer protection; or to encourage and increase competitiveness on the basis of a single Community-wide market. Such requirements will therefore still justify the adoption of legislative measures by the Community.

#### FOOD ADDITIVES

12. It is necessary to draw up positive lists for those categories of additives that have not yet been dealt with, and Community conditions of use\* must be laid down for all additives where toxicological data indicate that restrictions are necessary<sup>12</sup>.

#### MATERIALS AND ARTICLES IN CONTACT WITH FOODSTUFFS

13. This area, already extensively covered by Community directives, in particular the framework Directive 76/893/EEC, must continue to be a matter for legislation. Considerations similar to those for food additives are applicable.

12. See Section 5 above.

(\*) Conditions of use means determining the foods in which each additive is permitted and the allowable concentrations of the additive.

FOODSTUFFS FOR PARTICULAR NUTRITIONAL USES ("DIETETIC FOODS")

14. Foodstuffs devised for a particular nutritional use fall within the domain of public health and must therefore continue to be a matter for legislation. Directive 77/94/EEC has already established the general principles governing these foodstuffs.

PROCESSES FOR THE MANUFACTURE OR TREATMENT OF FOODS

15. It is only rarely necessary to legally regulate processes for the manufacture or treatment of foods in order to protect public health. In the current state of industrial and technological development, this requirement exists in respect of:

- deep freezing (a proposal for a directive on frozen foods is already before the Council - COM(84)498),
- irradiation treatment of food,
- certain biotechnological processes.

Other processes and treatments may have to be added to this list in the future.

THE NEED FOR CONSUMER INFORMATION AND PROTECTION IN MATTERS OTHER THAN HEALTH

16. There are two possible approaches to this question:

- one is to develop extremely detailed regulations on the composition and manufacturing characteristics of each foodstuff ("recipe law"),
- the other is based on the fundamental idea that, provided that the purchaser is given adequate information on the nature and composition of foodstuffs, it is not necessary to define these elements in law unless they are required for the protection of public health.



17. Clearly, the Community must commit itself to the second approach because:
- it is neither possible nor desirable to confine in a legislative straitjacket the culinary riches of ten (twelve) European countries;
  - legislative rigidity concerning product composition prevents the development of new products and is therefore an obstacle to innovation and commercial flexibility;
  - the tastes and preferences of consumers should not be a matter for regulation.

#### LABELLING OF FOOD

18. The rejection of recipe law implies a well-developed and clear system of labelling, presentation and advertising that should take the form of a binding legal act so that producers may be protected against unfair competition and consumers against misleading practice .
19. Directive 79/112/EEC already goes a long way in this direction. However, it needs to be supplemented in some respects.

Firstly, the options for national exceptions left to the discretion of Member States must be replaced by uniform rules or rules objectively tailored, in order to improve the state of Community legislation. This applies in particular to the use of revision clauses accompanying these derogations, for example ways of specifying additives in the list of ingredients and date marking of perishable or long-life foods.

Secondly, additions and exceptions to the general rule, needed for specific foods but which are not applicable to all foods, should be drawn up at Community level where there is no detailed (vertical) directive on quality requirements dealing with those particular foods.

The Commission has already embarked on the usual consultations on these various amendments needed to Directive 79/112/EEC and a formal proposal should shortly be submitted to the Council.<sup>13</sup>

20. In its examination of the labelling of ordinary foodstuffs, the Community has not yet taken into account nutritional characteristics.<sup>14</sup> It seems desirable to encourage industry to give consumers qualitative and quantitative information on the main nutrients in a food and on its energy value. Details of the nature and quantity of the ingredients used are not sufficient to allow the average consumer to judge the nutritional quality of a food since products with apparently similar lists of ingredients can have very different nutritional properties.

21. The Commission recognizes that the usefulness of nutritional information is dependent on the level of dietary education of the general public. However, there is a growing public awareness of the relationship between diet and health which makes it necessary to facilitate the provision of easily understandable information and to avoid at the same time technical barriers to trade resulting from the use of diverse systems in the different Member States. Furthermore, there is a need to gain more experience on the kind of information which consumers will find useful and which the trade will be able to provide.

The Commission will therefore recommend the introduction of a voluntary system under which the choice of whether a food should bear nutrition labelling could be left to the trade. If, however, such labelling is being provided, it should appear in accordance with a uniform format throughout the Community.

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13. See attached timetable.

14. Nutritional labelling exists at Community level for foodstuffs for particular nutritional uses, but is not suitable for general application.

22. The Commission is currently consulting the Member States and interested parties, taking as a basis for its study the work done by the Codex Alimentarius. The need for legislative measures will be considered at a later stage.<sup>15</sup>

#### FAIR TRADING

23. Obviously, a food must not be harmful to the health of consumers. In addition, consumers must be correctly and adequately informed and not be misled ; producers must be protected against unfair competition. Once these conditions are met, fair trading is in principle ensured and this point does not need further examination. Questions of a general nature concerning misleading advertising are not specific to foods. Therefore they are not included within the scope of this communication which is concerned only with food legislation.

#### COMPOSITIONAL RULES (RECIPES)

24. The expression "compositional rules" as used in this paper refers to a set of regulations, whether or not issued by the public authorities, specifying the composition of certain foodstuffs or their manufacturing characteristics, excluding regulations designed to protect the life and health of human beings.
25. In the many judgments it has given on the free movement of goods, the Court of Justice has never accepted that a Member State authority can prohibit the sale of a product which does not conform to its own compositional rules, but which has been lawfully manufactured and marketed in another Member State in accordance with that State's own rules.

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15. See attached timetable

26. This ruling means that the Community no longer needs to introduce compositional rules in its legislation.
27. One criticism often advanced against this approach concerns the legal uncertainty that may result since it is not always clear whether, and if so to what extent, a Member State may successfully make an exception in respect of a product coming from another Member State.

In this context, it must be borne in mind that the meaning given to the term "compositional rule" excludes any public health connotation. Consequently, the only essential requirement that might possibly justify the refusal to accept a food manufactured in another Member State in conformity with its compositional rules is the need to protect consumers against misleading practices and producers against unfair competition. Present Community labelling provisions, together with those about to be drawn up<sup>16</sup>, will provide adequate information and avoid confusion.

Once this stage is reached in accordance with the guidelines set out in this paper, legal uncertainty will obviously be eliminated. In the meantime, practical measures which the Commission will be proposing should reduce the number of doubtful cases to a minimum.

28. Another criticism levelled is the danger that the lack of Community compositional rules would automatically lead to a reduction in quality, since the most liberal national rule will become general practice.

The Commission does not share this view, nor does the available evidence support it.

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16. See Sections 18-22 above.

It is true, however, that the approach based on Article 30 and the mutual recognition of national regulations and rules must be accompanied by adequate administrative cooperation and by collaboration with all the interests concerned. For this reason, the Commission will be initiating talks with the heads of national departments responsible for food legislation and inspection and discussions within the Advisory Committee on Foodstuffs which consists of representatives of agriculture, industry, labour, commerce and consumers. The purpose of these consultations will be to determine whether and, if so, how the Community should encourage industry to adopt an active quality policy for foodstuffs. If this is found desirable, the need for a Community system for the mutual recognition of labels or other quality marks and for the relevant checks and certification will then have to be examined.

Clearly, the Commission will be open to any other suggestions made in the course of these consultations.

It should also be recalled that compositional rules established within the Common Agricultural Policy in order to fulfil the aims laid down in Article 39 of the Treaty and which do not strictly belong to food laws will continue to operate.

#### OFFICIAL INSPECTION

29. Official inspection which is designed to assure compliance with rules of health protection must by its very nature be a matter for legislation.

The free movement of goods does not prevent authorities from exercising appropriate and efficient control over trade in foodstuffs. On the contrary, such control is necessary and must include products crossing Community frontiers in the same way as products remaining within a single Member State.

In particular, the competent authorities of the Member States should not confine themselves to inspecting only those products intended for consumption on their national territory, but should also extend this inspection to products going to other Member States.

In addition, public inspection must not be confined to retail sales. A system of this kind is inefficient and outmoded since it does not allow the inspection authorities to obtain an idea of the quality of mass production, nor can it be extended to products for dispatch to other Member States, and this is contrary to the idea of a single market.

The Commission intends to submit a new proposal for a directive on the general principles that should govern public inspection in the area of health protection. Preparatory studies are in progress. Mandatory measures should be accompanied by a series of other voluntary measures intended to encourage cooperation between national inspection departments. The Commission will later be putting forward a memorandum on this subject.

30. The Commission intends to include in the consultation mentioned in paragraph 28 the question of control of compliance with rules other than those relating to health protection. One objective would be to determine whether there is a need for compulsory legal measures or whether, on the contrary, other more flexible means should be envisaged.

#### MANAGEMENT OF THE "ACQUIS COMMUNAUTAIRE"

31. The need to manage the "acquis communautaire" is self-evident. Where this takes the form of Community legislation, it is necessary that amendments to be adopted must also take the form of legislation. It is the procedures for adopting amendments that are the real problem, and this will be covered in general terms in the following chapters.

#### DIVISION OF LEGISLATIVE POWERS BETWEEN THE COUNCIL AND THE COMMISSION

32. The review of directives adopted in the area of food legislation<sup>17</sup> shows that the Member States are able to agree on the general principles of food law. However, it also shows that insurmountable differences of opinion may exist on points of detail, preventing

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17. See section 5 above.

any decisions from being taken. This impasse is unacceptable in view of the fact that all the Member States apply the same basic principles and have reached equivalent levels of protection.

33. Some examples illustrate this situation:

- a) All the directives on food additives have derogation clauses for substances on which unanimous agreement could not be reached.

The Community lists currently contain some 150 additives. For ten years it has been virtually impossible to obtain unanimous agreement to add to these lists. Preservatives provide a striking example. In 1981, the Commission proposed to authorize or to extend the authorization of three substances (including natamycin) regarded as perfectly acceptable by the Scientific Committee for Food. So far, after almost four years of discussion, the Council has been unable to reach agreement on that proposal. At the very best, it could agree on a possibility of national derogations, an absolutely unacceptable solution from the viewpoint of a single market.

- b) The Labelling Directive 79/112/EEC introduced a number of compulsory indications, the usefulness of which in providing better information for consumers is not disputed. However, when it comes to applying these principles to certain specific cases (dating of ice cream, indication of the weight of certain small packages, etc.) apparently insuperable differences of view remain.
- c) Directive 73/241/EEC on cocoa and chocolate did not definitively regulate the use of vegetable fats and of certain additives in chocolate. The Commission proposal designed to solve these problems is now becoming bogged down in the Council and there appears to be no possibility of any agreement other than to maintain the status quo.

34. In view of this situation, it is necessary to review the procedure for the adoption of legislation in the food sector.

The problems outlined above are extremely serious as they demonstrate that the Community is frequently unable to equip itself with uniform legislation, nor to manage its existing legislation properly. The directives tend to freeze a scientific or technical situation existing at a given time without allowing for future adaptations.

#### THE SIMPLIFIED PROCEDURE

35. The rule of unanimity prevailing in the Council hampers the adoption and development of Community legislation. This constant blocking of progress is no longer acceptable. It might be preferable to have recourse to the courts through the procedure available under Articles 30 et seq. in conjunction with Articles 169 and 177 of the EEC Treaty, rather than to adopt Community provisions that would merely inhibit any future developments. It is obvious, however, that systematic recourse to the courts is not a satisfactory solution either.<sup>18</sup>

Consequently, it is essential to find a reasonable dividing line between matters calling for a unanimous Council decision and those that can be decided by the tried and tested simplified procedure of the "Standing Committee on Foodstuffs", which ensures close cooperation between the Commission and the Member States and involves qualified majority voting.

36. This simplified procedure should be used on the understanding that:
- a) it must always be up to the Council to adopt the basic rules of Community food law and to lay down the conditions under which the implementing arrangements for these basic rules will be determined,

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18. See Section 11 above.



b) the best way of ensuring operational efficiency and flexibility will be to give the Commission the task of drawing up implementing procedures for the basic rules established by the Council, under the conditions laid down by the Council.

37. As regards food additives, it must be left to the Council, pursuant to Article 100 of the EEC Treaty, to decide on the general principles governing the drawing-up of approved lists. In particular, it should be laid down as a general condition that any substance must have been evaluated by the Scientific Committee for Food before being placed on a Community list. The use of additives must in addition meet a technological requirement. This must be examined in the light of criteria that the Council will have to lay down on the basis of recommendations made by the Commission for the Codex Alimentarius (FAO/WHO) and the Scientific Committee for Food. Once these various requirements have been met, the task of drawing up the approved list and relevant conditions of use may be given to the Commission.

38. The same considerations apply to materials and articles coming into contact with foodstuffs, with the proviso that Directive 76/893/EEC requires only a few adjustments.

39. The basic rules for foods for particular nutritional uses are already laid down in Directive 77/94/EEC. The Commission is now examining the need for further clarification of these rules.

The specific directives would have to be adopted by the Commission on the basis of recommendations made by the Scientific Committee for Food.

40. In the case of processes for the manufacture or treatment of food, the best allocation of tasks between the Council and the Commission will have to be decided in each specific case.

41. The labelling Directive has to be amended in order to eliminate derogations. This is a matter for the Council.

It will, however, be up to the Commission to lay down the procedures for applying the general Directive to different product sectors.

42. The adoption of basic regulations for official inspection must continue to be a matter for the Council. The Commission should be responsible in particular for adopting methods of analysis and sampling. This point has already been established in existing directives. A proposal establishing the Commission's role for all foodstuffs is now before the Council (COM(84)39 final).
43. The management of the "acquis communautaire" is traditionally regarded as an implementing measure and must therefore be entrusted to the Commission.

#### FEATURES OF THE SIMPLIFIED PROCEDURE

44. The simplified procedure consists of giving the Commission powers to implement regulations established by the Council.
45. In all cases of this nature, there must be a procedure establishing close cooperation between the Member States and the Commission. The "Standing Committee on Foodstuffs" (regulatory committee) procedure introduced in 1969 has proved successful for this purpose and should be maintained.

It goes without saying that the present practice of consulting before any matter is referred to the Standing Committee will be continued.

46. Where there are public health problems, it will be obligatory to consult the Scientific Committee for Food.
47. The Commission also regularly consults the Advisory Committee on Foodstuffs on any draft food legislation. This Committee consists of representatives of agriculture, industry, labour, commerce and consumers.

CONCLUSIONS AND PROCEDURE

48. A new orientation to Community food legislation is necessary in order to simplify and speed up procedures in a way which will make possible the completion of the internal market by 1992.

This orientation must:

- define matters requiring the adoption of a legislative act,
- allocate tasks between the Council and the Commission.

49. The Commission will submit proposals for directives in application of this communication according to the attached timetable which follows the stages already proposed in the White Paper.

This communication constitutes a comprehensive explanatory memorandum common to all these proposals.

50. The Commission invites the Council and the European Parliament to consider the orientation described in this communication and to give it their support with a view to adopting the proposals mentioned in the previous paragraph. The Economic and Social Committee should also be asked to express its opinion.

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TIMETABLE OF THE MAIN ACTIVITIES

	Doc. No	Date of Commission's proposal	Expected date for adoption by Council
<b><u>PERIOD 1985-86</u></b>			
General directive on food additives (in part modification of existing directives)		1985	1986
General directive on materials and articles in contact with food (amendment)		1985	1986
General directive on food for particular nutritional uses (amendment)		1985	1986
General directive on food labelling (amendment)		1985	1986
General directive on food inspection		1986	1987
General directive on sampling and methods of analysis	COM(84)159	1984	1985
General directive on quick frozen food	COM(84)489	1984	1985
Management of existing vertical directives (procedure)		1985	1986

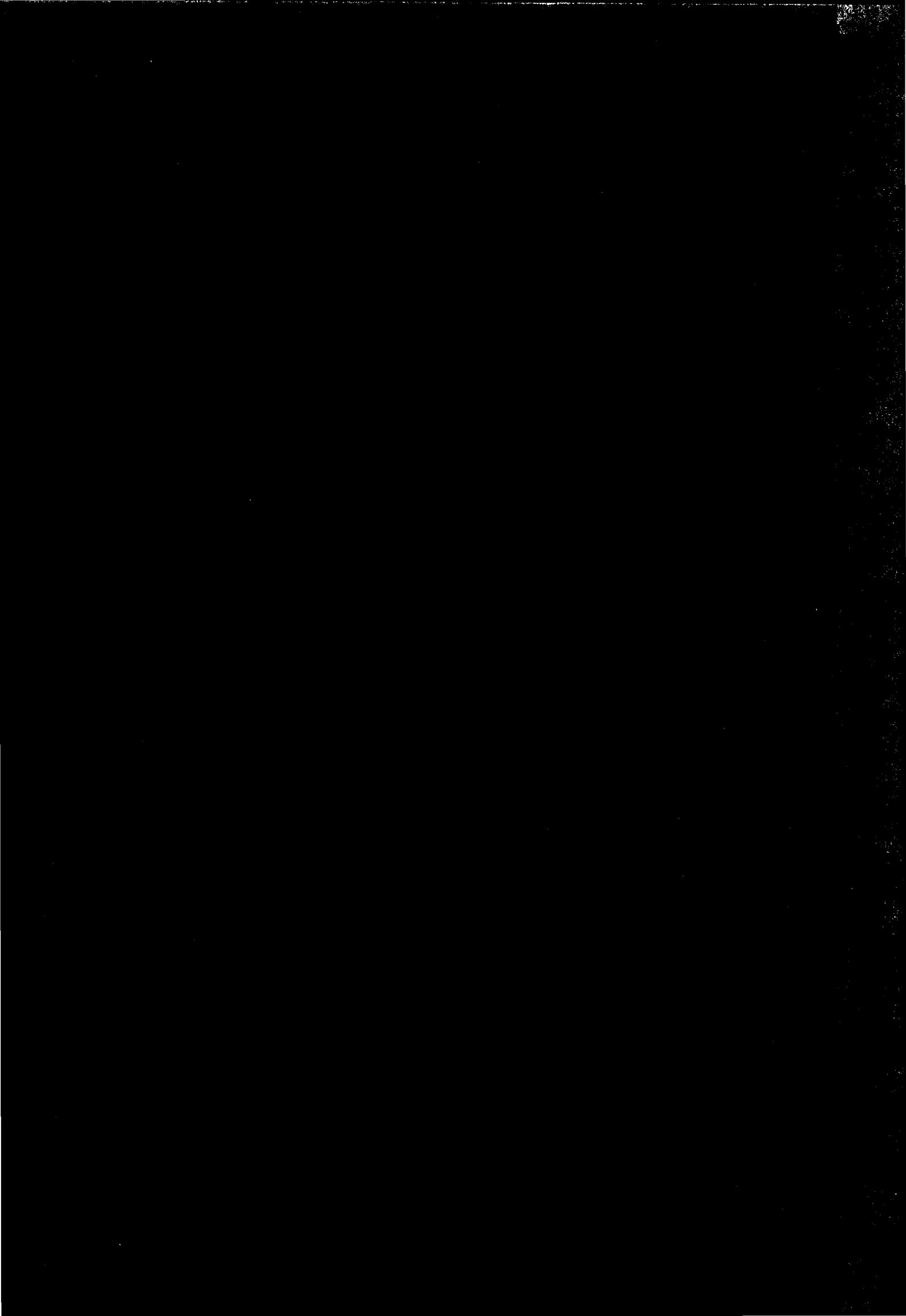
<sup>1</sup> Extract from the timetable attached to the White Paper.

OTHER ACTIVITIES IN PROGRESS<sup>1</sup>

	Doc. No	Date of Commission's proposal	Expected date for adoption by Council
Preservatives (amendment)	COM(81)712	1981	1985
Emulsifiers (amendment)	COM(84)4	1984	1985
Infant formulae and follow-up milks (food for particular nutritional uses)	COM(84)703	1984	1986
Cocoa and chocolate - codification	COM(83)787	1984	1986
Coffee and chicory extracts (amendment)	COM(84)138	1984	1985
Obligation to indicate ingredients and alcoholic strength	COM(82)626	1982	1985
Claims in the labelling of foodstuffs	COM(81)159	1981	1985
Simulants (plastic materials in contact with foodstuffs)	COM(84)152	1984	1985
Modified starches	COM(84)733	1984	1986
Fruit juices, etc. (amendment)		1985	1986
Jams, etc. (amendment)		1985	1986

<sup>1</sup> For information.

	Doc. No	Date of Commission's proposal	Expected date for adoption by Council
<b><u>PERIOD 1987-92</u></b>			
General directive on irradiation of foodstuffs		1987	1988
General directive on new foodstuffs obtained by a biotechnological process		1987	1988
Additional labelling requirements (nutrition labelling)		1989	1990
Adaptation of directives to technical progress		1987-89	1988-90







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EMBARGO

10.00 HOURS

THURSDAY, 3 JULY 1986

PLEASE CHECK AGAINST DELIVERY

ADDRESS BY THE RIGHT HONOURABLE LORD COCKFIELD  
VICE-PRESIDENT  
COMMISSION OF THE EUROPEAN COMMUNITIES  
TO THE INSTITUTE OF EUROPEAN TRADE AND TECHNOLOGY  
CONFERENCE

"THE FUTURE OF EUROPEAN TV"

LONDON, THURSDAY 3 JULY 1986



LONDON : 3 JULY 1986

"THE FUTURE OF EUROPEAN TV"

MR. CHAIRMAN, LADIES AND GENTLEMEN,

THE FOUNDERS OF THE EUROPEAN COMMUNITY - A COMMUNITY WE JOINED, A COMMUNITY OF WHICH WE ARE MEMBERS, VOLUNTARILY AND OF OUR OWN CHOICE - THE FOUNDERS OF THE COMMUNITY HAD A VISION, IT WAS A VISION OF A EUROPE UNITED, A PROSPEROUS, THRUSTING, SUCCESSFUL EUROPE. SOMEWHERE ALONG THE ROAD THAT VISION BECAME DIMMED, "IT FADED", AS WORDSWORTH SAID "INTO THE LIGHT OF COMMON DAY". BUT IN RECENT YEARS, VERY RECENT YEARS, THERE HAS BEEN A FRESH AWAKENING - A REALIZATION THAT THE INDIVIDUAL MEMBER STATES OF THE COMMUNITY CANNOT SOLVE THEIR PROBLEMS, AND PARTICULARLY THEIR ECONOMIC PROBLEMS, ON THEIR OWN. THEY CAN ONLY HOPE TO DO SO IN THE CONTEXT OF AN INTEGRATED EUROPEAN ECONOMY DEPLOYING THE FULL BUT LATENT STRENGTH OF ALL OF THE PEOPLES OF EUROPE. IT WAS IN THAT SPIRIT THAT THE PLAN TO COMPLETE THE ECONOMIC INTEGRATION OF EUROPE WAS BORN. IT STARTED WITH THE PROPOSALS TO COMPLETE THE INTERNAL MARKET BY 1992, A PLAN FOR WHICH I WAS PRIMARILY RESPONSIBLE AND WHICH WAS PUBLISHED LAST JUNE. IT WAS CARRIED FORWARD IN THE LUXEMBOURG SINGLE ACT: IN NEW PLANS FOR SCIENTIFIC RESEARCH AND DEVELOPMENT, AND IT SEES ITS LATEST MANIFESTATION IN THE PROPOSALS FOR FREEDOM OF CAPITAL MOVEMENT JUST TABLED BY THE COMMISSION.

THE COMMISSION'S PROPOSALS IN THE AUDIO VISUAL FIELD FORM PART OF THIS GRAND STRATEGY. THERE ARE THREE ELEMENTS TO THESE PROPOSALS - TAKEN TOGETHER, THEY FORM A COMPREHENSIVE AND COHERENT WHOLE.

FIRST, THE COMMISSION HAS PUT FORWARD PROPOSALS FOR SETTING EUROPEAN STANDARDS FOR DBS (DIRECT BROADCASTING BY SATELLITE) TRANSMISSIONS OF WHICH WILL HAVE IMPORTANT EFFECTS ON THE MARKET FOR AUDIO VISUAL EQUIPMENT. THIS DIRECTIVE IS IN ITS FINAL STAGES OF ADOPTION, A REAL AND IMPORTANT STEP FORWARD.

SECONDLY, THERE ARE THE COMMISSION'S PROPOSALS TO PROMOTE AND INSPIRE NEW DEVELOPMENTS IN THE FIELD OF EUROPEAN PROGRAMMES; AND

THIRDLY, THERE ARE THE COMMISSION'S PROPOSALS DEALING SPECIFICALLY WITH BROADCASTING.

IT IS THE THIRD OF THESE ELEMENTS, NAMELY THE PROPOSALS DEALING SPECIFICALLY WITH BROADCASTING, THAT I PROPOSE TALKING TO YOU ABOUT TODAY.

IN 1984 THE COMMISSION PUBLISHED A GREEN PAPER ENTITLED "TELEVISION WITHOUT FRONTIERS". THIS WAS THE SUBJECT OF INTENSIVE CONSULTATION AND DISCUSSION. IN THE LIGHT OF THESE CONSULTATIONS THE COMMISSION PUBLISHED EARLIER THIS YEAR A DRAFT DIRECTIVE ON BROADCASTING IN EUROPE. THE SIMPLE AIM OF THIS DIRECTIVE WAS TO PROVIDE A LIGHT REGULATORY FRAMEWORK FOR EUROPEAN BROADCASTING IN A WAY THAT WOULD ABOVE ALL FAVOUR THE DEVELOPMENT AND INTEGRATION OF THE EUROPEAN BROADCASTING MARKET. IT IS THIS DIRECTIVE WHICH IS THE TOPIC OF MY REMARKS TO YOU TODAY. I WAS PARTICULARLY GLAD TO ACCEPT LORD THOMSON'S INVITATION TO ADDRESS YOU. EVEN AMONG THOSE, SUCH AS YOURSELF, ACTIVE IN THE FIELD OF BROADCASTING, I HAVE THE IMPRESSION THAT THE AIMS AND EFFECTS OF THE PROPOSED DIRECTIVE HAVE OFTEN BEEN MISUNDERSTOOD. THE COMMISSION HAVE BEEN ACCUSED, WHOLLY WRONGLY, OF WISHING TO IMPOSE THEIR SINISTER COLLECTIVE PERSONALITY ON EUROPEAN BROADCASTING; OF WANTING TO FOIST ITALIAN PORNOGRAPHY ON THE BBC; AND, WORST OF ALL, OF WANTING TO DEPRIVE BRITISH HOUSEWIVES OF DALLAS AND DYNASTY. THE TRUTH IS MUCH LESS SENSATIONAL AND INFINITELY MORE REASSURING, - FOR THOSE WHO ARE WILLING TO BE REASSURED.

THE LATTER HALF OF MY SPEECH WILL DISCUSS THE DETAILS OF THE PROPOSED DIRECTIVE. BUT FIRST AND FUNDAMENTALLY, I SHOULD LIKE TO CONSIDER THE PRELIMINARY QUESTION OF WHY THE EUROPEAN COMMISSION, WHY THE EUROPEAN COMMUNITY SHOULD NEED ANY DIRECTIVE AT ALL CONCERNING BROADCASTING. IS THE DIRECTIVE SIMPLY AN EXAMPLE OF UNNECESSARY RED TAPE, MERELY COMPLICATING AN ALREADY SATISFACTORY SITUATION? THIS IS A FAIR QUESTION, BUT MY ANSWER TO IT IS A FIRM AND DEFINITE "NO". I CAN ASSURE YOU, MR. CHAIRMAN, THAT I AM NOT A PERSON WHO FAVOURS HARMONIZATION FOR HARMONIZATION'S SAKE - THE EUROPEAN COMMISSION HAS MORE THAN ENOUGH WORK TO DO WITHOUT TAKING ON UNNECESSARY EXTRA TASKS. I AM CONVINCED, HOWEVER, THAT THERE ARE GOOD REASONS, COMPELLING REASONS, WHY THE COMMISSION SHOULD PROPOSE LEGISLATION IN THE FIELD OF EUROPEAN BROADCASTING: LET ME EXPLAIN THESE REASONS TO YOU.

I SHALL BEGIN WITH A CONCRETE EXAMPLE, WHICH ILLUSTRATES THE ANOMALIES AND INSUFFICIENCIES OF THE PRESENT SYSTEM OF NATIONAL BROADCASTING REGULATIONS. WHEN I AM IN BRUSSELS, ONE OF MY PLEASURES IS TO WATCH BBC 1 AND BBC 2; I HASTEN TO ADD THAT I SHOULD BE

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EQUALLY GLAD TO WATCH OTHER BRITISH CHANNELS, WERE THEY AVAILABLE. I AM NOT ALONE IN BEING ABLE TO WATCH MY OWN NATIONAL TELEVISION PROGRAMMES IN BRUSSELS. GERMANS CAN WATCH GERMAN TELEVISION; THE FRENCH CAN WATCH FRENCH TELEVISION; AND ITALIANS NOW HAVE AN ITALIAN CHANNEL THEY CAN RECEIVE. THIS SERVICE IS PROMOTED BY LOCAL COMMERCIAL CABLE OPERATORS WHOSE CHARGE IS WILLINGLY PAID BY EXPATRIATES IN BRUSSELS AND BY AN EVEN GREATER NUMBER OF BELGIANS INTERESTED IN THE TELEVISION PROGRAMMES OF THEIR NEIGHBOURS. THE WHOLE TRANSACTION IS A CLASSIC EXAMPLE OF THE COMMERCIAL EMPLOYMENT OF TECHNOLOGY TO ENHANCE CONSUMER CHOICE.

WHEN, HOWEVER, I GO TO PARIS, OR BONN, OR LONDON, THE SITUATION COULD NOT BE MORE DIFFERENT. IN ALL THESE CITIES LIVE THOUSANDS OF FOREIGNERS AND SPEAKERS OF FOREIGN LANGUAGES, WHO WOULD LIKE TO ENJOY A WIDER CHOICE OF TELEVISION PROGRAMMES THAN THAT PROVIDED BY LOCAL FRENCH, GERMAN OR BRITISH TELEVISION. BUT IN ALL THE CITIES I HAVE MENTIONED, THE VIEWER IS DEPRIVED OF THAT CHOICE.

IT IS ABSURD THAT A FRENCHMAN CAN WATCH FRENCH TELEVISION IN BRUSSELS, BUT NOT IN BONN, THAT AN ENGLISHMAN CAN WATCH BBC IN BRUSSELS BUT NOT IN PARIS. NONE OF YOU - NOT EVEN I PRESUME THE BRITISH GOVERNMENT - WOULD WISH TO ARGUE THAT THE HONEST ENGLISHMAN CANNOT BE TRUSTED TO LOOK AT FRENCH OR GERMAN OR ITALIAN BROADCASTS IN CASE HIS MORALS ARE CORRUPTED OR HIS POLITICAL SENSITIVITIES OUTRAGED. IT MAKES NO KIND OF POLITICAL, CULTURAL OR ECONOMIC SENSE THAT WITHIN THE EUROPEAN COMMUNITY, COMMUNITY CITIZENS SHOULD BE UNABLE, EVEN WHEN THE TECHNICAL AND ECONOMIC POSSIBILITIES EXIST, TO ENJOY THE TELEVISION PROGRAMMES OF THEIR NEIGHBOURS. TELEVISION IS AN ECONOMICALLY AND SOCIALLY IMPORTANT SERVICE PROVIDED BY EUROPEANS TO EUROPEANS - IF THE EUROPEAN COMMUNITY HAS ONE CENTRAL TASK ABOVE ANY OTHER, IT IS TO PROVIDE THAT INTEGRATION BETWEEN THE STATES OF EUROPE, THAT FREEDOM OF CIRCULATION SO CONSPICUOUSLY LACKING IN THE FIELD OF TELEVISION BROADCASTING. TO MY MIND, IT IS NOT SURPRISING THAT THE COMMISSION PROPOSED A DIRECTIVE EARLIER THIS YEAR, BUT RATHER THAT IT TOOK SO LONG TO DO SO.

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THE COMMISSION TAKES THE VIEW - AND RIGHTLY SO - THAT BROADCASTING IS AN ESSENTIAL ELEMENT IN CREATING THE SINGLE UNIFIED MARKET IN EUROPE TO WHICH I HAVE ALREADY REFERRED. AT THE MOMENT, EUROPEAN BROADCASTING IS A MICRO-COSM OF THE MARKET FRAGMENTATION WHICH WE ARE NOW DETERMINED TO REMEDY. EVERY MEMBER STATE HAS ITS OWN RULES, PERHAPS REGULATING PROGRAMME CONTENT, PERHAPS IMPOSING QUOTAS FOR HOME-PRODUCED MATERIAL, OR PERHAPS DEMANDING A PARTICULAR KIND OF POLITICAL OR SOCIAL BALANCE WITHIN EACH INDIVIDUAL PROGRAMME - NOT TO MENTION NATIONAL ARRANGEMENTS ON ADVERTISING, THE PROTECTION OF MINORS AND COPYRIGHT. THESE DIFFERING NATIONAL REGULATIONS HAVE, UNTIL NOW, PREVENTED THE DEVELOPMENT OF THOSE FACILITIES, AND PARTICULARLY CABLE SERVICES, WHICH WOULD HAVE ALLOWED COMMUNITY CITIZENS TO RECEIVE TELEVISION PROGRAMMES FROM NEIGHBOURING COUNTRIES ALMOST AS EASILY AS THEY CAN NOW RECEIVE RADIO BROADCASTS. AS IN SO MANY OTHER AREAS OF THE COMMUNITY'S ECONOMIC LIFE, THE REALITIES OF NATIONAL STANDARDS AND NATIONAL ARRANGEMENTS HAVE ACTED, IN THE STRICTEST SENSE, AS BARRIERS TO TRADE. NATIONAL GOVERNMENTS HAVE BEEN ABLE TO PAY LIP-SERVICE TO LIBERALIZED TELEVISION BROADCASTING IN EUROPE, WHILE AT THE SAME TIME INSISTING THAT THEIR EXISTING NATIONAL REGULATORY PRACTICES WERE THE ONLY BASIS ON WHICH SUCH LIBERALISATION COULD COME ABOUT.

THE TREATY OF ROME, UPON WHICH THE EUROPEAN COMMUNITY IS FOUNDED, GUARANTEES THE FREEDOM TO PROVIDE SERVICES ANYWHERE WITHIN THE COMMUNITY. IN BROADCASTING, WE ARE A MILLION MILES AWAY FROM THAT IDEAL. THE PRESENT POSITION BRINGS ADVANTAGE TO NOBODY - NEITHER TO THE CONSUMER NOR TO THE POTENTIAL ENTREPRENEUR, NOR INDEED - ALTHOUGH THEY MAY BE SLOW TO ADMIT IT - TO EXISTING OR FUTURE TELEVISION PRODUCERS THEMSELVES. THE WHOLE PHILOSOPHY OF THE UNIFIED INTERNAL MARKET CONSISTS OF BRINGING TOGETHER WILLING SELLERS AND WILLING CUSTOMERS, IN A WAY WHICH INCREASES CONSUMER CHOICE, ENSURES ECONOMIC EFFICIENCY AND PROVIDES THE SUPPLIER WITH THE LARGEST POSSIBLE MARKET FROM WHICH TO RECOUP HIS COSTS. MANIFESTLY AND LAMENTABLY, THE PRESENT SITUATION OF BROADCASTING IN EUROPE FAILS TO DO THAT: IT CANNOT BE IN THE LONG-TERM INTERESTS OF THE EUROPEAN TELEVISION INDUSTRY THAT ITS MARKET IS SO SEGMENTED AND INCONSISTENTLY REGULATED. THE OVERALL PHILOSOPHY OF THE INTERNAL MARKET FINDS ITS APPLICATION IN THE FIELD OF BROADCASTING JUST AS MUCH AS IN THE FIELD OF, SAY, FINANCIAL SERVICES OR MANUFACTURED GOODS - AND THE NEED FOR A REALIZED INTERNAL MARKET FOR TELEVISION BROADCASTING IN EUROPE IS JUST AS PRESSING.

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THERE IS A GREAT TEMPTATION, PERHAPS PARTICULARLY IN THIS COUNTRY, TO IMAGINE THAT THE PRESENT AGREEABLE AND EVEN SUCCESSFUL STRUCTURE OF EUROPEAN BROADCASTING CAN GO ON FOR EVER. BUT THIS IS AN ILLUSION. DIRECT BROADCASTING BY SATELLITE, THE SPREAD OF CABLE TELEVISION AND INCREASING COMMERCIAL PRESSURES FROM OUTSIDE EUROPE ALL POSE PRESSING PROBLEMS WHICH WILL INEVITABLY ENSURE THAT THE NEXT TEN YEARS OF EUROPEAN TELEVISION BROADCASTING WILL BE AN EXCEPTIONALLY TURBULENT ERA. WITH THEIR NARROW MARKET BASE, THEIR LIMITED EXPOSURE TO COMPETITION AND THEIR ENDEMIC FINANCIAL PROBLEMS, THE VARIOUS NATIONAL TELEVISION BROADCASTERS AND PRODUCERS OF THE MEMBER STATES BEAR A WORRYING RESEMBLANCE TO THE WIDE SECTORS OF EUROPEAN INDUSTRY WHICH HAVE BUCKLED BEFORE THE JAPANESE ONSLAUGHT OVER THE PAST TWENTY YEARS. DO NOT THINK THAT YOU - MORE THAN ANYONE ELSE - CAN STAND OUT AGAINST PROGRESS. DBS ALREADY CASTS ITS LONG SHADOW BEFORE IT. THE RIGHT ANSWER MUST LIE IN SEIZING THE NEW OPPORTUNITIES; NOT TRYING DESPERATELY TO BOLSTER UP A WAY OF LIFE ALREADY UNDER SIEGE.

THE COMMISSION'S DIRECTIVE SEEKS TO DO IN SPHERE OF BROADCASTING WHAT IS THE COMMUNITY FUNDAMENTAL GOAL IN ALL FIELDS, TO DRAW ON THE STRENGTHS AND RESOURCES OF 320 MILLION EUROPEANS TO PROVIDE SOLUTIONS WHICH WOULD BE BEYOND ANY INDIVIDUAL MEMBER STATE. FOR EUROPE TO BE CONFIDENT THAT IT WILL NOT IN TWENTY YEARS HAVE DECLINED TO MARGINAL IMPORTANCE AS A TELEVISION PRODUCER, THAT IN THE YEAR 2000 WE WILL NOT BE DEPENDENT UPON THE ENORMOUS RESOURCES AND PRODUCTION OF THE AMERICAN INDUSTRY - FOR THIS EUROPE MUST STAND TOGETHER MORE COHESIVELY THAN IT HAS BEEN ABLE TO UNTIL NOW.

THE TELEVISION BROADCASTERS OF EUROPE ARE RESTRICTED BY A THICKET OF VARYING NATIONAL REGULATIONS, NOT YET ADAPTED TO THE INCREASINGLY INTERNATIONAL NATURE OF THEIR MEDIUM, AND SERVING SIMPLY IN MANY CASES TO LIMIT CROSS-FRONTIER RETRANSMISSION OF THE COMMUNITY'S RICH AND VARIED RANGE OF TELEVISION PRODUCTION. THE LEGISLATIVE FRAMEWORK OF BROADCASTING IN THE COMMUNITY REFLECTS THE INTELLECTUAL WORLD OF THE NINETEENTH CENTURY: THE EUROPEAN COMMISSION WANTS TO BRING TELEVISION BROADCASTING IN THE COMMUNITY INTO THE TWENTIETH AND TWENTY FIRST CENTURIES. IT WOULD BE A GRAVE ERROR MERELY TO JUDGE THE DIRECTIVE IN TERMS OF TODAY; THE COMMISSION'S PRIMARY CONCERN IS WITH THE FUTURE - AND WITH THE FUTURE OF EUROPEAN BROADCASTING.

UNTIL NOW, MY ANALYSIS HAS BEEN PRIMARILY ECONOMIC. IN THE INTERESTS OF ALL EUROPEANS, WE NEED TO CREATE A UNIFIED AND OPEN MARKET FOR TELEVISION BROADCASTS. BUT BEFORE I FINISH THESE INTRODUCTORY REMARKS, AND COME TO DISCUSS THE DIRECTIVE ITSELF, I SHOULD LIKE TO MAKE IT CLEAR THAT THE COMMISSION DOES NOT IN ANY SENSE NEGLECT OR IGNORE THE CULTURAL, SOCIAL AND POLITICAL SIGNIFICANCE OF BROADCASTING. LAST YEAR, THE ADONNINO COMMITTEE PRODUCED A WIDELY PUBLICIZED REPORT ON "A PEOPLE'S EUROPE", HIGHLIGHTING WAYS IN WHICH ORDINARY EUROPEANS COULD BE BROUGHT TO A FULLER AND MORE IMMEDIATE SENSE OF PARTICIPATION IN THE EUROPEAN COMMUNITY. THIS REPORT, WELCOMED AND ENDORSED BY THE EUROPEAN HEADS OF GOVERNMENT AND THE COMMISSION, STRESSED THE PARTICULAR IMPORTANCE OF EUROPEAN BROADCASTING AS A FACTOR IN EUROPEAN "CULTURAL INTERPENETRATION". AS THE MASS MEDIUM OF TODAY PAR EXCELLENCE, TELEVISION CLEARLY HAS A CENTRAL ROLE TO PLAY IN EUROPEAN INTEGRATION: THIS INTEGRATION IS AT ONCE AND INSEPARABLY ECONOMIC, SOCIAL, CULTURAL AND POLITICAL. IT IS IMPOSSIBLE TO OVERESTIMATE THE IMPORTANCE FOR EUROPE'S CULTURAL AND POLITICAL FUTURE OF A SUCCESSFUL AND FREE TELEVISION INDUSTRY. WE BELIEVE THAT THE DIRECTIVE WE ARE PROPOSING CREATES THE BEST POSSIBLE CONDITIONS FOR THE PROTECTION AND DEVELOPMENT OF THE EUROPEAN TELEVISION MARKET.

OUR UNDERLYING OBJECTIVE IN THIS DIRECTIVE WAS CLEAR. WE WANTED A DIRECTIVE WHICH WOULD PROVIDE A LIGHT REGULATORY FRAMEWORK, AND THE VERY EXISTENCE OF WHICH WOULD PREVENT MEMBER STATES FROM KEEPING OUT THE TELEVISION PROGRAMMES OF THEIR NEIGHBOURS SIMPLY BECAUSE THEY DID NOT CONFORM TO THE NATIONAL STANDARDS OF THE RECEIVING STATE. WE WANTED TO INTRODUCE A MINIMAL DEGREE OF REGULATION IN THE INTEREST OF FREEING THE MARKET. IN THAT THERE IS NO PARADOX, SIMPLY A RECOGNITION OF POLITICAL REALITY. THE DIRECTIVE IS A BALANCE BETWEEN THE LEGITIMATE DESIRE OF THE MEMBER STATES TO PRESERVE AS MUCH AS POSSIBLE OF THE STANDARDS AND PRACTICES THAT THEY HAVE BUILT UP OVER THE YEARS AND THE ECONOMIC AND POLITICAL NECESSITY TO PROVIDE FOR THE FREE CIRCULATION OF SERVICES IN THE COMMUNITY. WHAT WE HAVE DONE IS TO PROPOSE, IN EFFECT, A FRAMEWORK OF BASIC COMMUNITY STANDARDS, WHICH WILL BE ENSHRINED IN THE NATIONAL LAW OF THE MEMBER STATES; EVERY MEMBER STATE WILL KNOW, THEREFORE, THAT THE LAW ON TELEVISION BROADCASTING OF EVERY OTHER MEMBER STATE IS AT LEAST AS STRINGENT AS THE MINIMUM CODE OF COMMUNITY STANDARDS.

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THIS HARMONIZATION, IN ITS TURN, CLEARS THE WAY FOR FREE CIRCULATION. WHEN THE DIRECTIVE HAS BEEN IMPLEMENTED, MEMBER STATES WILL NOT, WITH A VERY FEW NARROWLY-DEFINED EXCEPTIONS, BE ABLE TO REFUSE ANY TELEVISION BROADCASTS TRANSMITTED FROM ANOTHER MEMBER STATE IN CONFORMITY WITH THE NATIONAL REGULATIONS OF THAT TRANSMITTING COUNTRY. WHAT IS GOOD ENOUGH TO BE TRANSMITTED IN LUXEMBOURG WILL BE GOOD ENOUGH TO BE RETRANSMITTED IN HOLLAND; WHAT IS ACCEPTABLE IN BONN WILL BE ACCEPTABLE IN LONDON AS WELL. THIS POINT IS SO IMPORTANT THAT I SHOULD LIKE TO DWELL ON IT FOR A MINUTE.

THE DIRECTIVE PROPOSES THAT IN JUDGING THE ACCEPTABILITY OF A PARTICULAR TELEVISION CHANNEL IN A RECEIVING COUNTRY, WE SHOULD NOT ASK WHETHER IT CONFORMS TO THE REGULATIONS OF THE RECEIVING COUNTRY, BUT WHETHER IT CONFORMS TO THOSE OF THE COUNTRY OF ORIGIN. AS A RESULT OF THE HARMONIZATION IN NATIONAL RULES INTRODUCED BY THE DIRECTIVE, ALL TRANSMISSIONS EMANATING FROM ALL COMMUNITY COUNTRIES WILL MEET CERTAIN MINIMUM STANDARDS, IN RESPECT PRINCIPALLY OF ADVERTISING, AND THE PROTECTION OF YOUNG PEOPLE. THE OBVERSE SIDE OF THIS COIN WILL BE THAT ALL NATIONALLY ACCEPTABLE TRANSMISSIONS MUST, (I REPEAT MUST) BE ALLOWED INTO FREE CIRCULATION WITHIN THE COMMUNITY. UNTIL NOW, CONFUSION AND DISAGREEMENT HAVE HELD THE FIELD.

SINCE IT HAS BEEN DEMANDED OF BROADCASTS THAT THEY CONFORM TO THE REGULATIONS OF BOTH THE TRANSMITTING AND RECEIVING (OR RETRANSMITTING) STATE. THE CONSTRUCTION OF A CLEARER AND SIMPLER LEGAL BASE, THAT IS THE HARMONIZED STANDARDS OF THE TRANSMITTING STATE, IS THE MAJOR AIM OF THIS DIRECTIVE. IT IS OF A PIECE WITH OUR GENERAL PHILOSOPHY FOR THE EUROPEAN INTERNAL MARKET, THAT WHAT IS GOOD ENOUGH FOR CONSUMPTION IN ONE COMMUNITY COUNTRY OUGHT TO BE GOOD ENOUGH FOR CONSUMPTION IN ALL.

I REMARK IN PASSING THAT THE BASIC PHILOSOPHY OF THE COMMISSION'S DIRECTIVE CAN AND WILL BE APPLIED TO THE DEVELOPING FIELD OF SATELLITE BROADCASTING: IT WILL BE THE RESPONSIBILITY OF THE MEMBER STATE IN WHICH THE SATELLITE BROADCASTER IS BASED TO ENSURE THAT THE BROADCASTER'S MATERIAL MEETS NATIONAL REQUIREMENTS IN THE TRANSMITTING COUNTRY. SINCE NATIONAL REQUIREMENTS IN THE TRANSMITTING COUNTRY WILL INCORPORATE THE MINIMUM STANDARDS LAID DOWN IN THE COMMISSION'S PROPOSED DIRECTIVE, THE SATELLITE BROADCASTER'S MATERIAL WILL THEN ENTER FREE CIRCULATION WITHIN THE COMMUNITY.



IT IS TO THE MINIMUM STANDARDS OF THE DIRECTIVE THAT I NOW TURN. THEY COVER FOUR AREAS: PROGRAMME ORIGIN; ADVERTISING; PROTECTION OF YOUNG PEOPLE; AND COPYRIGHT. NATIONAL BROADCASTING REGULATIONS WILL NEED, WHEN THE DIRECTIVE IS ADOPTED, TO CONFORM TO AT LEAST THESE MINIMUM STANDARDS; IF INDIVIDUAL COUNTRIES WISH TO APPLY IN THEIR INTERNAL BROADCASTING MORE STRINGENT STANDARDS THEY WILL NORMALLY BE ABLE TO DO SO. BUT I RETURN TO THE CENTRAL POINT, THAT UNDER THE DIRECTIVE, MEMBER STATES WILL BE PREVENTED FROM KEEPING OFF THEIR OWN TERRITORY BROADCASTS WHICH DO NOT MEET THEIR OWN STANDARDS, AS LONG AS THESE BROADCASTS MEET THE MINIMUM STANDARDS LAID DOWN BY THE COMMUNITY.

I COME NOW TO THE FIRST OF THESE STANDARDS, NAMELY PROGRAMME ORIGIN. THE STIPULATION IN THE DIRECTIVE RELATING TO PROGRAMME ORIGIN HAS BEEN GREATLY MISUNDERSTOOD IN PUBLIC COMMENT. TO ENTER INTO FREE CIRCULATION WITHIN THE COMMUNITY, A BROADCASTING SOURCE IN A MEMBER STATE MUST INITIALLY ALLOCATE 30% OF ITS OUTPUT IN TERMS OF TIME, APART FROM NEWS, SPORT, GAME SHOWS AND ADVERTISING, TO PROGRAMMES PRODUCED WITHIN THE COMMUNITY. THIS PERCENTAGE WILL RISE TO 60% THREE YEARS AFTER THE DIRECTIVE COMES INTO FORCE.

THE AIM OF THIS PROVISION IS TO ENSURE THAT THE OPENING UP OF THE EUROPEAN MARKET DOES NOT WORK OUT EXCLUSIVELY OR PRIMARILY TO THE BENEFIT OF OUR COMPETITORS, PARTICULAR THE AMERICANS. IT LEAVES A SUBSTANTIAL MARGIN FOR PROGRAMMES IMPORTED FROM OUTSIDE THE COMMUNITY, BUT RIGHTLY FAVOURS THE COMMUNITY'S OWN PRODUCERS. I THINK IT WORTH POINTING OUT IN PASSING THAT NATIONAL BROADCASTING STATIONS IN THE MEMBER STATES ARE ALLOWED TO COUNT PROGRAMMES THEY HAVE PRODUCED THEMSELVES AS COUNTING TOWARDS THEIR COMMUNITY QUOTA; THE 86% OF BRITISH-MADE AND EEC-PRODUCED PROGRAMMES WHICH ITV COMPANIES HAVE TO TRANSMIT UNDER THE IBA REGULATIONS GOVERNING BRITISH AND OVERSEAS MATERIAL, CARRY THEM WELL OVER THE 60% QUOTA. NOR WILL THE BBC FIND THE SLIGHTEST DIFFICULTY IN MEETING THE QUOTA, PROBABLY FROM ITS OWN PRODUCTION ALONE. NONE OF OUR TRADITIONAL COMMUNITY TELEVISION CHANNELS ARE NEAR TO FAILING THE QUOTA; NOR IS THERE ANY IMMEDIATE PROSPECT OF ONE DOING SO. THE QUOTA IS SIMPLY AND SOLELY A SAFETY MECHANISM IN THE INTEREST OF THE COMMUNITY INDUSTRY AS A WHOLE.

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SECONDLY, I TURN TO ADVERTISING. ESSENTIALLY, THE DIRECTIVE LAYS DOWN MINIMUM STANDARDS COMPARABLE TO THOSE OF THE IBA ADVERTISING RULES AND PRACTICES, INSISTING FOR INSTANCE THAT ADVERTISING SHOULD BE CLEARLY RECOGNIZABLE AS SUCH, SHOULD NOT BE OFFENSIVE OR DISCRIMINATING, SHOULD NOT UNREASONABLY INTERRUPT PROGRAMMES, SHOULD NOT ENCOURAGE EXCESSIVE ALCOHOL CONSUMPTION AND SHOULD NOT TAKE ADVANTAGE OF THE IMMATURITY OF YOUNG PEOPLE. THE DIRECTIVE DOES NOT ITSELF LAY DOWN A MAXIMUM PROPORTION OF AIR-TIME THAT MAY BE DEVOTED TO ADVERTISING. IT DOES, HOWEVER, ALLOW COUNTRIES TO REFUSE TO ACCEPT FOR RETRANSMISSION ADVERTISING ON TELEVISION CHANNELS WHICH EXCEEDS 15% OF AIR TIME. ONCE AGAIN, THESE PROVISIONS CAN HARDLY BE DESCRIBED AS ONEROUS.

THIRDLY, MEMBER STATES WILL BE OBLIGED UNDER THE DIRECTIVE TO ENSURE THAT THEIR INTERNAL BROADCASTS, WHICH MAY THEN BE RETRANSMITTED ELSEWHERE, DO NOT INCLUDE PROGRAMMES WHICH MIGHT SERIOUSLY HARM THE PHYSICAL, MENTAL OR MORAL DEVELOPMENT OF YOUNG PERSONS.

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THIS IS A SELF-EVIDENTLY DESIRABLE PROVISION WHICH PUTS THE OBLIGATION FIRMLY WHERE IT BELONGS, ON THE ORIGINATING MEMBER STATES, TO ENSURE THAT PORNOGRAPHY, GRATUITOUS VIOLENCE, INCITEMENT TO HATRED ARE KEPT OFF TELEVISION SCREENS. IT MEETS AN IMPORTANT CONCERN OF MOST MEMBER STATES. THE WHOLE OF THE INTERNAL MARKET PROGRAMME, WHICH IS, IN ITS ESSENCE, A PROGRAMME OF STEADY TRANSITION TO A UNIFIED SINGLE MARKET BY 1992, BEARS WITNESS TO THE SENSITIVITY OF THE COMMISSION TO THE LEGITIMATE CONCERNS OF THE MEMBER STATES. WHILE WE WISH TO REDUCE REGULATION TO A MINIMUM, WE CERTAINLY DO NOT EQUATE ECONOMIC LIBERALISM WITH MORAL OR POLITICAL ANARCHY.

FOURTHLY, AND FINALLY, THE COMMISSION HAS TAKEN UP THE THORNY QUESTION OF COPYRIGHT. IT HAS OBVIOUSLY BEEN A PARTICULAR CONCERN OF THE COMMISSION AND THE MEMBER STATES THAT THEIR CITIZENS AND BROADCASTING STATIONS SHOULD RECEIVE APPROPRIATE REMUNERATION FOR THEIR PROGRAMMES NOW TO BE TRANSMITTED ON A MUCH WIDER SCALE THROUGHOUT EUROPE. THE CRUCIAL QUESTION HERE IS WHETHER COPYRIGHT SHOULD BE SOLELY A MATTER OF PRIVATE NEGOTIATION OR WHETHER THERE SHOULD BE SOME SYSTEM OF COMPULSORY LICENSING.

IN THE LIGHT OF THE VIEWS EXPRESSED DURING THE CONSULTATIONS ON THE GREEN PAPER, THE COMMISSION HAS ACCEPTED THAT THE NORMAL PATTERN FOR THE OPENING UP OF EUROPEAN BROADCASTING SHOULD BE NEGOTIATION BETWEEN THE OWNERS OF COPYRIGHT AND RELATED RIGHTS AND THOSE WHO RETRANSMIT THE PROGRAMMES. AT THE SAME TIME THE DIRECTIVE PROVIDES THAT OWNERS OF COPYRIGHT AND RELATED RIGHTS SHALL NOT BE ABLE TO PREVENT RETRANSMISSION INDEFINITELY. ACCORDINGLY A PROCEDURE IS LAID DOWN PROVIDING FOR COMPULSORY LICENSING IF NEGOTIATIONS FAIL TO PROVIDE AN AGREED SOLUTION. THIS PROCEDURE INVOLVES ARBITRATION. AS ALWAYS, WE HAVE SOUGHT TO BE EVEN-HANDED AS BETWEEN PRODUCER, CONSUMER AND ENTREPRENEUR.

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THERE, IN FOUR PAGES OF TEXT, AND IN AS MANY MINUTES OF EXPLANATION, YOU HAVE THE BASIC CONTENTS OF THE DIRECTIVE, SIMPLE IN CONCEPTION AND LIMITED IN ITS IMMEDIATE APPLICATION. OF COURSE THE IMPORTANCE OF THE DIRECTIVE LIES NOT SO MUCH IN WHAT IT IS, BUT IN THE POSSIBILITIES IT CREATES FOR THE FUTURE. THE ADOPTION OF THE DIRECTIVE WILL MEAN THAT THE DECISIVE POLITICAL AND LEGAL STEP WILL HAVE BEEN TAKEN TO OPEN UP THE EUROPEAN MARKET IN TELEVISION BROADCASTING. I MAKE NO PRETENCES TO CLAIRVOYANCE AS TO THE WAY EUROPEAN BROADCASTING WILL LOOK IN TEN YEARS TIME: BUT, HAVING ANALYSED THE DIRECTIVE, I WISH TO LEAVE YOU IN CONCLUSION TWO REFLECTIONS ON IT.

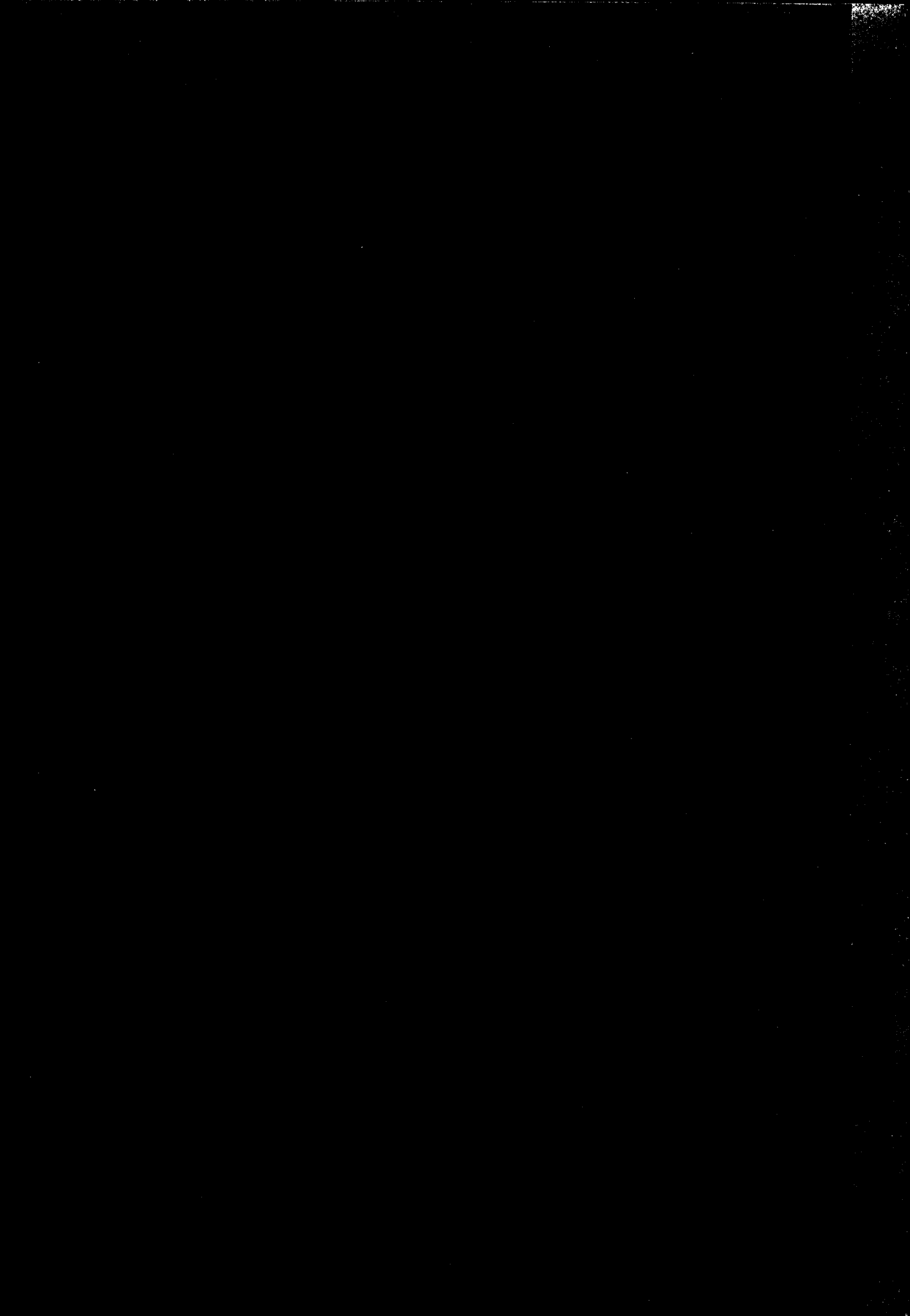
FIRSTLY, THERE IS NOTHING TERRIBLY RADICAL OR UPSETTING IN THIS PROPOSED DIRECTIVE FOR THE BRITISH BROADCASTING INDUSTRY. THE ESTABLISHED BRITISH TELEVISION PRODUCERS CONFORM, AND ALWAYS HAVE CONFORMED, COMFORTABLY, WITH MOST OF ITS PROVISIONS; NOR, FRANKLY, CAN I EASILY IMAGINE CIRCUMSTANCES IN WHICH THEY WOULD NOT.

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I SHOULD MUCH REGRET IT IF, FOR EXAMPLE, THE BBC OR ONE OF THE COMMERCIAL COMPANIES WERE TO IMPORT MORE THAN 40% OF ITS MATERIAL FROM OUTSIDE THE COMMUNITY, PRESUMABLY FROM THE UNITED STATES. THAT BEING SO, I AM FRANKLY PUZZLED BY THE FUSS THE PROPOSED DIRECTIVE SEEMS TO HAVE AROUSED WITHIN CERTAIN PARTS OF THE TELEVISION INDUSTRY. BROADCASTERS ARE UNDERSTANDABLY SUSPICIOUS OF REGULATORY AUTHORITY, BUT SUCH REGULATING AUTHORITY IN FACT EXISTS AND IT EXISTS IN EVERY MEMBER STATE. WHAT WE HAVE TO DO IS TO ENSURE THAT IT OPERATES AS LIGHTLY AS POSSIBLE AND THAT IT OPERATES UNIFORMLY THROUGHOUT THE COMMUNITY. BROADCASTERS IN THIS COUNTRY HAVE NOTHING TO FEAR FROM THE KIND OF REGIME THE COMMISSION PROPOSES. THE BRITISH TELEVISION INDUSTRY HAS NOTHING, I SAY AGAIN NOTHING, TO FEAR FROM COMPETITION IN THE EUROPEAN FREE MARKET EITHER. IT WOULD SURELY BE PERVERSE INDEED IF THE BRITISH TELEVISION INDUSTRY WERE TO TURN DOWN THE BEST CHANCE IT WILL EVER HAVE TO ESTABLISH AN OPEN AND COMPETITIVE MARKET IN EUROPE, SIMPLY BECAUSE OF SOME ABSTRACT AND UNSUSTAINABLE RESERVATIONS ABOUT THE ROLE OF THE EUROPEAN COMMUNITY IN BROADCASTING, OR A MISCONCEPTION OF THE COMMISSION'S PROPOSALS.

SECONDLY, AND IN CONCLUSION, I WOULD LIKE TO SAY THIS. YOU ARE AN EXPERT AND EXPERIENCED AUDIENCE. NEITHER THE COMMISSION NOR I HAVE THE SLIGHTEST DESIRE TO TELL YOU HOW TO RUN YOUR INDUSTRY; ITS SUCCESSES AND ITS FAILURES WILL BE YOURS AND YOURS ALONE. WHAT THE COMMISSION WANTS TO DO IS TO ENSURE THE MAXIMUM POSSIBLE SCOPE FOR YOU AND YOUR COLLEAGUES ELSEWHERE IN EUROPE TO GET ON WITH RUNNING YOUR OWN INDUSTRY IN THE EUROPEAN MARKET. FAR FROM SEEKING TO CONTROL OR CURB YOUR INDUSTRY, WE SEEK TO FREE IT FROM THE RESTRICTIONS NOW IMPOSED UPON IT BY VARYING, OFTEN ARBITRARY NATIONAL REGULATIONS AND BOUNDARIES. THE ROLE OF THE COMMISSION IS IN GENERAL TO HOLD THE RING FOR THE UNIFIED, SINGLE INTERNAL MARKET; IT IS THEN UP TO THE ECONOMIC ACTORS TO DEVELOP THEIR OWN THEMES AND POLICIES. WHAT I HAVE TRIED TO DO IS SET OUT THE VERY GENERAL, THE VERY UNDEMANDING REGULATORY FRAMEWORK WHICH THE COMMISSION PROPOSES AS A POLITICAL PREREQUISITE FOR THE FREE AND COORDINATED DEVELOPMENT OF EUROPEAN BROADCASTING. TO ACCEPT AND ENDORSE THE DIRECTIVE WILL COST THE BRITISH INDUSTRY NOTHING, BUT WILL GAIN IT A GREAT DEAL. IF MY ADDRESS HAS BROUGHT HOME TO YOU THE REAL CHOICE THE INDUSTRY FACES IN REGARD TO THE COMMISSION'S DIRECTIVE, I SHALL NOT HAVE WASTED MY TIME HERE TODAY - AND NOR WILL YOU.







Brussels, 20 March 1987

PREPARATION OF TRANSPORT COUNCIL 23-24 MARCH 1987

The dominant issue of this Council is expected to be Community policy on civil aviation. Work has continued within COREPER but substantial difficulties still remain, blocking an agreement. The Commission has already decided that if the Council fails to reach an agreement consistent with the Commission's proposals by the end of the Belgian Presidency, then the proposed regulation on granting of group exemptions from competition policy would be withdrawn. The discussions in the Council are scheduled for Tuesday March 24, but the subject will also be raised at the dinner on Monday evening.

The proposals cover four main issues:

- fares
- capacity
- access to the market
- competition

There has been substantial agreement on many detailed aspects of the dossier, but a number of key issues remain unresolved. Among these are the criteria under which airlines could set discount and deep discount fares without fear of a government block. Here there is still resistance from some Member States to criteria which would allow a wide range of new fare possibilities and offer substantially cheaper deals for the travelling public.

Access for new airlines to the market presents another difficult problem. The states furthest from the centre of the Community, Denmark and Ireland, would like to see fifth freedom rights written into the new rules, allowing airlines to pick up and put down passengers in a second Member State before flying on to a final destination in a third Member State.

The most urgent issue on road transport is the increase in the number of Community quotas, under which services are granted to operators to carry goods throughout the Community. The Council has already agreed in principle on a 40 per cent annual increase in order to allow the complete removal of quantitative restrictions on road haulage as from the beginning of 1992.

The German government is insisting on a link between eliminating "distortions of competition" in road transport and agreement on increased quotas, and Germany, Spain, France and Italy suggest that the Council should take an annual decision on the 40 per cent increase rather than making it automatic, taking account of progress in

harmonising the conditions of competition - a view strongly resisted by the liberal governments. The Commission's report on fiscal harmonisation, which covers vehicle tax, fuel tax and road tolls, will also be discussed in the Council. Transit through third countries - on which the Commission will be making proposals by June - is raised by some governments.

Ministers will also be discussing a regulation on financial support in the framework of the medium term programme for transport infrastructure. Five delegations (the southern countries of the Community plus Ireland) strongly support the establishment of a transport infrastructure fund, while six countries are opposed. The Commission believes strongly in the need for the establishment of such a fund.

A number of points have been signalled under any other business, including declarations of the Belgian Presidency on maritime safety and on speed limits and a British declaration on vehicle thefts.

Bruxelles, le 24 mars 1987

NOTE BIO (87) 72 (suite 1 et fin) AUX BUREAUX NATIONAUX  
CC. AUX MEMBRES DU SERVICE DU PORTE-PAROLE

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Transport Council 23-24 March 1987 (M. Berendt)

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Monday afternoon's session of the Transport Council was almost entirely unproductive. Despite the commitment made last June by the ministers to increase community road transport quotas by 40 per cent a year up to 1992, so opening up the common market to all Community hauliers, the Council continued to discuss the need for progress in other areas of road transport policy as a condition of their agreement. Although accepting the need to develop Community policy in areas such as harmonisation of fuel and vehicle taxes, the Commission does not believe that this should be a condition of agreeing the 40 per cent annual increase. Discussion of fiscal measures and the quotas will therefore go to the June 24-25 Council for further discussion and decision.

Commission proposals for allocation of Community funds to develop transport infrastructure projects also met with little response, as seven member states questioned the need for such a Community fund. This will also go forward to a future Council.

Tuesday's discussion of air fares was a different story. Useful progress was made on two main elements of a package and Council president De Croo announced, in order to forestall Commission legal action as he told the press, that a special meeting would be held on June 9 in an effort to reach agreement.

Tangible progress was made on fares and on capacity, although always subject to final agreement on an overall package. After movement on all sides, the following criteria emerged as a formula acceptable to all. These criteria set the scope for airlines to fix discount and deep discount fares without fearing obstruction from the country of destination. I must stress that this list of criteria is provisional.

CRITERIA FOR DISCOUNT AND DEEP DISCOUNT FARES

(Round trip and six month maximum stay)

1. DISCOUNT : 65-90 per cent of normal fares

Peak periods

Minimum stay of not less than Saturday night or six nights

Off peak

14 day advance purchase, 20% fee for cancellation or change of reservation (APEX)

2. DEEP DISCOUNT : 45-65 per cent of normal fares

Peak periods

Minimum stay of not less than Saturday night or 6 nights and one of the following:

- reservation, ticketing and payment at the same time. 20% cancellation fee
- 14 day advance purchase, ticketing and payment at the same time. 20% cancellation fee
- purchase of single ticket on day prior to departure. Return ticket under same conditions
- passenger not more than 25 or less than 60.

Off peak

APEX and one of the following conditions:

- not more than 25 or less than 60
- family of at least three including father and/or mother with children not more than 25.
- group of six on a single ticket

OR

SUPERPEX

- 28 day advance booking, reservation, ticketing and payment at the same time; 20% cancellation fee outside 28 days; 50% within 28 days.

The key element is that off-peak fares will become much more widely available for the travelling public - a crucial break through as far as the Commission is concerned.

On the question of capacity, which essentially determines how far an airline can bid for a bigger share of the market, the Council has already agreed that during the first two years of the new policy, the share could change to 45.55, so the more successful company could push up its market share to 55 per cent without obstruction. By the end of the third year, the limits should move to 40.60, but there was some doubt about the power of member states to block this. At today's meeting, 10 ministers were able to accept that this change in capacity could only be blocked on a proposal from the Commission. Only Greece had a full reserve on the point; Italy has referred the matter for consideration.

One element still unresolved concerns the criteria to be taken into account in approving (or not approving) new fares. The Commission is resisting a formula which might allow a government to block a lower fare because of the higher prices of competing carrier. A formula has been proposed to resolve this; only Greece appears to have difficulties.

No decisions were reached on market access, but the pattern of an agreement began to emerge, albeit with some significant reservations. For both Ireland and Denmark, fifth freedom rights, which allow an operator to embark and disembark passengers at an intermediate airport, should be introduced at once. A major issue on opening up flights between central and regional airports is the size of aircraft which can be used (50 seats or 70 seats) without the traffic being included in the capacity share calculations between the two countries.

An arrangement is likely to be agreed which will exempt from these provisions a certain number of smaller airports according to specific criteria. Work will continue on these matters in COREPER.

Amities,

H. PAEMEN

n.c. 













THE SCIENTIFIC AND TECHNICAL POTENTIAL  
OF THE EEC

In 1982, the Commission proposed a new line of action aimed directly at strengthening scientific competitiveness in the Community by concentrating support more on cross-border teamwork and structures of R + D than on the development of subject-based research and development activities.

"Clear in its objectives, general in its methods and open-ended in its choice of subject", the stimulation programme has a purpose which distinguishes it from the various other activities covered in the research programme. The decompartmentalization of disciplinary research, opening it up to the Community's multinational dimension and the element of cross-fertilization, the exploitation of promising discoveries or the response to unforeseen needs - all are elements which presuppose the capacity to react promptly when faced with new situations.

In 1983 an experimental 2 year action was launched.

The success of the 7 million ECU experimental phase (during which more than 600 proposals were received of which only 78 could be funded) prompted the Commission to propose to the Council the adoption of a plan to stimulate European scientific and technical cooperation and interchange 1985-1988 with a budget of 60 million ECU. This plan was formally adopted by the Council of 12 March 1985. (1)

During 1983, 1984 and 1985 therefore, the stimulation action has provided 100% funding, amounting to 32.4 million ECU to date for 265 joint projects involving 650 teams of researchers. This means that almost 2 000 researchers are engaged on joint projects or visiting another laboratory abroad.

One can indicate here that there are:

- 17 operations (where the specific goals that have been set include the development of the world's first optical circuit elements for use in computing, and in screen and projection technology, the development of prototypes using a new iron-rich rare earth magnet material and the development of micro-ionic, solid state batteries);

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(1) OJ L83 of 25.3.85.

- 191 laboratory twinings (in fields including bio-communications, solid state physics, surface physics and chemistry, mathematics and information technology, earth sciences, scientific instrumentation and oceanography);
- 49 "research grants" to individual researchers from an EEC country to go work or develop a specialisation in another;
- 8 subsidies (under the experimental phase) to initiatives aimed at strengthening information exchange within the scientific community (3 in biology, 2 in solid state physics, 1 in combustion, 2 in interface phenomena).

MOBILITY OF STUDENTS AND TEACHING STAFF  
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1. On the basis of the Commission's proposals for the COMETT programme (COM(85)431 final), the Council in December 1985 reached an agreement on policy whose operational content broadly corresponds to the measures proposed by the Commission to strengthen, at Community level, cooperation between higher education and industry in advanced technological training, both initial and continuous. This agreement is expected to be formalized in a Council Decision in the next few weeks.

The measures proposed for the COMETT programme (with a preparatory phase, 1986, and an operational phase, 1987-89) include management on the same footing as engineering. This applies especially in COMETT fields C (joint continuous training programmes) and D (multilateral initiatives in multi-media training), particularly as regards technology management education for industrial, technical and commercial executives in firms, including senior management. Broadly, the essential theme of the measures to be implemented under the COMETT programme is to ensure the interface between industrial innovation processes and their economic progress. Based on intensive training courses and encouraging the planning and implementation of specific training programmes in the industrial, economic and social management of technologies (technology management education), including strategies for exploiting R + D results, the COMETT should help to improve the quality of human resources at high and very high levels.

2. The ERASMUS programme project aims for a better use of the intellectual potential of universities with a view to improving Community competitiveness on the world market. Various types of measures are envisaged, in particular the encouragement of mobility of students and lecturers between universities and the growth of common study programmes.

INTELLECTUAL PROPERTY  
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1. The problem  
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The protection of industrial property such as patents and trade marks is in full accord with the general objectives of the common market. Patenting promotes innovation and the dissemination of research results; trade marks, by individualizing products, are a factor of commercial dynamism operating in favour of economic integration.

Nevertheless, contradictions between the objectives of the Treaty and the protection of industrial property have come to light. The exploitation monopoly granted to the holder of the right conflicts directly with the principles of the free movement of goods and of free competition. This is because the privileged position of the holder of the right has so far been assured on a national territorial basis.

2. Action by the Community  
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Faced with this contradiction, the Community has reacted in different ways with varying success:

- a large body of case law has grown up aimed at ensuring that the exercise of industrial property rights is compatible with Treaty objectives;

- efforts have been made to introduce industrial property rights which would be valid throughout the territory of the Community and which would comply with the Community's objectives without involving the obstacles inherent in national rights. These are the Community patent and the Community trade mark. Neither of the texts is in force, although the preparatory work goes right back to the very beginnings of the Community in the early 1960s;

- it is planned to harmonize national bodies of legislation with a view to improving the protection of industrial property in the Community.

(a) The case law of the Court of Justice of the European Communities  
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In its judgments the Court of Justice has sought to reconcile the requirements of the directly applicable Treaty Articles concerning the free movement of products (Articles 30 et seq.) and free competition (Article 85 et seq.) with the prerogatives



conferred upon the holder of an industrial property right by national legislation. The Court has decided that the exercise of a right is justified under the Treaty only in so far as it meets the specific object of the patent, namely the remuneration of the creative effort of the patent holder in the form of the exclusive right to use the invention for the manufacture of products and their first release for free circulation, or fulfils the essential function of the trade mark, which is to guarantee the origin of the product for consumers. Any exercise of the right which does not meet the specific object or serve the original function is to be regarded as an abuse and therefore cannot be relied on against the Treaty rules.

(b) The Community patent  
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The Community patent would be introduced under a Convention between Member States signed in Luxembourg in December 1975 (OJ N° L17, 26.1.1976), which has not yet entered into force because two Member States (Denmark and Ireland) have not yet ratified it. The patent would present obvious advantages for industry and research by considerably simplifying the administering and protection at law of the title, which would be subject only to a single body of legislation for the whole Community, and the costs of obtaining the patent and extending its validity would be reduced. The Intergovernmental Conference held in Luxembourg from 4 to 18 December 1985 was unable to comply with the mandate given by the Council to arrive at an agreement for bringing the Convention into force between the Member States which were able to ratify it. The Council is continuing its work on this matter. Nevertheless, the Conference did adopt a protocol on disputes concerning counterfeiting and the validity of Community patents which supplements and amends the Convention signed in 1975 and which is to enter into force at the same time. (This text will be published shortly in the Official Journal, C series).

The preamble to this new text expressly refers to the establishment of a European technology Community, of which it will be an element.

(c) The Community trade mark  
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The Community trade mark would be instituted under a Council Regulation which the Commission proposed in 1980 (OJ N° C 351, 31.12.1980), this proposal being amended in 1984 (COM (84)470 final) following Parliament's opinion. The provisions concerning collective trade marks and guarantee trade marks could be of great interest to firms in different Member States. The provisions would enable different firms to use a single mark or symbol throughout the Community in accordance with conditions decided upon jointly.

(d) Legal protection of high-technology products  
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Harmonizing legislation will certainly help to eliminate these obstacles to free movement and free competition. But the aim must also be to maintain in the Community the conditions which will genuinely guarantee the protection of industrial property in the Member States, especially in new technical fields. This is the purpose of the proposal for a Directive on microcircuits which the Commission recently put up to the Council (COM(85)775 final).

Similarly, the proposal for the protection of biotechnologies announced for 1987 in the White Paper on the internal market will seek to resolve the current problems of seeking to guarantee adequate protection for interventions in the specific field of biotechnology.

INDUSTRIAL COOPERATION

The "European Economic Interest Groupings" (EEIG)

The aim of this regulation is to make possible and to encourage cooperation between enterprises from different member States at a Community level, in other words under Community law. The mandatory provisions of the regulation are as limited as possible. For the rest, the Regulation frequently leaves problems to be settled by the constitutive contract. The national law of the country where the grouping has its head office will only be applicable as a subsidiary law. This possibility of using a Community statute instead of a national law should be an encouraging factor for cooperation between Community enterprises, since the fact of having to choose a national legal structure usually places one of the partners to the contract on unfamiliar ground.

The legal structure of the EEIG (which gives it the capacity to enjoy and be bound by rights and obligations, to make contracts or accomplish other legal acts and to sue and to be sued) does not affect the separate legal personalities of its members nor their economic independence. The EEIG serves only as an auxiliary to its members. Its activities are aimed at making profits for them. The EEIG has few governing bodies. The supreme body is the general meeting of members which, subject to certain mandatory provisions of the regulation and the constitutive contract, has wide-ranging powers to realize the aims of the grouping. Similarly, the rules governing formation, operation and winding-up leave considerable scope as to the provisions contained in the contract.

The activities of the grouping may consist of the provision of services exclusively for its members, such as:

- common buying offices;
- common sales offices;
- provision of specialized services.

COMMUNITY COMPETITION POLICY CONCERNING COOPERATIVE  
AGREEMENTS AND STATE AIDS IN R&D  
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When assessing R&D cooperation between undertakings with or without a grant of state aids under the competition rules the following areas of particular relevance should be taken into account: R&D cooperation, specialization, patent licensing, rules concerning SMES and state aids for R&D.

1. R&D cooperation

Competition relies inter alia on the creation of new or improved products and services. The introduction of new processes and products on the market stimulates competition within the common market, and strengthens the ability of European industry to compete internationally. In both contexts R&D plays an essential role in that it promotes and maintains dynamic competition, characterized by initiation and imitation, thus assuring economic growth.

The Commission has always shown a favourable attitude towards R&D cooperation, provided that competition is maintained by the existence of different independent poles of research.

These principles guided the Commission in the elaboration of the block exemption regulation on R&D agreements, which entered into force on 1 March 1985.

The regulation covers three types of agreements concerning:

- (i) joint research and development of products or processes with joint exploitation of the results of that R&D;
- (ii) joint research and development of products or processes with joint exploitation of the results (if, exceptionally, such "pure" R&D agreements fall within Article 85;
- (iii) joint exploitation of the results of prior R&D agreement between the same undertakings.

The notion of "joint exploitation" includes joint manufacturing and joint licensing to third parties, but not joint distribution and selling.

Under the regulation, joint R&D must be carried out in the framework of a defined programme and joint exploitation is only allowed where the know-how resulting from the common R&D contributes substantially to technical or economic progress and constitutes a decisive element for the manufacturing of the new or improved products. Furthermore, the block exemption is only applicable:

- (i) if all the parties have access to the results;
- (ii) if, where there is no joint exploitation, each party is free to exploit independently the results and any preexisting technical knowledge necessary therefore;
- (iii) if, in the case of specialization in the manufacturing of the new or improved products, each party has the right to distribute those products.

To evaluate the impact of the block exemption Regulation and particularly of the 20% market share threshold the following considerations are essential:

The threshold only applies in cases where the parties entering into the agreement are already actual competitors in the market of products or services to which the R&D programme is focusing on. This means:

- Agreements between non-competitors are not subject to this limitation whatever their market share and importance may be.
- Where actual competitors develop a new product or service for which a market does not yet exist they equally are not subject to the criterion at the beginning of the cooperation.
- In cases where this threshold applies account has to be taken of four considerations:
  - a. Where the relevant geographic market is large, i.e. Community-wide or even larger, only the common market and not a substantial part thereof will constitute the basis of reference.
  - b. In order to take into account competition from outside the EC, imports of the products in question into the Community enter into the calculation of the market share.
  - c. If at the time of the conclusion of the agreement the firms are below the 20% market share they are allowed to subsequently exceed the threshold without any limits for the whole duration of the R&D activities plus during the first five years of the exploitation of the results.

- d. In cases in which participants exceed the threshold at the beginning of the agreement the Commission can grant an individual exemption for the agreement and will generally be prepared to do so, especially when a project of general Community interest is involved, where parties to the agreement are facing world competition or particular circumstances prevail in the manufacture of high technology products.

The regulation contains a detailed list of permitted restrictions and obligations and, on the contrary, provisions which may under no circumstances be included if the parties want to benefit from the block exemption (the "black list"). An accelerated opposition procedure of six months is included for agreements containing restrictions not expressly exempted or prohibited.

## 2. Specialization

On 19 December 1984, the Commission adopted a new block exemption regulation on specialization agreements, which replaces Regulation (EEC) n° 3604/82 as of 1 March 1985. (1)

In order to expand the legal framework within which small and medium-sized enterprises can cooperate in the manufacturing of goods, this regulation contains the following provisions:

- (i) the total turnover threshold has been raised from 300 million to 500 million ECU;
- (ii) the market-share threshold, which was 15% in a substantial part of the common market, is now 20% in the entire common market or a substantial part thereof.

Furthermore, for cases in which the turnover threshold is exceeded, an opposition procedure has been introduced according to which agreements notified to the Commission are deemed to be exempted if the latter does not raise any objections within six months. The aim of this provision is to provide legal security for agreements which do not pose major problems from the point of view of competition policy. The 20% market-share threshold is, however, an absolute one which must always be observed.

## 3. Patent licensing

Similar considerations as those underlying the block exemption regulation on R&D led the Commission to adopt the block exemption regulation on patent licensing agreements, which entered into force on 1 January 1985 for a period of

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- (1) Regulation (EEC) n° 417/85 of 19 December 1984 on the application of Article 85(3) of the Treaty to categories of specialization agreements, OJ L53, 22.2.1985.

10 years. (1) This regulation is characterized by three main principles:

(i) It recognized the need for a certain degree of protection for the holder of a patent (licensor) and his licensees. This will create a favourable environment for the transfer of new technology throughout the Community and at the same time stimulate and reinforce R&D activities of undertakings, thus generating advanced techniques and new products;

(ii) It tends to assure effective competition and the freedom of infra-Community trade for the patented products;

(iii) It provides legal security for the contract partners.

As to territorial protection for both the licensor and the licensee, the regulation exempts the grant of exclusivity by the licensor to the licensee and allows each party to be protected against any competition, active or passive, from the other party throughout the duration of the agreement. The licensee may be granted the same full protection against competition from other licensees for up to five years from the time the product is first put on the market within the common market.

#### 4. Rules applying for small and medium-sized undertakings

Small and medium-sized firms should be aware of the fact that many of the agreements they conclude will not be considered to violate the competition rules because the economic effect involved is not significant enough. This can be measured by market share and turnover.

As a guideline, the Commission has issued a notice (2) ("Notice concerning agreements, decisions and concerted practices of minor importance which do not fall under Article 85(1) of the Treaty establishing the EEC") indicating that normally agreements will not be caught by Article 85(1) if two conditions are met:

(1) market share: the products which are the subject of the agreement and other products of the participating undertakings considered by consumers to be similar by reason of their characteristics, price or use (broadly speaking competing or substitute products), must not represent, in a substantial part of the common market, more than 5% of the total market for such products, and

(2) turnover: the aggregate annual turnover of the participating undertakings must not exceed 50 million ECU. The Commission envisages to increase this threshold in order to take account of inflation.

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(1) Regulation (EEC) N° 2349/84, OJ L219, 26.8.1984.

(2) Communication (EEC), OJ C313, 29.12.1977

Such so-called "de minimis" agreements are normally safe, even though they involve certain restrictions. A caveat must be added: the criteria indicated by the Commission are by way of guidance only.

Small and medium-sized firms can also benefit from specific provisions contained in block exemption regulations:

- the patent licensing block exemption regulation both allows small firms (as licensees) to gain access to new technologies and also encourages the innovative activities of small firms, who (as licensors) can thus exploit their inventions throughout the Community via (bigger) licensees;
- the block exemption on specialization agreements was specifically created to allow SMEs to improve their production processes and thereby strengthen their competitive position;
- the research and development block exemption regulation provides that competing undertakings who together have a market share of less than 20% may engage in the joint research and development and joint exploitation of the results; this criterion implies that nearly all agreements of this type involving SME's will be covered.

##### 5. Aids for research and development

###### Community Framework on State Aids for Research and Development

In December 1985, the Commission adopted a Framework on State aids for R&D.

The Commission has a favourable attitude towards State aid proposals for R&D notified to it. This is because of the contribution that these aids can make towards achieving Community goals as set out in Article 2 of the EEC Treaty; The risks attached to R&D, the long payback periods which may be involved so that the activity would often not take place without aid; and finally because of the fact that aids for R&D, by their very nature, are less prone to distort trade between Member States than aids for investments which have a direct impact on production capacities and volume. Furthermore R&D is necessary to provide a constant stream of new products so as to bring about the growth, welfare and worldwide competitiveness in Community industry. The Commission has fully recognized the role that state aids can play in this process.

In the light of this background the new Community Framework while underlining the traditionally favourable attitude of the Commission to State aids for R&D and acknowledging the importance of R&D in the Community context, emphasizes the importance of correct prior notification of all such aids. The first aim of the Framework, by allowing the Commission



to examine existing and new aids for R&D in the Member States is to obtain transparency in this field. The Framework also lays down certain basic ground rules which the Commission will apply in future. In particular, the principle that the nearer the R&D takes place to the market place the lower should be the level of aid intensity granted by the Member States; and it defines the type of costs which may be aided.

The intensity of aid that may be accepted will be assessed by the Commission on a case-by-case basis. The assessment will take into consideration the nature of the project or programme, overall policy considerations related to the competitiveness of European industry, and the risks of distortion of competition and effect on trade between Member States.

Taking account of these factors, and considering that it is necessary to ensure that there is a substantial volume of own funds from the recipient firm involved in the project, the Commission considers that, as a general rule, the level of aid for Basic Industrial Research should not be more than 50% of the gross costs of the project or programme. As the activity being aided gets nearer to the market place, i.e. covers the areas of applied research and development, the Commission in its examination and evaluation of national proposals will look in principle for progressively lower levels of aid.

The Commission will favourably consider higher aid levels in cases where particular projects are recognised to be of special economic importance, linked to relevant Community projects or programmes, located in the least favoured areas of the Community and related to specific welfare services or where they imply a very high specific risk. Availability of the results of the R&D involved on the widest possible basis will also be taken into account. Special allowance can also be made for aids genuinely for the benefit of smaller and medium-sized enterprises; in such a case for example, aids may be acceptable at levels 10 percentage points higher than in other cases. However, in no case should the total value of aid be so high that the contribution of the recipient firm from its own resources is so reduced as to diminish that firm's commitment to the project in question.

All aid proposals must be notified to the Commission by each Government concerned pursuant to the terms of Article 93(3) EEC. As a result of its examination of the notified proposal the Commission concludes which derogation of Article 92(3) EEC may be applied. In cases of cross-border cooperation to which the derogation of "an important project of common European interest" applies the Commission has stated in the framework that it "may consider such aid to be compatible with the common market solely on that basis".

The Framework lays down the principle that very large individual projects receiving aids should be subject to individual notification and examination. As part of the follow-up of work to the Framework the Commission proposes to examine special aspects of government intervention in the R&D field, for example, the role of contracts placed by government sponsoring specific research projects.

The policy guidelines laid down in the Framework apply to all state aids, whether they are granted in the context of purely national measures or involve cross-border cooperation with the participation of non-EEC countries. Special problems could arise if different governments involved in projects propose different levels of aid to their national participants in joint projects. National aids granted in and by the EFTA countries participating in EC projects can if necessary be covered by the procedures laid down in the relevant articles of the Free Trade Agreements between the European Community and each of these countries.

IP(86)50

**PRESSE-MEDELDELSE · MITTEILUNG AN DIE PRESSE · PRESS-RELEASE · INFORMATION A LA PRESSE  
ΑΝΑΚΟΙΝΩΣΗ ΓΙΑ ΤΟΝ ΤΥΠΟ · INFORMAZIONE ALLA STAMPA · MEDEDELING AAN DE PERS**

Brussels, 4 February 1986

**BRITE - THE COMMUNITY PROGRAMME OF RESEARCH  
IN INDUSTRIAL TECHNOLOGIES - GETS UNDER WAY**

The BRITE programme (Basic Research in Industrial Technologies for Europe) is now actually under way.

In January 1986 contracts covering the first seven of 95 projects selected were sent for signature by the partners involved and all the corresponding research work will shortly be in progress (1).

The first tranche consisting of 95 projects selected from the 559 proposals received following a call for proposals represents a total of some 120 million ECU half of which is contributed by the Community.

The projects involve 432 organizations from all Member States, i.e. a little over four organizations per project on average. The organizations can be broken down into 60% industrial firms (including 24% small and medium-sized firms), 21% research institutes and 19% universities.

The programme involves nearly all the main industrial sectors, e.g. motor industry, aeronautics, chemicals, textiles, metalworking etc.

The BRITE programme was adopted by the European Community on 12 March 1985 with Community funding of 125 million ECU for the period 1985-1988, to which industrialists will add an identical sum.

The programme aims to stimulate the development of a solid foundation of advanced technologies to support traditional Community industries. More specifically, the aim is to promote the development in industrial technologies of a tradition of transborder cooperation between firms, universities and research institutes, by encouraging them to work together on certain particularly promising projects.

The BRITE programme covers "precompetitive" research, an intermediate stage between fundamental research and development work immediately preceding marketing.

(1) A full list of the projects in the first tranche of the BRITE programme is annexed.

### SEVEN REPRESENTATIVE PROJECTS

The types of research concerned, and the number and diversity of the partners, make the seven first projects fairly representative of the work that is to take place under the BRITE programme:

For example, two British and two German firms have joined forces to develop polyimide compounds which can withstand high temperatures (250-350°). These compounds, which have applications in aeronautics in particular, are not yet produced in Europe and have at the moment to be imported from the United States. Five laboratories (one French, one British, one Belgian and two German) are cooperating to study flexible products for industrial or agricultural use based on synthetic fibres and materials (textiles for industrial filtering, agri-textiles, etc.). In the clothing industry, one German and three British partners are to work together on the development of a fully automated assembly and sewing system, in which 60% of the operations can be carried out in two-dimensional (flat) mode to minimize costs.

As these three examples suggest, the BRITE programme is aimed specifically at manufacturing industry. The spectacular boom in information technologies and biotechnologies sometimes overshadows the importance of research and development in nearly all the main industrial sectors (motor industry, aeronautics, chemicals, textiles, metalworking, etc.). This work is nevertheless essential, since it is the only way to develop new products and processes. Innovation often means adapting certain recent developments in other fields to the specific requirements of these industries. In any event, a whole range of new technologies offers possibilities for profound changes in these areas.

### A WIDE RANGE OF RESEARCH TOPICS

Over the next few weeks the contracts for the remaining projects in the first tranche of the BRITE programme will be sent for signature. These projects cover a wide range of fields. For example, a project involving university and industrial laboratories of five different countries aims to develop reliability testing methods for the design and operation of marine and offshore structures; four French, one Italian and two British partners have joined forces to study friction in internal-combustion engines; an Anglo-Franco-Greek project aims to develop noise and vibration imaging methods for gas turbines.

Four laboratories of three Member States aim to develop a surface treatment process for ceramic components using a CO<sub>2</sub> laser to improve their mechanical strength; nine different partners (including several motor and aeronautical manufacturers) are working together on a project to use lasers to weld sheet metal; two university laboratories (one British, one French) and a British company plan to develop new biocompatible polymers based

on the imitation of cell membranes; a Franco-Italian project involving three industrial firms and a research institute plans to develop an automatic system for the manufacture, pre-correction of defects and matching of pieces of cloth; five organizations from three different countries (Netherlands, Germany and Ireland) are working on the development of a computer-aided system for designing clothes, etc.

#### BRITE HAS COME AT THE RIGHT TIME

The high technological level and the numerous possibilities for industrial applications of the few research projects mentioned here by way of example are fairly representative of the general quality of the proposals adopted. This high quality bears witness to the interest aroused by the European Community's initiative. It seems to indicate that the BRITE programme has come at the right time and that it has every chance of successfully achieving its threefold objective:

- to stimulate European industry to equip itself with the technological base necessary to regain its competitiveness;
- to act as a catalyst for technological research by creating the conditions for bringing together research institutes across the borders of the Community Member States.
- to encourage cooperation between firms and research institutes across the borders of the Community Member States.

\* \* \*

#### BACKGROUND

The BRITE programme was launched by the European Community early in 1985 and is inspired by the Community programme on information technology, ESPRIT. A preliminary survey of the industry has enabled a list to be made of priority schemes in new technologies in traditional sectors.

These themes cover nine major technological fields: the problems of reliability, wear and deterioration of materials and systems; laser technology and powder metallurgy; joining techniques; new testing methods, including non-destructive testing and computer-aided testing; computer-aided design and manufacturing (CAD/CAM); polymers, composites and other new materials; membrane science and technology; catalysis and particle technology; new technologies applied to articles made from flexible materials: because the problems it is currently facing present a good example of the way new technologies can be applied, the sector chosen to benefit primarily from this initiative is the clothing industry (cutting out, handling and assembly techniques, etc.).

Initially, the BRITE programme is planned to run for four years. The Community financial contribution to each project is up to 50% of the cost of staff, equipment, materials, computer services, etc. The rest is paid by the firms involved in the project. The rules require each project to have at least two partners from different countries, at least one of which must be an industrial

firm. In practice, the projects group together an average of four partners in three or four countries and at least two industrial firms are involved in most cases.

The conditions of access to the information and exploitation of the results are based on the principle that the industrial property rights resulting from the research work belong in the first instance to the contractor who has carried out the work. Preferential access to the information and patents directly obtained thanks to the contracts with the Community, is granted in decreasing order of priority, to other contractors on the project, other participants in the BRITE programme working in the same field, and other firms established in the Community.



**PRESSE-MEDDELELSE · MITTEILUNG AN DIE PRESSE · PRESS-RELEASE · INFORMATION A LA PRESSE  
ΑΝΑΚΟΙΝΩΣΗ ΓΙΑ ΤΟΝ ΤΥΠΟ · INFORMAZIONE ALLA STAMPA · MEDEDELING AAN DE PERS**

Brussels, 19 June 1986

**BRITE : EIGHT MORE PROJECTS SELECTED FOR COMMUNITY SUPPORT**

The BRITE Programme (Basic Research in Industrial Technologies for Europe) has recently expanded its portfolio from 95 projects to 103. The extra funds required have come from savings made during pre-contract negotiations on the projects selected for support last year (see IP(86)50).

The eight additional projects were selected from the reserve list of submissions which were highly rated during last year's evaluation, but for which not enough funding could be found. As such, they have all been through exactly the same scrutinizing process as the earlier batch of proposals. The topics range from surface fatigue crack prediction through laser technology, dyeing processes, membrane engineering, catalytic isomerization by new zeolites, and numerically-controlled sewing machines. The full list of these new projects to be supported under BRITE is attached.

This coincides with the publication in the Official Journal of the EC (O.J. No C 153, 19 June 1986) of an advance notice of the second call for proposals for BRITE in order that those interested, in particular small and medium-sized enterprises, will have sufficient time to find partners and prepare proposals. The formal call is expected in late 1986 or early 1987 with a probable deadline on 31 March 1987.

Full details of the programme and how to apply are available in the Information Package for the second phase, available on request.

The Commission Services will help prospective applicants, particularly SMEs, to participate in the second phase of BRITE. Mindful in particular of the difficulty which companies may have in finding partners for BRITE projects, potential participants are encouraged to send in "expressions of interest" which should include a short description of the project in preparation. In this way prospective applicants can get advice in advance on whether their projects fall within the limits of the BRITE programme and the Commission will help to arrange partnerships based on the expressions of interest.

LIST OF PROJECTS

**P-1436-1-85**  
TITLE : Methods for predicting the effect of surface  
degradation of fatigue and fracture behaviour

ADG AKTIENGESELLSCHAFT	D
GEC RESEARCH	UK
LABORATOIRES DE MARCOUSSIS	F
RISØ NATIONAL LABORATORY	DK
UNIV. DUBLIN	IRL

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**P-1354-2-85**  
TITLE : High Power 15-20 kW CO2-lasers for materials  
processing

DFVLR	D
LABORATOIRES DE MARCOUSSIS	F

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**P-1075-3-85**  
TITLE : The development of a flexible laser-robot system  
for the welding of formed sheet steel components  
under production line conditions

PSA	F
FERRANTI INDUSTRIAL ELECTRONICS	UK
THE WELDING INSTITUTE	UK

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**P-1287-4-85**  
TITLE : Computer control in continuous dyeing

UCO S.A.	B
CENTEXEFL	B
ICI	UK
MAHLO GMBH	D

\*\*\*\*\*

**P-1092-5-85**  
TITLE : Low cost CAD stations for generating tool  
trajectories of a cutting/welding laser robot

PRIMA INDUSTRIE	I
EUROSOFT	F
FRIA	SP



**P-1566-7-85**  
TITLE : New membrane modules and fluid dynamics in  
membrane systems for liquid separation

A/S DE DANSKE SUKKERFABRIKKEP	DK
SOC. LYONNAISE DES EAUX	F
IRCHA	F
IMPERIAL COLLEGE OF SCIENCE & TECHNOLOGY	UK
UNIV. COLLEGE WALES ABERYSWYTH	UK
DANMARKS TEKNISKE HOJSKOLE	DK

\*\*\*\*\*

**P-1098-8-85**  
TITLE : Preparation of new zeolite materials for the  
de-paraffining and isomerization of petroleum cuts

CERTH	F
ENS CHIMIE DE MONTPELLIER	F
UNIV. KARLSRUHE	D
UNIV. CATH. DE LOUVAIN	B

\*\*\*\*\*

**P-1089-9-85**  
TITLE : Loading and guiding systems for traditional and  
N-C sewing machines

NECCHI SPA	I
PERTIN & CIE	F
CREATI	F
PRIMA PROGETTI SPA	I
CAERERA SPA	I

Brussels, 14 May 1986

**COMMISSION REQUESTS MORE RESOURCES FOR BIOTECHNOLOGY,  
"RESEARCH-WORKERS' EUROPE" AND BRITE**

The Commission believe there is now a need to revise three recent research programmes, for various reasons of which one is the success with which they have met. A large number of proposals of a generally high quality have been submitted under each of these programmes, and the Commission has been unable to select all of them. One of the aims of revising the programmes would be to increase their budgets sufficiently to enable the Commission to include a number of projects of major scientific value which it has had to pass over initially.

In terms of content and because they are based on cooperation between countries, sectors and scientific disciplines, these programmes - BRITE, biotechnology research and the "stimulation plan" for research - are indicative of the more vigorous research policy which the Community hopes to be implementing soon. The review of these programmes gives an opportunity to integrate their aims and technical details even more closely with two of the major topics of the 1987-1991 framework programme : helping to make Community industry more competitive and speeding up the creation of a "research-workers' Europe".

The Commission has, accordingly, asked the Twelve Governments to revise the BRITE programme, the programme of biotechnology research and the plan to stimulate scientific and technical cooperation and interchange.

BRITE is the Community's programme of research in industrial technology; its start-up at the beginning of this year was highly promising. Its approach is to associate the private sector and universities systematically in work on applying new technologies (lasers, computer-aided design and manufacture) in the leading sectors of vehicle manufacture, the aircraft industry, chemicals and engineering.

The biotechnology research programme is a continuation and amplification of the programme of research in biomolecular engineering which has just been completed; it produced results of high quality (particularly in the genetic engineering of plants) and stimulated the appearance of a Community-wide network of biotechnology research.

The "stimulation plan" is an interdisciplinary programme designed to increase contacts between research workers in different European countries. It covers research in many advanced fields which are interdisciplinary in character such as optical computers, magnetic alloys and miniaturized batteries.

Both BRITE and the "stimulation plan" are planned to run for four years (1985-1988). At the moment, they have budgets of 125 million ECU and 60 million ECU respectively. The biotechnology research programme is planned to run for five years (1985-89) and currently has a budget of 55 million ECU.

#### **Greater involvement of small business and the entry of Spain and Portugal**

Another purpose of the review is to adapt the content of these programmes to changes which have taken place in several areas since they were first drawn up : progress in the state of the art in various fields, the appearance or development of new directions of research, etc. as well as the entry of Spain and Portugal into the Community and the consequent need to bring them into the programmes. The review will also make it possible to involve industry, which is showing growing interest in Community research, more closely in the biotechnology programme and the "stimulation plan" and to improve access to BRITE for small and medium-sized business.

The three communications recently adopted by the Commission are intended to open initial discussions about the content of the revised programmes. Once the Commission has drafted its formal proposals for the 1987-91 framework programme, it will be forwarding draft decisions on the revised programmes, with detailed figures, to the Council and to Parliament.





**INFORMATION · INFORMATORISCHE AUFZEICHNUNG · INFORMATION MEMO · NOTE D'INFORMATION  
ΠΑΡΕΠΟΡΙΚΟ ΣΗΜΕΙΩΜΑ · NOTA D'INFORMAZIONE · TER DOCUMENTATIE**

Brussels, May 1983

**ESPRIT : A TECHNOLOGICAL PUSH TO MAKE EUROPEAN INDUSTRY  
CATCH UP WITH ITS AMERICAN AND JAPANESE COMPETITORS WITHIN TEN YEARS (1)**

On the initiative of Vice-President DAVIGNON, the Commission finalised the ESPRIT programme (European Strategic Programme for Research and Development in Information Technology), to see to it that the European Information Technology industry takes its normal share of the world market, thus saving and creating millions of jobs in the Community.

The fundamental aim of the programme, set up after large consultations with industry, small and medium sized companies, universities and Member States administrations, is to mount a "technological push" across the Community to achieve parity with if not superiority over American and Japanese competitors, within the next 10 years.

A first 5 year phase, starting in 1984 should, in the Commission's view, be allocated a global financial support of 1.5 billion ECUS, financed on a 50% - 50% basis by the Community budget on the one hand and industry on the other. This "catching up" strategy must stop the declining process the European IT sector is faced with.

If things remained unchanged, the situation could dramatically worsen : in 1975, the Community still had a trade surplus in IT products. By 1981 the trade deficit had reached 5 billion \$ and the 10 billion \$ mark was passed in 1982.

The broad research programme of ESPRIT must establish a new technological basis for the next generation of products and systems in the IT sector. Research activities will be achieved in the so-called "precompetitive" phase.

The programme sets out 5 key areas for action :

- advanced microelectronics
- advanced information processing
- software technology.

These three technologies are central : their mastery is the key to make the strategy succeed.

Two other action areas are specific applications :

- office automation
- computer integrated manufacturing.

(1) COM (83) 258

### The reality: industrial dependency threat for Europe

Eight out of ten personal computers sold in Europe are imported from the USA; nine out of ten videotape recorders sold in Europe come from Japan.

European-based integrated circuit manufacturers supply 30% of their own home market and represent 13% of world production, half of which is manufactured in the USA by subsidiaries of European companies.

Large mainframe computer manufacturers in Europe have, without exception, entered agreements with overseas companies in order to benefit from their technological advance.

In the field of electronic data processing, office and factory automation, process control and telecommunications (these are the sectors broadly encompassed by the term "Information Technology"), compared to the limited number of "niches" in which Europe is performing fairly well, the list of the areas in which Europe is struggling to catch up is lengthy.

Since the post war reconstruction period Europe has lagged behind in the industrial application of many high technologies and notably electronics.

Because of the increasing direct or indirect influence of electronics in practically all aspects of industrial life in the western world, what was in the past just technological dependence in a few specialized areas is now threatening to become industrial and economic dependence plain and simple.

In these conditions the cultural identity of Europe and eventually its political independence will be seriously at stake.

At a time when, on the one hand US and Japan are taking new initiatives and increasing their investments (1) to improve their technological, industrial and commercial predominance, and on the other hand the emerging economies, in Asia and the Americas, are taking over more and more of the traditional manufacturing activities, Europe cannot afford to remain an observer.

The effects of the electronic revolution that is now taking place will impact directly on Europe's social and economic structure regardless of whether it has an active or passive role in it.

Changes offer new possibilities, but bring about alterations that are not always without problems: only those who can control the determining factors of the changes can hope to minimize the problems. Europe must therefore assume a positive role to be master of its future.

Being first in the line of fire, industry has been aware of this for some time and has tried, often assisted by its respective governments, to remedy the situation.

(1) e.g. the Japanese Government is investing US \$ 500 million on the Fifth Generation Computer programme; in the USA the largest semiconductor manufacturers have formed the Semiconductor Research Cooperative to which they plan to contribute some 25 to 35 million \$/year to be spent on pure research.

Measures taken so far, however, have not been sufficient to reverse the trend, and by and large have only managed to slow down the deteriorating process. The situation threatens now to get dramatically worse: our balance of payments in IT products and services, still positive in 1975, suffered a substantial deficit of US \$ 5 billion in 1981 and this is said to have doubled for 1982.

#### Industry sounds the alarm

Representatives of the largest European companies active in the Information Technology field took the initiative in approaching the Commission in order to try to find a solution of a scale matching the problem.

In early 1983 they jointly wrote to Vice-President Davignon depicting the situation as follows:

"The figures of market share, i.e. European Industry commanding only 10% of the world market and less than 40% of its own indigenous market, make stark reading. Not only is the situation in itself of great concern but the low market share means that the volume of sales and profit is inadequate to provide the essential investment needed to safeguard the future. Even worse, all the indications are that the situation is deteriorating rather than improving."

"The situation is not a new one but has been developing over a period of years and many attempts have been made to reverse the trend. These include such things as acquisition of foreign technology and joint business ventures with Japanese and American firms. Whilst these may hold short-term benefits for those involved, they cannot be considered as providing a long-term answer."

In any case their contribution to the European economy as a whole has been slight; in some cases the effect may have been adverse.

#### "National champions" are not the answer: a joint European effort is needed

"Some of the nations, recognising the dangers, have instituted (or are instituting) their own national programmes - so far the impact has not been great but it is growing. The situation has, however, reached such a state that even programmes on the scale of those now being considered in some of the larger Member States are unlikely in themselves to solve unaided the problem in Europe."

Confronted with such a situation the companies see merging of efforts at Community level as a fundamental element of any remedial action: "unless a cooperative industrial programme of a sufficient magnitude can be mounted, most if not all of the current IT industry could disappear in a few years time."

The Commission shares this view and has formulated a proposal for the promotion of a concrete programme of action.

Long lead-time R&D at precompetitive level, sufficiently upstream of the product development phase, would appear a suitable domain for such cooperative action, and one which could be started without delay.

The strategic objective of the current action was agreed with industry and Member States to be : "the achievement of technological parity with, if not superiority over, world competitors within 10 years".

Consultation with industry and academia has enabled the Commission to identify the technical objectives, define the methods for carrying out the programme and estimate the resources required.

The financial resources that, according to the estimates, would have to be mobilized for a first phase of five years are some MECUS 1 500 of which the Community would have to provide 50% i.e. 750 MECUS.

To sustain the development of the technologies on which most of the European high-added-value transformation economy is going to depend for its efficiency, the proposed Community intervention may appear almost negligible given an overall industrial research expenditure in the sector in Europe of some 5 billion \$ per year and given the fact that the largest American companies active in the field invest every year, individually, some US \$ 2 billion.

If Community intervention is focussed on promoting work of every advanced nature, however, and if a carefully selective approach is taken, the Commission believes that it will be adequate to stimulate strategic thinking, a growth of self-confidence and the joint efforts that are required to stop the decline and regenerate growth.

The Commission is now proposing to launch the first five year phase of the ten year R & D programme called ESPRIT : the European Strategic Programme for Research and Development in Information Technologies.

The programme includes the coordination of R & D activities in IT in the Member States and direct financial contribution for cooperative R & D projects to be executed within the Community.

#### IT INDUSTRY : facts and figures show spectacular growth rates

IT is already a major industry in its own right, comparable in size (\$ 237 billion 1982 annual sales worldwide) and value added to the automobile and steel industries. As a manufacturing sector the IT industry has been one of the fastest growing industries world-wide in the last decade, a decade which has seen general recession otherwise.

Growth is expected to continue at about 8% - 10% overall until 1990 by which date, with an overall turnover of some \$ 500 billion (at 1980 prices), IT will be one of the world's largest manufacturing sectors.

Occupations concerned with information<sup>\*)</sup> are becoming the single most important part of employment. The US Bureau of statistics estimated that in 1980 nearly 50% of the employed civilian workforce were in "Information", and European figures are similar. IT manufacturing alone employs 5% of the total Community work force, i.e. about 5 million persons. The whole economy is significantly affected in its performance by IT although not always directly : altogether nearly two thirds of Community GNP is in one way or another influenced by IT. Less immediately influenced sectors like agriculture can also greatly benefit from IT, for example, from satellite observation followed by computer analysis for agriculture production monitoring and computation of optimal crop conditions. By the end of the century there will be no significant aspect of the economy that will not be affected by IT.

Telecommunications, Office Automation and Factory Automation play a key role since they provide crucial infrastructures for the whole economy.

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<sup>\*)</sup> This includes activities like TV broadcasting and the press that, although not encompassed by the term "information technology", are heavily dependent on it.



FIVE KEY AREAS : DECISION EXPECTED IN AUTOMN

The particular focus of the programme is a function of two conclusions drawn from the current trends in the development of IT : one is that more and more people will have to learn how to use this technology; the other is that the technology itself will have to become easier to use and better integrated into the entire pattern of our daily lives.

Advanced microelectronics

This will aim to develop smaller, more reliable and more powerful circuit technology so that devices can perform more functions or operations than those available today. Europe absorbs a fifth of the world's integrated circuit market but produces only 6%. Europe needs a design, manufacturing and test capacity for very large scale integrated (VLSI) circuits.

Advanced information processing (AIP)

This will uncover new kinds of direct communications between man and machine - such as speech and pictures - with functions that will resemble human thought processes like association and inference rather than just calculation and storage of information.

Software technology

A new generation of software is required for AIP as well as a modular form that allow it to be "re-usable" in other programmes for which the functions are required.

The mastery of these three technologies gives the key to any application and represents a fundamental factor of competitiveness.

Office automation

Aspects of intelligent interactions between man and machine such as integrated image text speech communication, document creation and distribution will be researched. Machine translation is of particular importance at the Community level.

Computerintegrated manufacturing

Research for factory automation use will relate to the architecture of integrated systems, robotics among others. This will need further developments in microelectronics and software.

The Commission expects a decision by the Council of Ministers in October 1983.



**PRESSE-MEDELDELSE · MITTEILUNG AN DIE PRESSE · PRESS-RELEASE · INFORMATION A LA PRESSE  
ΑΝΑΚΟΙΝΩΣΗ ΤΙΑ ΤΟΝ ΤΥΠΟ · INFORMAZIONE ALLA STAMPA · MEDEDELING AAN DE PERS**  
Brussels, 27 July 1984

**ESPRIT : the Commission approves the list of  
projects for 1984**

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The Commission of the European Communities today announced the launching of 90 new transnational R and D projects to start the main phase of the 10-year ESPRIT information technology programme.

Subject to the final signature of contracts, the Community will commit up to ECU 200 million this year to a total of well over 100 ESPRIT projects<sup>1</sup>. This sum will be matched by the industrial participants in the programme.

The 90 projects for the main phase of ESPRIT were selected by independent experts out of a total of 441 proposals put forward earlier this year. These represented a total funding requirement of nearly ECU 1.9 billion, as compared with the total of ECU 1.5 billion agreed for the first five years (1984-88) of the ESPRIT main phase. The response to this first call for proposals has therefore been very encouraging.

Contracts for 1984 will shortly be signed with the participants in each project. ESPRIT brings together industry, research laboratories and universities across Community frontiers. In some cases the 1984 contracts include up to 10 partners, although the average number is

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<sup>1</sup>As compared with commitments for 1984, the Community budget allows payments of ECU 45 million. Besides the 90 new projects, a number of ESPRIT pilot projects launched in 1983 will be taken up under the main phase of the programme.

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four. There are no exceptions to the basic ESPRIT rules of 50% co-funding by industry and the Community, with at least two separate industrial partners from different EEC countries in each project.

The programme focusses research on the key IT enabling technologies - microelectronics, software and advanced information processing - and on the two major application areas, office systems and computer integrated manufacturing. These five R and D areas are all covered in the 1984 contracts and projects were submitted from all the EEC countries. The response in the microelectronics area has been particularly strong.

Commission services are already drafting next year's ESPRIT workplan, which will be the subject of a further call for proposals. Details of the 1984 projects will be made available on final signature of the contracts.



**INFORMATION · INFORMATORISCHE AUFEICHUNG · INFORMATION MEMO · NOTE D'INFORMATION**  
**ΠΑΡΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ · NOTA D'INFORMAZIONE · TER DOCUMENTATIE**

Brussels, December 1986

**ESPRIT: TANGIBLE RESULTS WITH SIGNIFICANT INDUSTRIAL  
IMPACT ARE BEGINNING TO EMERGE**

The Commission has just approved a communication to the Council describing in detail the progress and results of the first phase of the ESPRIT Programme. Among other issues the report also touches on the potential economic impact and industrial application of projects.

**A quick start-up and steady progress**

Since ESPRIT was launched and based on annual calls for proposals, 201 precompetitive R&D projects are underway in the areas of Microelectronics, Information Processing Systems (Software Technology and Advanced Information Processing) and IT Applications (Computer Integrated Manufacture and Integrated Office Systems).

ESPRIT has been successful in promoting trans-European cooperation between IT organizations. Aside from universities and research institutes there are now 240 different industrial partners, 130 of which are small and medium-sized enterprises. The highly qualified researchers assembled by ESPRIT have reached an estimated 2,900 by mid-1986.

**Representative Examples from the five Subprogrammes**

The trans-European cooperation fostered by ESPRIT is now beginning to produce concrete, deliverable results. Projects nearing completion have realized all or almost all of their targets and most of those started later are meeting their envisaged milestones on schedule. Although only 3 years into a 10 year Programme, specific results with major industrial impact are already being implemented.

In Microelectronics, an example of a tangible result is a demonstrator chip containing 10,000 (10K) basic elements in a chip and 200 picosecond access time. This so-called 10K array bipolar chip has characteristics which compare with the best in the world. As a spin-off from this R&D project a new line for the production of these arrays is being built by Siemens, at a cost of around 100 MECU. The development of prototypes is planned for next year, to be followed by full production.

In Software Technology a shift is now discernable in the product development strategies of some key European companies attempting to ensure maximum benefit from the collaborative work being undertaken within ESPRIT. A most significant output so far has been the result of work on a Common Software Development System, PCTE, which brought together six of the major computer companies within Europe (Bull, GEC, IC, Nixdorf, Olivetti, Siemens) with the goal of producing software faster, safer, and more efficiently than the current state of the art. The results obtained have already gone beyond meeting the original goals to spawning extensive complementary work both within ESPRIT and elsewhere, i.e. prototypes of the system were developed and evaluated, while a commercial implementation of a software product called EMERAUDE, was produced by GIE-Emeraude and released to the market in September 1986 - a prime example of timely exploitation of ESPRIT R&D results by industry. This work is having wide industrial impact as well as on Member States R&D programs.

In the Advanced Information Processing work was carried out in Knowledge Engineering, External Interfaces and Computer Architectures. As an example of work in the first of these areas, advantage was taken of Europe's strong position in Logic programming languages by producing state-of-the art versions of such languages to be used in knowledge based systems which is illustrated by the following examples which relate especially to the language Prolog:

As a direct result of an ESPRIT project the Belgian Institute of Management has recently released BIM-Prolog, a computer based Prolog development system with a compiler producing code which executes faster than code produced by any other Prolog compiler in the world.

In another project Daimler Benz, Bosch, GIA, GIT and Prolog IA came together to further develop Prolog into an enhanced new language, Prolog III, with the intention of using it to build a knowledge based system for the diagnosis of failures in automobile engines.

In the IT Applications area results on standards are of particular interest.

The work in the Multimedia Office Document Architecture based systems (ODA) was aimed at defining a multimedia document standard. It was an early ESPRIT project (Handling of mixed text/image/voice documents based on a standardized office document architecture - HERODE) which developed the European (ECMA) and worldwide (ISO) office document architecture standards. While further work is being done to expand the ODA Standard, a powerful on-line editor and tools were built to define, manipulate, store, retrieve and transmit documents in the ODA format. It was implemented on a commercially available workstation equipped with a specially designed picture scanner for the input as part of ODA documents and with a bit-map printer for output. This system has been demonstrated at technical exhibitions.

Although a small part of the overall Computer Integrated Manufacturing effort, standardization work in this area has also been particularly promising. The Communication Network for Manufacturing Applications project has brought together major IT vendors and users with strong links to the U.S. National Bureau of Standards and the General Motors standardisation plan (MAP) to implement factory communications protocols, which will be applicable not only in the automotive industry, but in most other industries entering the era of factory automation.

The impact of ESPRIT on standardisation is being felt internationally. By finding a common voice, European industry now is in a very good position to take a leading role in the definition of world standards in IT and to exploit the resulting market opportunities.

#### SME Participation in more than 50% of ESPRIT Projects

ESPRIT is paving the way for a European Technology Community. This means creating and promoting transnational opportunities for European companies, leading to technological renewal and economic competitiveness. As such the dynamic role of small and medium-sized enterprises is self evident. ESPRIT is laying the ground for technology transfer, and encouraging small and medium sized enterprises to participate. Over half of ESPRIT projects count the participation of at least one SME (defined as a company with under 500 employees). In the case of some small industrial organisations ESPRIT work often accounts for the greater part of their R&D activity. Without ESPRIT such organisations would not have the funds available for significant research activity nor would they be able to benefit from international collaboration.







**INFORMATION - INFORMATORISCHE AUFZEICHNUNG - INFORMATION MEMO - NOTE D'INFORMATION  
ΠΑΡΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ - NOTA D'INFORMAZIONE - TER DOCUMENTATIE**

Brussels, May 1986

**THE SECOND PHASE OF ESPRIT - TRIPLING THE EUROPEAN  
RESPONSE TO AMERICAN AND JAPANESE COMPETITION (1)**

By 1990, Europe will no doubt be the largest market for information technology (IT) products and services.

It should in fact represent 30 % of the world market for all sectors, ranging from data processing to office and industrial automation, including the new generations of electronic chips.

By way of comparison, in 1985 the market of the OECD countries for IT products alone was worth some 440 000 million ECU. Moreover, experts generally expect the market to grow by 15 to 25 % a year up to the end of the decade.

Nevertheless, unless appropriate measures are taken quickly, European suppliers will see their share of the European market drop from 22 % in 1985 to 21 % in 1990.

At the same time, according to the latest estimates, worldwide expenditure on R&D in information technologies, estimated at 35 000 million ECU in 1985, should reach some 90 000 million ECU by 1990. This means a huge financing effort by governments. Thus it is estimated that 40 % of the funds allocated to the United States Strategic Defence Initiative, known as "Star Wars", will go into IT.

In response to this challenge, the Commission of the European Communities wants to speed up and intensify the strategic effort in information technology launched in 1984 in the form of the Esprit programme.

The Commission considers that the effort required to achieve the objectives of the second phase of Esprit will be 30 000 man-years, which actually represents a threefold increase in relation to that for the current phase of the programme.

(1) COM (86) 269

In this connection, Vice-President Karl Heinz Narjes stressed that "industry, with the confidence gained through experience, is ready to undertake much more ambitious R&D projects than hitherto, in order to respond to the acceleration of technological progress and increased pressure from competitors in this area". He added that not only industry, but also administrations of the Community countries has asked for the programme to be stepped up.

Essentially, Mr Narjes believes that the success of Esprit justifies an earlier start than planned for the second phase of the programme.

"In spite of the short timespan since the programme was launched", he said, "(two and a half years, whereas the objectives refer to a ten year perspective), it is already possible to state that this programme has enabled us to bring forward common standards, develop systems and produce results, including patents, and to encourage and stimulate promising new technological and industrial cooperation within the Community".

"In short," stresses Mr Narjes, "compared with action taken at national level, the Esprit strategy offers added value, both by pooling financial and human resources that have so far been dispersed and by broadening the range of options".

Greater emphasis on users' need  
applications and support to small and medium-  
sized firms

The three main objectives of Esprit remain :

- to provide European IT industries with the basic technologies to meet the competitive requirements of the nineties;
- to promote European industrial cooperation in precompetitive R&D;
- to pave the way for the introduction of international standards of European origin.

Furthermore, in the second phase of Esprit, the Commission intends to attach greater importance to IT applications and technology transfer, especially in support of small and medium-sized businesses, and in general to take greater account of users' needs.

Here the lesson of Esprit is clear : for many industrial or university organizations, participation in an Esprit project constitutes the greater part of their research effort. Without Esprit, these organizations would not have the necessary resources to conduct research and would not be able to enjoy the advantages of international cooperation.

Indeed, at least one small or medium-sized firm is involved in over half of the Esprit projects, and such firm carry out over 25 % of the work in 60 % of the projects in which they take part, which demonstrates their key role in technology transfer.

#### The broad outline of Esprit phase two

The approach proposed by the Commission aims to cover precompetitive R&D in the following areas in particular :

- microelectronics and computer peripherals,
- data-processing systems,
- applications technology, including industrial and office automation.

#### The key role of the new electronic chips

Among the range of applications that will be necessary to keep European industry in the race with its American and Japanese competitors, the new generations of electronic chips have an essential part to play.

Thus, European industry must be capable of :

- supplying integrated circuits for complex specific applications, containing up to four million basic components on a single chip;
- producing data-processing systems quickly and economically, reducing by a factor of ten the development cost of certain "sub-products" such as microprocessors and software modules;
- exploiting the prospects of industrial and office automation by supplying specific - or what the experts call "generic" - components for a wide range of information-technology applications.

**Jobs and information technologies**

In its communication addressed to the Twelve Member States, the Commission pointed out that IT, besides being an important industry in its own right, also makes a significant contribution to the competitiveness of most economic activity. The following sectors already depend heavily on IT to maintain their competitive position :

- banking and insurance
- telecommunications
- machine tools
- the motor industry
- aeronautics
- medical and optical instrumentation.

Furthermore, IT is increasingly becoming a cause of social change. Its integration with other technologies has led to the emergence of new applications and services in sectors such as education, transport and medicine.

The Commission also draws attention to some interesting employment figures : jobs in the Community, data-processing, office-automation and semiconductor industries rose by 40 % between 1980 and 1984.

Brussels, 9 April 1986.

3<sup>e</sup> partie pt 1**ESPRIT: Considerable progress achieved**

Following the meeting of the Ministers of Research yesterday which welcomed the considerable progress already achieved in the area of transnational cooperation by the ESPRIT Programme (European Strategic Programme for Research and Development in Information Technology), Vice-President Narjes announced that the Commission intended to meet the request made by the Council to ensure that the Programme would continue to provide an effective response to the ever-increasing challenge in the field of IT. The Commission intends to present a proposal for the second phase of ESPRIT in the near future. The only way to provide an effective challenge within the context of tough international competition was to broaden and substantially strengthen the Programme, thereby building on the results achieved so far.

Mr Narjes stated that the Council reconfirmed the main aims of the programme, which are

- to promote European industrial cooperation in precompetitive research and development in the field of information technology,
- to provide the basic technologies required by the European information technology industry to ensure its competitiveness,
- to pave the way for the introduction of European standards in the field of information technology.

He then gave examples of four projects, where ambitious targets had already been achieved by the third year of this 10 year Programme, and which translated the objectives of the Programme into concrete technical results.

**First example:** A consortium of the major semi-conductors manufacturers LEP (France), Plessey (UK), Siemens (Germany) and Thomson-CSF (France) are pooling their resources and have produced a fully operational Gallium Arsenide chip using new technologies to rival the traditional silicon chip. With lower power consumption and higher speed circuitry, the new chip represents a major achievement, and it is hoped that it will soon be commercialised in a new generation of advanced components.

Second example: The ESPRIT Portable Common Tool Environment (PCTE) project has resulted in the production of one of the first commercially available truly integrated project support environments. The ESPRIT project included the production of the specifications for a new generation of development support environment for complex software systems and the first prototype models for evaluation purposes.

The PCTE project provides the opportunity for convergence onto a number of key important interfaces for the software industry in Europe, and also provides the basis for integration of many of the prototype tools emerging from the rest of the ESPRIT software technology projects.

Third example: ESPRIT Project HERODE has been instrumental in the establishment of the first European standards (ECMA 101) in the area of multi-media message handling. These were the Office Document Architecture (ODA) and Office Document Interchange Format (ODIF) standards. In view of the fact that the standards are of direct application to future information systems in business and administration, the project has also produced an editor for guiding the user at the terminal in producing and manipulating electronic documents. This third example shows in practice how the standards objective inside ESPRIT is working. Industrial and university partners from France, Germany, Italy and the UK are cooperating in this project.

Mr Narjes recalled that the harmonisation of norms and standards on a European scale such as this one would represent an important contribution to the goal of establishing an internal market by 1992.

Fourth example: A project led by IMEC, an SME spinoff from the University of Leuven (B) has made a breakthrough in the area of design of digital signal processing chips. It has developed a silicon compiler, a complex software programme capable of automatically converting technical specifications for such applications into an operational chip in less than one week, four times faster than any previously known method. Typical applications include the design of digital voice filters used in telephone sets and other home electronics equipment.

Mr Narjes concluded that the new proposal formulated for the second phase of ESPRIT would allow the European Information Technology industry to consolidate and maintain the success, as represented by projects of this quality already established. Europe would fully justify the trust put in it by industry to act as a full partner in meeting the IT challenge in the international market place in the coming decade.

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Brussels, March 1985

**TELECOMMUNICATIONS : PREPARING FOR 1995  
COMMISSION ADOPTS RACE DEFINITION PHASE (1)**

At the initiative of Vice-President Karl-Heinz NARJES the Commission adopted the first phase of a Community-wide programme on Research and Development in Advanced Communications technology for Europe - RACE.

This 1985 RACE definition phase will prepare the ground for R and D required to give the Community the advanced, integrated, high-speed telecommunications networks on which its economy will depend. Indeed, total Community investment in new telecommunications is estimated at more than ECU 150 billion in the next 10 years, during which telecommunication equipment and services will become the biggest business in the EEC.

This preparatory phase is for 18 months, starting on 1 July 1985, and will cover 11 projects to be co-financed on an equal basis by the Community with companies, network operators and research establishments in the Member States. The Community contribution will be ECU 22.1 million out of a total of 42.9 million ECU.

RACE is part of a far-reaching strategy aimed at concerting the different telecommunications systems and services now developing in Europe. By combining the Community's R and D in key technology areas and accelerating the emergence of a strong, competitive Community market for telecommunications equipment and services, RACE is designed to help European telecommunications manufacturing and service industries to maintain a leading position on the world market in broadband communications.

The definition phase covers the initial work required to focus the main R and D programme on the working requirements for a Community-wide integrated broadband communication (IBC) network, including terminals and future applications. Research will also begin during this phase on key items of recognised urgency.

(1) COM(85)113

The RACE definition phase has a twofold purpose :

- on the one hand it is to establish a European reference model for integrated broadband communications, i.e. preparing the European telecom-infrastructure capable to support both existing services and a broad variety of new services integrating newest technologies for voice, data and video transmission. In the same context, defining and conceiving new terminals using those services. One of the challenges facing Europe will be its capability to provide the market with numerous, profitable and up of all user-friendly terminals.
- on the other hand it is requires a major technological push on the basis of urgent transeuropean cooperation. Indeed, technology is widely not available, not even at the predevelopment stage. This R&D effort will be benefiting also from the results of the ESPRIT Programme. Altogether 8 sectors have been identified .

Phase I (1986-1991) of RACE would have the following objectives :

- developing the technology base for IBC;
- precompetitive development necessary for the provision of trial equipment and services to demonstrate IBC;
- supporting the work of the CEPT<sup>1</sup> and CCITT<sup>2</sup> in the formulation of common proposals for specifications and standards.

10.

Phase II (1991-1996), depending on the outcome of phase I, would have the overall objective of developing the technology base for enhanced IBC equipment and services beyond 1996.

**CEPT: Conférence Européenne des administrations des PTT**

**CCITT: Comité Consultatif International du Télégraphe et du Téléphone**

#### BACKGROUND

The Community's position in the world telecommunication's market is good. EC-countries have been world pioneers in telecommunications. As the world's biggest exporter, the Community has a trade surplus of some 2 billion ECU in telecommunication's equipment. But as technology evolves and markets become worldwide, the Community telecom-industry's favourable position is being challenged. Community must face a number of handicaps.

- compartmentalised national markets which stunt supply and demand;
- uncertainty of carriers and companies over what development strategies to choose;
- increasing weakness, relative to the US and Japanese competition, in the new fundamental technologies of telecommunications;
- backwardness of less favoured regions in Europe with respect to networks, equipment and advanced telecommunications services.



Rapid decisions and action at Community level are needed to overcome these handicaps. Acting alone, the Member States can no longer settle all the major issues in time to ensure the necessary transnational development of advanced telecommunications infrastructures and services.

These decisions have been prepared by the Commission and high-level officials working closely with the ministers for economics, industry and telecommunications (the Senior Officials Group for Telecommunications), in consultation with a wide range of experts from European industry and PTT research centres.

Since 1983, a broad consensus of opinion has been reached by the Member States, the European Parliament and the telecommunications sector on the need for a concerted, Community-wide effort. In late 1984 the Council of Ministers made its first-ever recommendations on telecommunications and agreed on the following main objectives:

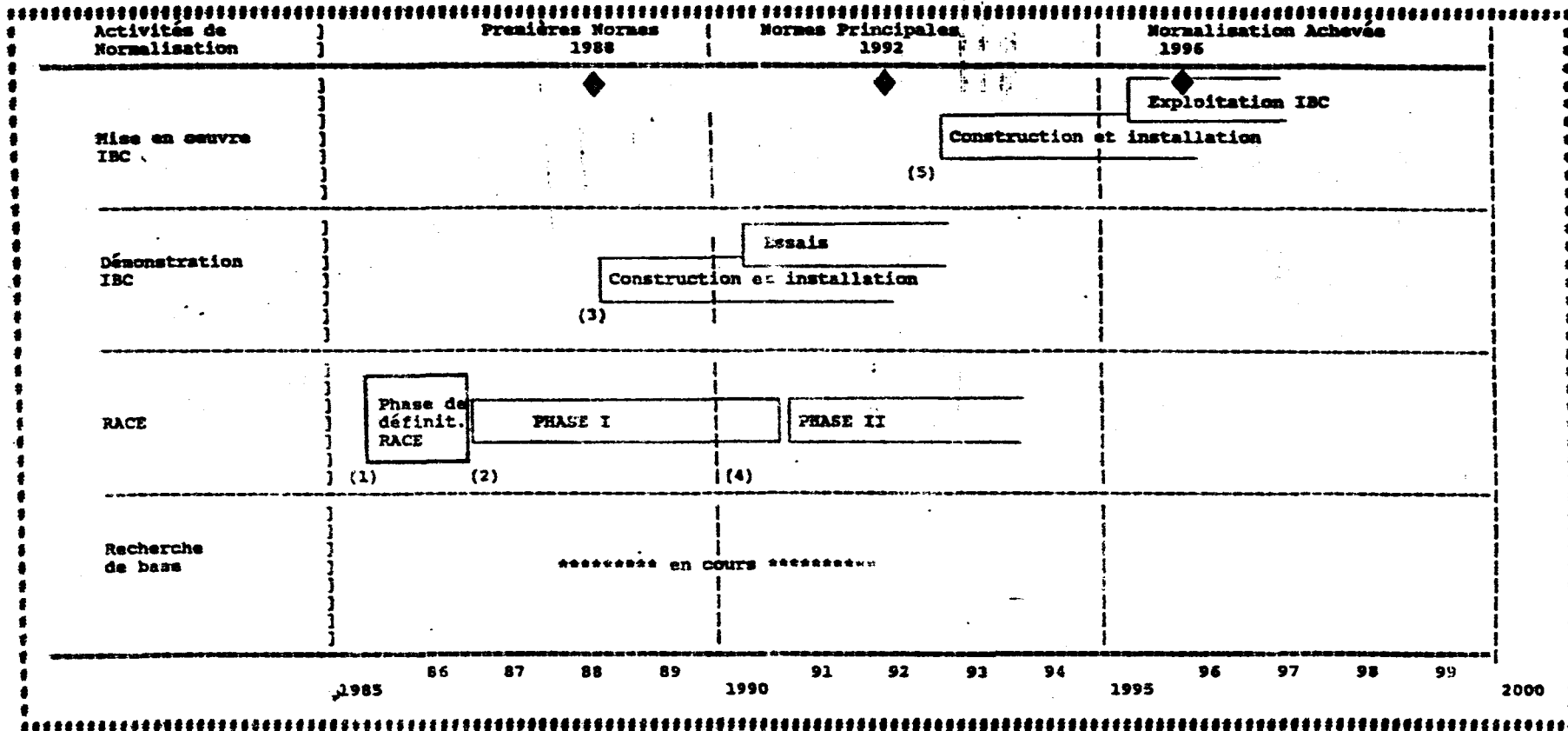
- a) the creation of a Community Market for telecommunication equipment and terminals via:
  - a standardisation policy aimed at the effective implementation in the Community of common standards derived from international standards;
  - the progressive application of procedures for the mutual recognition of conformance in terminals;
- b) improving the development of advanced telecommunication services and networks:
  - i) by opening discussions, based on available studies, on:
    - the implementation of infrastructure projects of common interest;
    - launching a development programme for the technology required in the long term for the implementation of future wide-band networks;
  - ii) by defining and progressively setting up a video communications system to link the various political authorities in the Community;
- c) improved access for less favoured regions of the Community through the appropriate use of Community financial instruments, to the benefit of the development of advanced services and networks;
- d) coordination of negotiating positions within the international organisations dealing with telecommunications, based on discussions carried out jointly with the Senior Officials Group for Telecommunications.

Against this background, with the direct participation of experts from the EEC telematics industry and telecommunications operators research establishments, these experts have established a broad-based consensus on the following objective:

**COMMUNITY-WIDE INTRODUCTION OF INTEGRATED BROADBAND COMMUNICATION (IBC) BY 1985, TAKING INTO ACCOUNT THE EVOLVING INTEGRATED SERVICES DIGITAL NETWORKS (ISDNs).**



Projet de calendrier dans le contexte des IBC



**JALONS DU PROCESSUS DE PRISE DE DECISION**

- (1) Phase définition RACE
- (2) Lancement du programme RACE
- (3) Début de la démonstration IBC
- (4) Début de la Phase II RACE
- (5) Mise en oeuvre IBC



IP(86)87

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Brussels, 25 February 1986.

**RACE OFF TO FLYING START**

The Definition Phase of the RACE programme got off to a promising start in December 1985 when the RACE Management Committee, representing Member State administrations, approved the launching of 31 projects valued at 40 million ECU which will help lay the foundations for European Telecommunications in the Twenty-first Century. All of the contracts have now been negotiated by the Commission of the European Community and the majority are signed and running. Approximately 50% of the total funding will be provided by the Community.

Just over two months after a formal decision by the Member States, the RACE Definition Phase(1) is underway. As stressed on several occasions by Vice-President NARJES, Commissioner responsible for Research and Science it will define the objectives and modus operandi of the technological effort required to establish an operational pan-European Advanced Wideband Telecommunications Network by 1995. The European Commission has launched this package of research contracts in record time; the results should form the cornerstone of European telecommunications in the twenty-first century.

The RACE Definition Phase will establish the outline of a future pan-European Advanced Wideband Network, and define the technologies necessary to make it a reality in 1995. It features a multi-disciplinary approach, harnessing the combined expertise of telecommunications administrations, manufacturers, broadcasters and university researchers. These will all be working together with the Commission and associations such as ECTEL, the manufacturers' body, and CEPT for the telecommunications administrations.

From a standing start in September 1985, 171 organizations responded to the call for proposals with 80 project suggestions covering the whole gamut of telecommunications. Leading experts whittled these down to 31 proposals and 109 organizations during one hectic week of assessment meetings. The proposals were converted into projects which together form a coherent programme. Work began before the New Year on some projects, as soon as contracts could be signed. All contracts have now been negotiated and the majority are signed and running.

(1) Research in Advanced Communications for Europe

The RACE Definition Phase will run for 18 months and by then the technological requirements for the implementation of the Europe-wide advanced telecommunications infrastructure will be established. The results will fall into two categories: the specification of the integrated advanced network is being designed by the telecommunications administrations, while the manufacturers will develop the sophisticated terminals necessary to deliver advanced services, such as videoconferencing for businesses and high quality flat screen television for consumers.

The results of the RACE Definition Phase will serve the Council of Ministers in making further strategic decisions towards the end of 1986.

#### BACKGROUND

The RACE Definition Phase is the first part of a major programme to establish a pan-European Advanced Wideband Telecommunications Network by 1995. This will provide the arteries for tomorrow's information economy. Today's networks were designed only for analogue voice telephony; the future European network needs to integrate the transmission of information in many different forms - voice, text, graphics and video. Digital technology makes it possible to have a single network, and economics make that a necessity. To have separate networks for each function would make new services unaffordable; to continue the present situation whereby each Member State's network has different standards would also be ruinously expensive and a duplication of effort.

The RACE programme will make available the full benefits of advanced telecommunications at reasonable cost to both business and domestic users by exploiting Community-scale production, while permitting a decentralized approach by service providers. The technological development necessary for RACE calls for considerable advances in areas such as optoelectronics, advanced semiconductors and the software needed to control such an effort and integrate the perspectives of different interests in European telecommunications so that they will respond to the challenge of the technology and the market opportunity.

The Commission is very aware of the importance that the information technologies have in overall economic performance. Telecommunications is especially important because European companies have performed well; only a coordinated approach will succeed against international competitors who are already taking steps to establish a lead. Europe must not be left behind the US and Japan.

RACE is the second major project launched by the Task Force and is entirely complementary with ESPRIT, which covers areas such as advanced computing, microelectronics, software and manufacturing systems.

A list of contracts is given separately.



**INFORMATION • INFORMATORISCHE AUFZEICHNUNG • INFORMATION MEMO • NOTE D'INFORMATION  
ΠΑΡΟΧΟΠΙΑΚΟ ΣΗΜΕΙΩΜΑ • NOTA D'INFORMAZIONE • TER DOCUMENTATIE**

Brussels, October 1986

**RACE : PREPARING THE GROUND FOR  
INTEGRATED BROADBAND COMMUNICATION IN THE 90'S (1)**

For the emerging global economy, telecommunications represents the single most important infrastructure, requiring an investment which runs into hundreds of billions of ECU. In Europe alone, establishing an integrated broadband communications by 1995 is estimated to necessitate an initial investment of well over 100 billion Ecus.

Clearly, the fundamental importance of a telecommunications infrastructure and associated European and even international standardization for the creation of the unified internal market by 1992 cannot be overestimated.

Furthermore, the telecommunications system and services are playing an increasing role in the evolution of social and economic structures - as well as for defence. This gives this sector a fundamental strategic importance, where Europe cannot afford to be second to any other region in the world. Obviously, a task of such magnitude and strategic importance cannot be approached without thorough coordinated planning and preparation.

Conscious of this the Commission has for two years been holding discussions with the Member States, the network operators and the sector's industry, directed towards the evolution of an overall telecommunications policy. One aspect of this policy is the implementation of a development programme covering the technologies required for the establishment of broad-band networks.

It is against this background that the Commission has just approved for submission to the Council a proposal for a programme of Research and Development in Advanced Communication Technologies in Europe, known as the RACE Main Programme, which follows on the RACE Definition Phase adopted in July 1985 and due to expire at the end of this year.

The proposed programme will cover the period 1987-1991 and foresees contributions to the financing of pre-competitive and pre-normative work up to a maximum of 800 million Ecus which corresponds, at a cost-sharing of 50%, to about 10 000 man years of effort.

**The specific goal of RACE**

The thrust of RACE is towards establishing on the world market a strong, or even leading position of the Community telecommunications manufacturing, operating and service industries in integrated and broadband communications, that is the use of advanced technology to transmit voice, data and images at high speed and at low cost.

This will be on the basis of the accelerated development of a strong and competitive Community market for telecommunications equipment and services.

Based on this the specific goal of RACE is to make a major contribution to: the introduction of Integrated Broadband Communication (IBC) taking into account the evolving Integrated Services Digital Networks and national introduction strategies, progressing to Community-wide services by 1995.

Clearly, advances in telecommunications will contribute to regional development within the Community, and the development of the IBC offers a wide range of opportunities for small and medium-sized companies in manufacturing and in the provision of specialized services throughout the Community.

#### Paving the way for the RACE Programme

The RACE Definition Phase has been successfully implemented. About 400 leading experts from 109 administrations, companies and organisations have worked closely together in order to establish a base for a common strategy of operators and industry with respect to services, infrastructure and standards; to explore the main technology options both on the level of basic technology as well as that of systems; and to initiate an evaluation of the economics of advanced telecommunications.

#### The contents of the RACE Programme

Of the required initial investment for establishing IBC about one tenth, i.e. 10-15 billion Ecus will be dedicated to developing the technology to be able to offer advanced services at reasonable costs. Of this amount by far the largest part will be invested by industry in R&D towards commercial products and by operators and service providers to develop attractive services. Within this, RACE addresses selectively, but inside a coherent overall concept, those activities which offer a significant advantage when taken up at a Community level.

Thus, building on the results and dynamics of the Definition Phase, RACE is divided into three parts each having their specific role and emphasis in the overall context:

##### *Part 1 : IBC development and implementation strategies*

This part relates to the development of functional specifications identifying the logical interworking and performance of a system without necessarily relating to a particular one. It further addresses systems and operations research towards the definition of proposals for IBC standards, concepts and conventions conforming to an open systems approach permitting the connection of equipment of different origins. It finally covers the analytical work necessary to help establish interoperability for IBC equipment and services.



*Part II : IBC technologies*

These cover the technological cooperation in pre-competitive R&D addressing key requirements of new technology for the low cost realization of IBC equipment and services. This comprises enabling and supporting technologies like specific integrated circuits, optoelectronic devices, broadband switching techniques, etc.; communications software technologies; basic technologies for IBC users like audio/video processing, communications display technology, digital image recording techniques, etc., as well as subsystems.

*Part III : Pre-normative functional integration*

This part covers pre-normative cooperation in the realization of an "open verification environment", designed to assess functions, operational concepts and experimental equipment with respect to functional specifications and standardization proposals arising from work in part I.

Complementarity with the ESPRIT Programme and relevant results from that programme will be used to the utmost to enhance work under the RACE Programme.

The Commission will establish for each year of the programme -and update as required - a workplan defining the detailed objectives and the types of projects and actions to be undertaken. Projects will normally be executed by means of shared cost contracts with a maximum Community contribution of 50% of the total expenditure. The contracts will be awarded by open tendering procedure and shall involve the participation of at least two independent industrial partners not all established in the same Member State. The intention is to achieve the same kind of cross-fertilization through trans-frontier cooperation which has resulted from the ESPRIT Programme. A review of the programme after 30 months is envisaged.

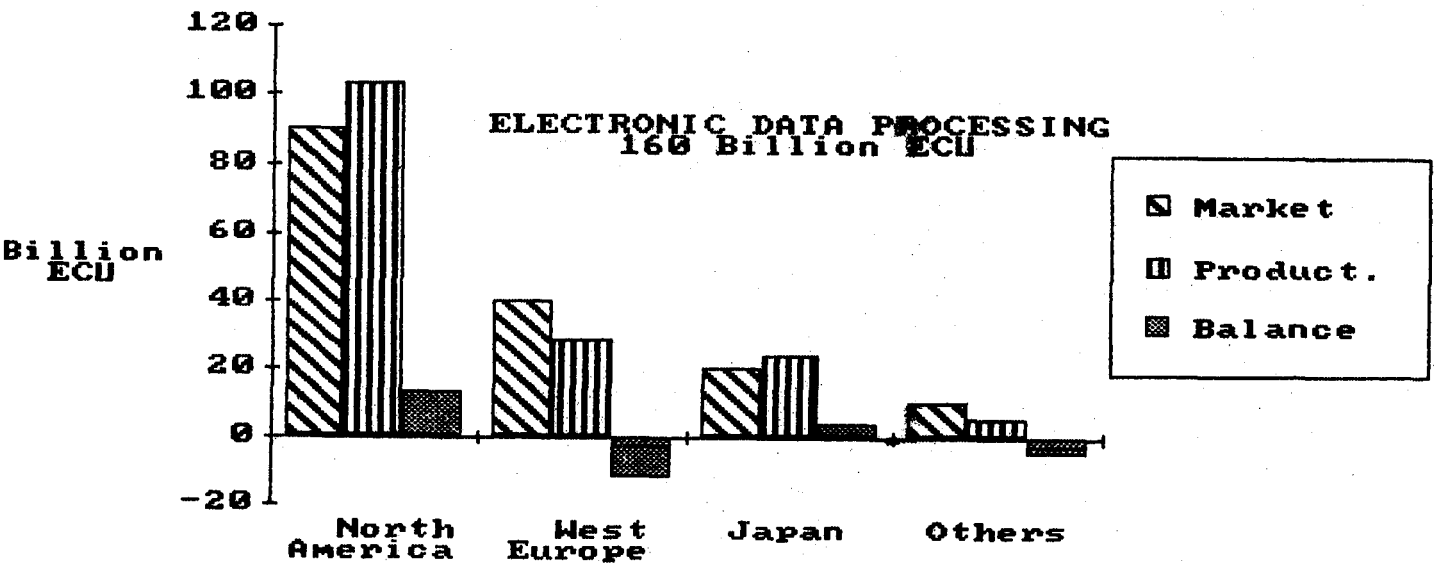
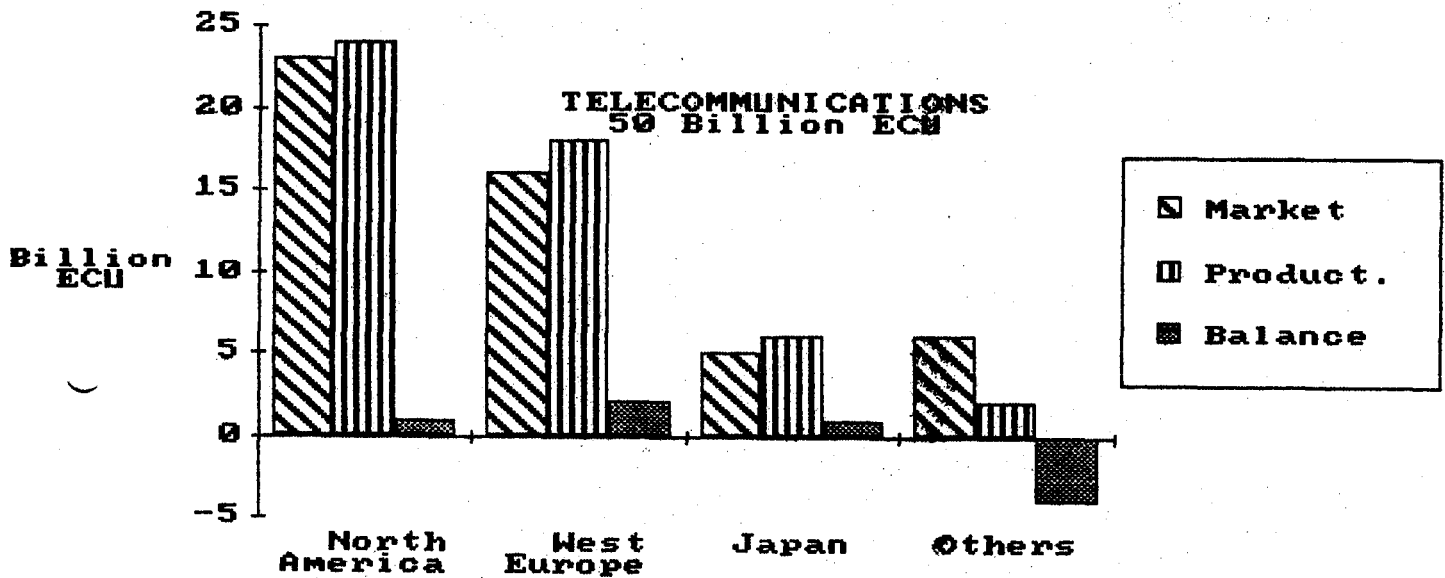
RACE and other European collaborative undertakings

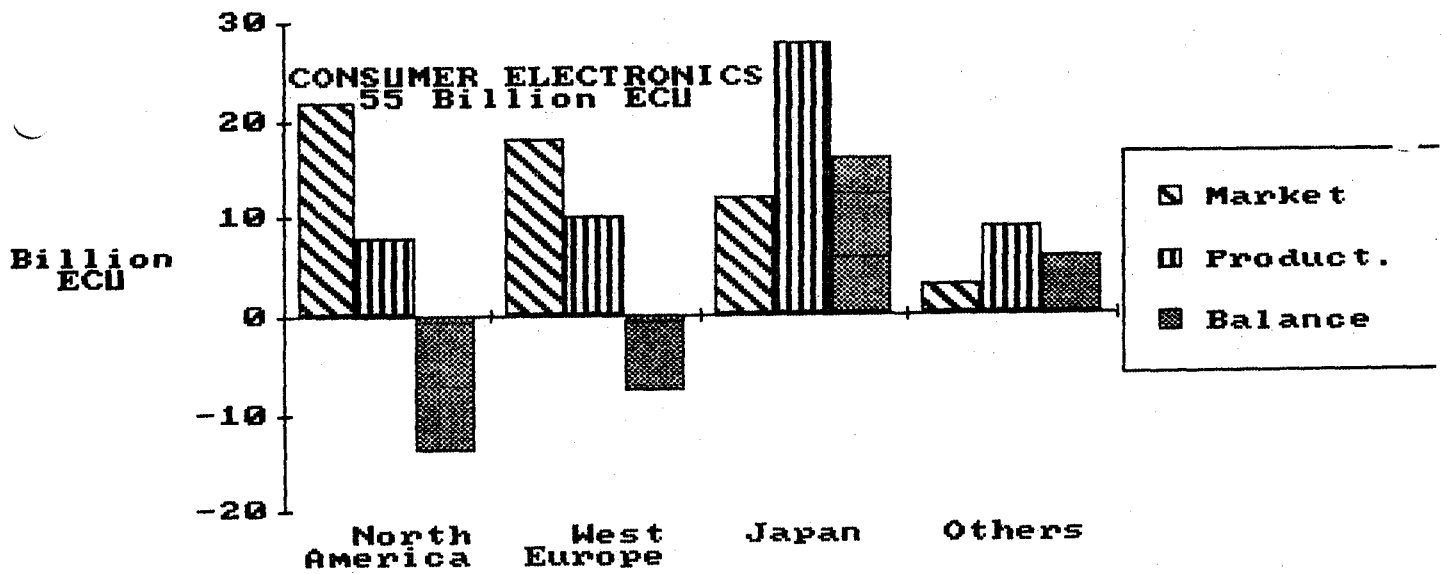
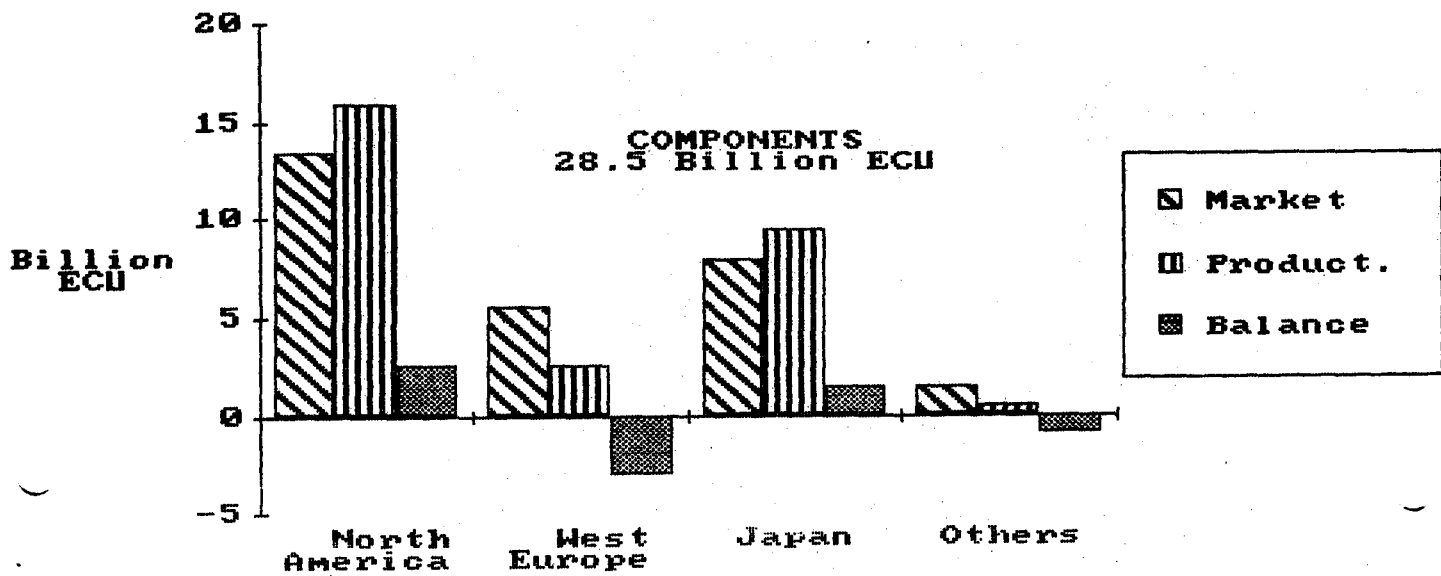
In order to achieve the goal of the RACE Programme as stated above work under this programme will be coordinated where appropriate with that taking place in the framework of EUREKA. One example is the development of High Definition Television.

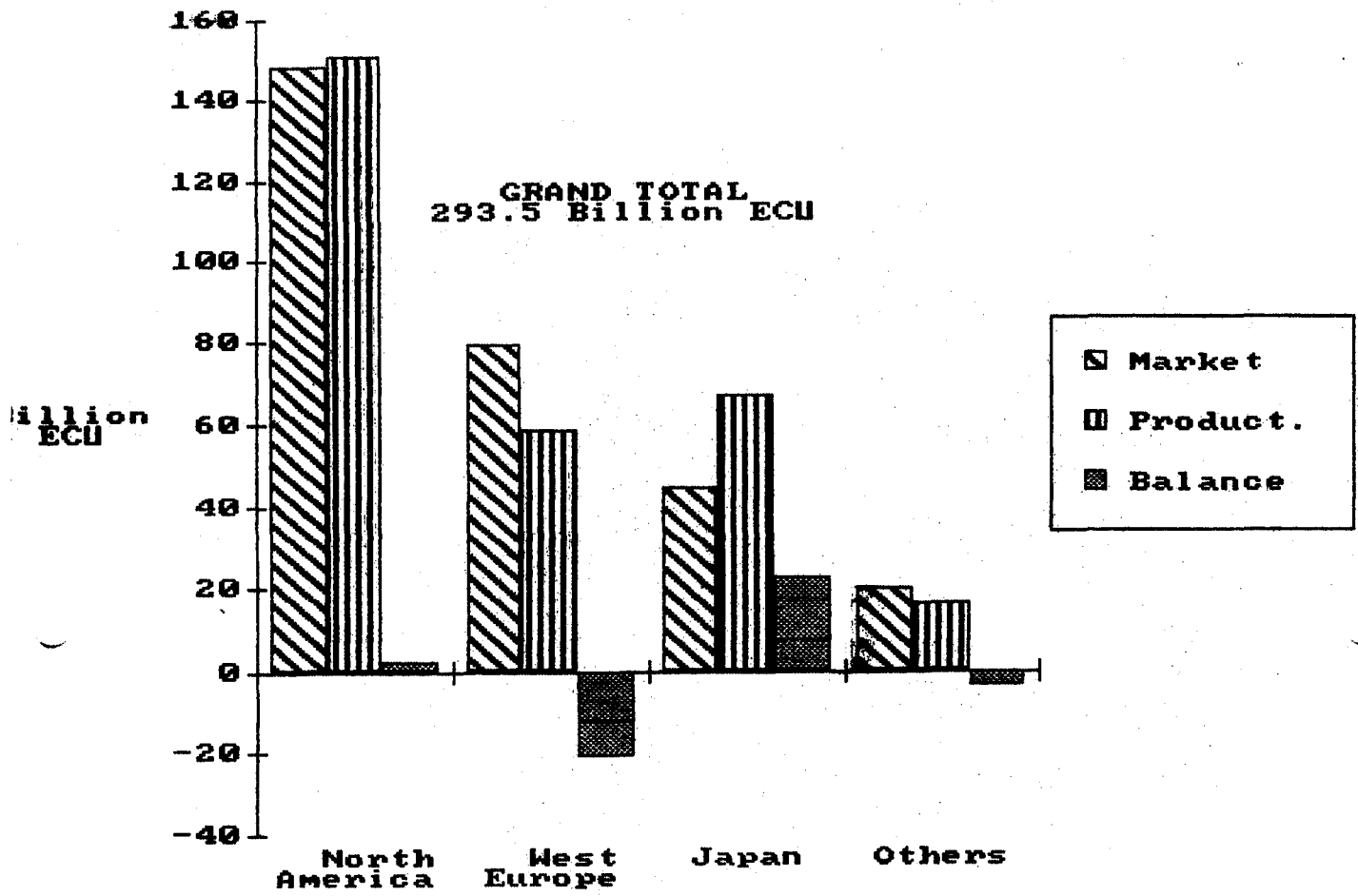
In addition to this, participation of companies established in EFTA countries in RACE projects will be possible based on modalities to be negotiated.

Further, the Community may conclude agreements with non-Member States participating in European cooperation in science and technology (COST) with a view to ensuring concerted action between the Community activities under the RACE Programme and the relevant programmes of such states. In fact, telecommunications is already the subject of COST actions.

1984/85 MARKETS AND PRODUCTION RELATED TO  
INTEGRATED BROADBAND COMMUNICATION  
DEMONSTRATING THE STRATEGIC IMPORTANCE OF THE RACE PROGRAMME  
(Data collected by Commission Services)











# **Completing the internal market for industrial products**

Jacques Pelkmans

European Institute of Public Administration  
Maastricht

This study was originally commissioned by WRR for the purposes of its report on the unfinished integration of Europe.

1986

Shortened and adapted English version of *De Interne EG markt voor industriële produkten*, published by the Government Publishing Office (Staatsuitgeverij), The Hague, as WRR Voorstudies en Achtergronden No V. 47, 1985 and originally commissioned by the WRR (The Netherlands Scientific Council for Government Policy).





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## PREFACE TO THE SHORTENED ENGLISH VERSION

The Netherlands Scientific Council for Government Policy (WRR), a public institute reporting to the Dutch Council of Ministers but enjoying guaranteed autonomy under a special legal statute, commissioned several studies on European integration in 1983. Four reports were eventually published<sup>1</sup> by the Dutch Government Publishing Office. The report on 'The internal EC market for industrial products' was finished before the EC Commission issued its White Paper (June 1985) and was published in book format, in Dutch, in December 1985.

This English version differs in several important respects from the Dutch publication. First, the manuscript has been drastically reduced to one third of the length of the Dutch text. Therefore, this booklet is essentially an extended summary and a great deal of detail (frequently indispensable in internal market affairs) had to be left out. Second, although the Commission, and in particular Commissioner Narjes, had already begun to reinvigorate the internal market dossier in 1983, activities greatly increased in 1984 and 1985 culminating in the ambitious White Paper, presented and pursued with determination by Commissioner Lord Cockfield. Hence, an unaltered translation of the proposals in the Dutch version has meanwhile become less interesting, given the acceptance by the European Council of the detailed White Paper as an action programme until 1992. Chapter 4 represents an adaptation of the Dutch study in that it occasionally refers, in a sketchy fashion to the relevant White Paper proposals. Third, the English version also ignores a few chapters about and numerous smaller references to the Dutch policy position in EC policy processes. The present book is geared to a European readership.

The author wishes to acknowledge his gratitude to the WRR for their willingness to transfer the copyright and for financial support of the cutting, rewriting and adaptation of the original text. I am indebted to the European Commission for financially supporting the English translation and for enabling wide readership by including it in the 'Documents series'. I also thank René van Sloten for research assistance and Pat Arpino for the English translation and corrections. The responsibility for any errors, omissions and assessments in the text lies entirely with the author and should neither be attributed to the European Commission nor the WRR nor the European Institute of Public Administration.

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<sup>1</sup> The final overall report by the WRR is entitled 'De onvoltooide Europese integratie' (April 1986) and is available in an English version under the title 'The unfinished European integration' from the Dutch Government Publishing Office (Staatsuitgeverij) in The Hague. In December 1985 three specialized studies were published by the Staatsuitgeverij:

- (i) G. Meester and D. Strijker, *Het Europese landbouwbeleid voorbij de scheidslijn van zelfvoorziening* (The CAP beyond self sufficiency);
- (ii) J. Pelkmans, *De interne EG markt voor industriële producten* (The internal EC market for industrial products);
- (iii) J. Foenstra and K. Mortelmans, *Gedifferentieerde integratie en Gemeenschapsrecht* (Differentiated integration and Community law).



## SUMMARY

The present document is a short, English version of a Dutch-written study on the internal EC market for industrial products, published in 1985. Its scope is therefore more restricted than that of the Commission's White Paper. The objectives of the Dutch study were to present an overview of the achievements and omissions of that crucial and large part of the internal market; identify the nature and, if possible, the direct and indirect costs of the fragmentation resulting from the omissions; investigate the economic case for 'completing' the internal product market; and make a number of policy proposals that could be used by the Dutch Government, the EC institutions and public opinion.

The essential elements of the study have been retained in the present version, be it with much less detail. Chapter 1 presents a brief overview of the achievements, omissions and resulting fragmentation of the internal market for industrial products. Despite the considerable and too frequently underrated accomplishments of the EC in this respect, omissions are many and fragmentation is significant. Schematic tables are used to show what the exhaustive requirements in terms of negative and positive integration are in order to obtain a 'complete' internal product market, the omissions when comparing the Treaty obligations with those requirements, and other omissions, because Treaty obligations have not, in all cases, been fulfilled. Broadly, omissions are classified as those hindering formal market access and those caused by domestic interventionism. It is also shown that the omissions are, in part, the consequence of inappropriate allocation of economic competences between the EC and national level of government, yielding a number of incoherences which are briefly set out.

Chapter 2 attempts to make the economic case for completion, on the basis of direct gains from overcoming fragmentation but especially built upon the great importance of the internal market in restoring and upholding the permanent competitiveness of European industry. The attention for permanent competitiveness is analytically embedded in a framework in which growth and innovation are seen as being promoted by reducing sectoral barriers to entry and exit, by enhancing intersectoral, interregional and intertemporal mobility of resources and by promotion of effective rivalry subject to strictly temporary cushioning of adverse social effects.

A simple empirical methodology is developed to establish a link between waning competitiveness and the fragmentation of the internal product market. This methodology is applied in some detail for a group of 28 high-tech sectors at three- and four-digit SITC statistical level. Although the method is simple, the results form a striking confirmation of the assumed link. The need to complete the internal market is therefore especially important for innovation, economic growth and the quality of jobs in the near future (given the quality of industrial production that can be profitably maintained and developed in the EC).

Chapters 3 and 4 address the question: how to complete the internal market for industrial products? Chapter 3 analyses the many demands at the two levels of government (EC and national) and between pairs or clusters of economic policy functions for the process of 'completion' to be coherent. To keep the analysis manageable, the focus is on formal access policies, competition policy towards enterprises, industrial policy and trade policy, whilst fiscal issues and transport policy will only be briefly touched upon.

In the four policies the negative integration at EC level is juxtaposed with the positive integration needed in the same policy field. In addition the demands upon policy coordination (be it at national or EC level, or both) with other fields is set out as well.

However, the fundamental question of coherence between macroeconomic policy cooperation and product market integration is also addressed at some length.

What the chapter will bring out emphatically is the pervasive and comprehensive nature of 'completion'. The mixed economy, prone to regulate and protect, be it often for justifiable and honourable reasons, has raised enormously the demands

for coherence, that have to be fulfilled before the internal product market can be said to be complete.

Chapter 4 provides a great number of guidelines and proposals for the process of completion. Since these proposals were made independently of the White Paper occasional reference to the White Paper is made for comparison. It ought to be stressed, however, that the two sets of proposals have somewhat different aims and scope, making minute comparison inappropriate. Chapter 4 lays more emphasis on a number of issues in industrial policy, (broadly) conceived, and trade policy than the White Paper does. In many respects however, spirit and orientation of the two sets of proposals are similar and a considerable number of proposals overlap.

## CHAPTER I

### THE INTERNAL MARKET FOR INDUSTRIAL PRODUCTS: ACHIEVEMENTS, OMISSIONS AND FRAGMENTATION

A 'common market' between sovereign nations can be defined ideally as that degree of market integration over the joint space of the countries concerned whereby neither the national frontiers, nor residency or nationality of economic agents assume any differential economic significance. This definition is applicable, in principle, to the mixed economies of the Member States of the European Community. The concept points to government interventions at the frontiers as well as in the domestic economy, but also to rigidities in national supply and demand conditions as well as other market imperfections — related to national distinctions in one way or another. The description is comprehensive in the sense that it relates to all markets, i.e. products, services and factors of production. It should be observed that the concept does not assume a classical, non-interventionist economy. The three economic functions of the State, as traditionally distinguished, can be maintained, be it that the national exercise of those functions will be (severely) constrained so as to uphold the required degree of market integration. These three functions are allocation (i.e. influencing how markets actually function by means of direct interventions or regulation), redistribution (directly, by taxes, social security and various forms of welfare payments, or indirectly, in combination with market interventions and regulation) and macro-economic stabilization (i.e. pursuing high if not 'full' employment with low, if not zero, inflation, while maintaining economic growth in the medium term). However, if the ideal concept of the common market would be considered as imperative and overriding, both economic theory and federal practice in countries such as the USA, Canada and the Federal Republic of Germany show that the constraints on the exercise of some of these functions at the national level would be so severe that the scope for effective policy would be reduced to little or nothing. Effective policy-making would then require transfers of competences to a common level of decision-making. This study does not deal with that question however.<sup>1</sup>

The ideal concept of the common market can be utilized as a measuring rod against which the state of European market integration can be compared and assessed. Indeed, the policy debate in the EC today has incorporated the notion, taken from the White Paper of the Commission,<sup>2</sup> that the internal market should be 'completed' by the end of 1992. Obviously, one ought to have an appropriate and clear definition of what a complete internal market is before such an action programme can be assessed. There are two degrees of ambition in 'completing' the internal market of the European Community. One is to define what principles are aimed at and, in sufficient detail, what policy measures are deemed necessary by the group of Member States to implement the set of principles. The two key documents in Community policy-making, pertaining to this approach, are the EEC Treaty (and the ECSC Treaty) and the recent White Paper. When ratification will be completed one could add the Single European Act, particularly Article 8. The Rome Treaty and the White Paper could be viewed as formulations of the final aim: what is written in the Treaty and, much more specifically, what is set out in the White Paper, is then defined as the 'completed' internal market.

A much higher degree of ambition is to compare the state of European market integration, or even the concept of the 'common market' as implied in the Rome Treaty or in the White Paper, with the ideal 'common market', as defined at the outset of this study. It can be shown that both the Rome Treaty and the White

<sup>1</sup> See Pelkmans, 1986-a and, for instance, Oates, 1972.

<sup>2</sup> EC Commission, Communication from the Commission to the European Council, meeting in Milan, 28 and 29 June 1985, *Completing the internal market*, White Paper, COM (85) 310 of 14 June 1985.

Paper fall short of realizing the concept of the 'ideal' common market. The omissions can be identified and traced back to differences in deep-rooted economic, social, legal and political traditions and preferences. Therefore, it is unlikely that the 'ideal' common market would also be an optimum for the European society, unambiguously raising overall welfare and well-being beyond those in any other alternative.

In short, there are different degrees of 'incompleteness' of the internal market. Whereas serious incompleteness may be costly in economic, social and political terms, striving for the ideal common market may well turn out to be the enemy of the good, in that it will give rise to different costs.

A common market relates to free movements of goods, services and factors of production (including money flows). The present study concentrates on industrial product markets and the regulatory and policy measures pertaining to them. Therefore, it is not entirely comparable with the White Paper which also deals with services markets and factor markets. Nevertheless, the emphasis in the Rome Treaty and the White Paper is heavily on issues of industrial market integration or more general proposals touching upon it (such as indirect tax proposals) so that this study deals with a central area. Occasional references to the White Paper proposals can be found in Chapter 4.

## 1. COMPLETE PRODUCT MARKET INTEGRATION

The integration of product markets will not merely result from pure liberalization but from a combination of joint policies and 'thou shalt not' rules. What combination will be chosen, may differ between sectors, given regulatory and interventionist traditions which are politically considered to remain indispensable.

Table 1 gives a stylized picture of five degrees of ambition of product market integration, with the 'negative' and 'positive integration' indicated in every case. Negative integration denotes the removal of discrimination in (national) economic rules and policies under joint and authoritative surveillance. Positive integration refers to the transfer of public market rules and policies from the Member States to the common institutions.<sup>3</sup> In detailing the moves to achieve 'undistorted product market integration', one has to make arbitrary assumptions about the optimal degree of disaggregation of all the necessary steps. For instance, should one utilize an aggregate such as 'industrial policy' or should one disaggregate it into 'public procurement policy', 'public aid to industry', etc.? Understanding the complexity of trade liberalization constitutes an argument to delve deeper and specify further, whereas, on the other hand, a morass of detail will tend to obscure the major economic issues involved.

The sequence of the stages is based on certain assumptions that cannot be discussed given the space constraints.<sup>4</sup>

The logic of Table 1 is cumulative, that is, at every stage the major additional negative and positive integration decisions 'required' are listed on the assumption that the previous stage is completed.

Stage 1 aims at the customs union, as defined in GATT, Article 24, which is essentially a 'tariff-union' (including, of course, removal of quotas). Stage 2 achieves security of customs clearance which requires, above all, a common customs code (amounting to a considerable administrative accomplishment). Stage 3 should assure free 'physical market access', that is, the physical properties of the product (including its origin, and its being transported) can no longer constitute a reason to impede free trade. The fourth stage would do away with customs at the inner frontiers, which will entail implications for the indirect tax regime and for exchange controls (if somehow impinging upon trade). Finally, a host of negative and positive integration measures are required before 'undistorted product market integration' will be realized in Stage 5. The logic of integrating product

<sup>3</sup> See Pelkmans, 1984, p. 4.

<sup>4</sup> This is elaborated in Pelkmans, 1986-a, esp. pp. 334-336.



markets of mixed economies implies that 'distortion' does not necessarily refer to some form of suboptimality caused by monopolies, market rigidities or policy interventions — after all, a mixed economy will be characterized by several departures from this benchmark model in trade theory — but rather to the lack of uniformity of competitive conditions in different Member States. Such a lack of uniformity may be caused by the various interventions (in terms of nature, form, intensity and sectoral application) in different Member States and this may artificially encourage or discourage intra-group trade flows. Thus, Stage 5 aims for the uniformity of public influence on competitive conditions throughout the internal market.

An important conclusion that can be drawn from Table 1 is that negative and positive integration will occur simultaneously in every one of the five stages of product market integration. This inference, based on economic logic, has political implications because experience has shown that it is frequently less sensitive to agree politically on negative integration than on positive integration. Conversely, if agreement on positive integration is achieved, the opportunities for demanding derogations, special treatment or extra expenditures in the light of domestic political considerations usually lead to higher costs than originally foreseen. In any event, 'complete' product market integration among mixed economies is ambitious and the difficulties to realize it should be well understood.

## 2. THE *ACQUIS COMMUNAUTAIRE* BEFORE THE WHITE PAPER

Despite the sometimes harsh and perhaps not even unjustified criticisms of the state of European integration, it would be completely misleading to overlook or downplay the considerable accomplishments of the Community in the first quarter century of its existence. This section offers a bird's eye view of those accomplishments with respect to product market integration. Table 2, based on the same methodology as Table 1, provides a rough summary assessment of the obligations in the EEC and ECSC Treaties as well as the accomplishments in 1984, that is, after more than 25 years of integration. Tables 1 and 2 refer to market integration 'from above', in other words, the activities of public economic agents at EC and Member State level. It goes without saying that markets are in fact integrated by private economic agents, when their activities will be (come) geared, directly and indirectly, to supply and demand conditions in the entire European Community. The emphasis on the integration 'from above' is justified by the need to know what omissions in this integration 'from above' can be identified and how they can be overcome.

The description in Table 2 is, of course, rather crude and can merely serve to acquire an overall impression. The main achievements may be briefly reiterated here. The *acquis* in terms of negative integration roughly amounts to the following (letters refer to Table 2):

- (i) fully tariff-free intra-EC industrial trade (N.1);
- (ii) fully quota-free intra-EC industrial trade (N.1);
- (iii) prohibition of 'measures with equivalent effects' as tariffs or/and quotas; strict case-law of the European Court on numerous technical and other barriers (N.7);
- (iv) complete freedom of payment of trade-related intra-EC transactions (N.2);
- (v) an appreciable measure of freedom to conduct transport services across frontiers inside the Community (N.6);
- (vi) a complex set of prohibitions that aim to facilitate the economic (rather than the formal) access to markets of other Member States; examples include a general prohibition of subsidies (with important exceptions), of discriminatory public procurement and of protective practices of national distribution monopolies of the State (N.13; N.15; N.12).

The *acquis* in terms of positive integration roughly amounts to the following:

- (i) a common external tariff for all industrial products (P.1);
- (ii) a common trade policy (with exceptions) (P.5);
- (iii) common policy (via the Commission) and judicial review (via the Court of Justice of the EC) with respect to (national) industrial subsidies (P.19);

*Table 1*  
Measures needed for product market integration

Stage of integration	Negative integration	Positive integration
1. Pure tariff-union tariff-free intra-union trade	N.1. abolition of tariffs, quotas on intra-union trade N.2. freedom of payment for intra- union trade, except financial safeguard clauses	P.1. common external tariff schedule
2. Tariff union-plus security of customs clearance within the union	N.3. abolition of autonomous cus- toms rules N.4. limitation of safeguard and abolition of escape clauses for intra-union trade	P.2. common customs code P.3. common surveillance P.4. common adjustment assist- ance
3. Pseudo customs union free intra-union movement of products, except in the financial/ fiscal sphere, or free physical market access	N.5. abolition of national non- tariff trade policy to third countries N.6. abolition of transport dis- crimination N.7. prohibition of technical border interventions (meas- ures with equivalent effects to tariffs or quotas: health, safety standards; technical specifications; import prohi- bitions due to State distri- bution monopolies, etc.)	P.5. common trade policy P.6. common transport policy  P.7. harmonization of technical obstacles to intra-union trade
4. Pure customs union intra-union trade without customs	N.8. prohibition of customs checks at inner frontiers   N.9. abolition of exchange con- trols, etc.; minimization of financial safeguard clauses on commercial payments	P.8. harmonization of and cooper- ation in ancillary customs tasks (statistics; drugs; crimi- nals; etc.) P.9. harmonization of indirect tax systems P.10. equalization or harmoniz- ation of tax base for indirect taxation (and excises) P.11. approximation, where ap- propriate, equalization of in- direct tax rates (and excise duties) P.12. common surveillance P.13. common borrowing facilities, swaps
5. Undistorted product market integration approximation of customs union as in theory: requires uniformity of public influences on competi- tive conditions	N.10. abolition of autonomous sector regulations N.11. limitation of autonomous sector funds N.12. limitation of State distribution monopolies N.13. limitation of autonomous aid to industry N.14. limitation of autonomous re- gional policy N.15. abolition of discrimination in public procurement N.16. abolition of automatic deficit financing of public firms	P.14. parallel union instrument; union standards P.15. harmonization of product liability and other sales conditions P.16. harmonization/unification of property rights such as pat- ents, trade marks, copyright P.17. common policies for regulated sectors P.18. common sector funds P.19. common policy for public aid to industry P.20. harmonization of regional policy instruments P.21. common regional fund P.22. harmonization of public ten- dering procedures P.23. common competition policy toward firms

Table 2

Product market integration in the EC: Treaty obligations and accomplishments

Stage	Negative integration			Positive integration		
	Measure	Prescription Treaty	Accomplished 1983	Measure	Prescription Treaty	Accomplished 1983
1	N.1. abolition tariffs N.2. free payments trade	obligatory obligatory	accomplished accomplished	P.1. common tariff	obligatory	accomplished
2	N.3. abol. aut. cust. rules N.4. min. esc. clauses	cooperation conditional obligation	considerable accomplished	P.2. comm. cust. code P.3. comm. surveill. P.4. comm. adj. ass.	some obligation obligatory conditional obligation	considerable accomplished accomplished
3	N.5. no aut. trade pd. N.6. abol. transp. discr. N.7. abol. techn. obst.	obligatory conditional obligation conditional obligation	considerable considerable considerable <sup>1</sup>	P.5. comm. trade pol. P.6. comm. transp. pol. P.7. harm. techn. reg.	obligatory conditional obligation conditional obligation	considerable some considerable <sup>1</sup>
4	N.8. prob. cust. checks  N.9. abol. safeg. clauses	not included  endeavour	some  none	P.8. harm. cust. tasks P.9. harm. ind. tax syst. P.10. equal. ind. tax base P.11. approx. tax rates P.12. comm. surveill. P.13. comm. borrow.	not included some obligation endeavour not included endeavour cooperation	none accomplished considerable none some some
5	N.10. abol. sector reg. N.11. lim. sector funds N.12. lim. State distr. N.13. lim. aid ind. N.14. lim. reg. pol. N.15. abol. proc. discr. N.16. no deficit financing	conditional obligation <sup>1</sup> conditional obligation obligation conditional obligation conditional obligation obligation some obligation	considerable <sup>1</sup> considerable accomplished considerable <sup>1</sup> some none none	P.14. union standards P.15. harm. sales cond. P.16. harm. property rights P.17. comm. sect. reg. P.18. comm. sect. funds P.19. comm. aid pol. P.20. harm. reg. pol. P.21. comm. reg. fund P.22. harm. public tend. P.23. comm. comp. pol. firms	not included some obligation not included cond. oblig./not incl. <sup>1</sup> conditional obligation <sup>1</sup> not included some obligation not included not included obligatory	none/some <sup>1</sup> some some accomplished/none <sup>1</sup> accomplished <sup>1</sup> none some accomplished some accomplished

**Caution:** Dependent on the sector(s) at issue.

**Note:** This description is inevitably very crude. Observe that 'accomplishments' may refer to Council decisions, Commission (competences and) decisions and/or case-law of the Court of Justice. In some cases, achievements may extend beyond the Community as in the case of standards (P.14; CEN and Cenelec also include EFTA countries) and patents (P.16; the Munich convention of 1973 extends to EFTA countries as well).

**Source:** Felkmans (1985-a; 1986-a) for a more detailed assessment.

- (iv) common competition policy *vis-à-vis* enterprises (P.23);
- (v) an emerging set of joint regulations in the field of industrial policy, removing market distortions or facilitating market access (standards, technical regulations, patents, trade marks, corporate law) (P.14; P.7; P.16);
- (vi) a rudimentary common research and technology policy (partly implicit in P. 18; otherwise not included);
- (vii) a modest common regional policy (P.20);
- (viii) modest common adjustment assistance (via the Social Fund) (P.4);
- (ix) harmonization of indirect tax systems (into the VAT) and of their formal tax base (with material exceptions) (P.9; P.10);
- (x) extensive cooperation among the national customs on the basis of a number of EC directives and regulations as well as special intergovernmental conventions (P.2).

The ambition of the Rome Treaty notwithstanding, closer inspection of Table 2 shows immediately that the Treaty prescriptions fall short of complete product market integration. The table also shows that not all prescriptions have been implemented, causing 'omissions' in the *acquis* as compared to the internal market prescribed by the joint law. In other cases, the achievements are termed 'considerable' but 'complete' implementation has not been accomplished.

Therefore, even when considering the Treaty prescription as tantamount to a completed internal product market (which is economically incorrect), one can at the same time appreciate the substantial accomplishments of the period up to 1985 and lament over the manifold 'omissions'.

On the other hand, some accomplishments or modest achievements can be identified despite the absence of prescriptions in the Treaty. In these cases, the Rome Treaty has apparently served the traditional constitutional function of a set of guidelines capable of being interpreted very flexibly, obviating or at least moderating obsolescence. It is conceivable that some general prescriptions and principles set out in the Single European Act may come to serve a similar function with respect to industrial product market integration.

### 3. OMISSIONS BEFORE THE WHITE PAPER

For present purposes the term 'omissions' refers to the elements of negative and positive integration needed to obtain one internal product market (as for instance in Table 1) which have not or only partly been implemented. Classified in two categories, the major omissions will be briefly listed with the barest minimum of explanation in view of space constraints.<sup>5</sup> The categories are:

- (i) omissions in formal market access;
- (ii) omissions, caused by domestic interventions.

#### 3.1. Omissions in formal market access

Formal prohibitions of access to other Member States' markets and formal requirements or other measures making access to markets more difficult than for domestic economic agents obviously conflict with the aim of one internal product market. A cursory treatment may clarify the main issues although, by nature, it does not suffice to identify all the actual problems economic agents will be confronted with.

##### *Omissions in the customs union*

As is clear from Table 1, the notion of a 'completed' internal (product) market comprises a customs union in the literal sense of the word: no intra-union custom

<sup>5</sup> The original report (in Dutch) contains a more detailed explanation; see Felkmans, 1985-a, Chapters 2 and 3, where also numerous references are given to the literature.

checks (see N.8 and Stage 4 as a whole). However, Table 2 shows that the Rome Treaty does not go nearly so far (see especially the weak Article 27 EEC, merely speaking about 'cooperation' among the national customs services). This cooperation was first strictly intergovernmental, based on a 1967 Convention for Mutual Assistance between Customs Administrations (which even excluded the Commission as a formal participant at the time!). After transposing a substantial part of this so-called Naples Convention into an EEC Regulation (which came into force in 1981), the situation has gradually begun to improve. In the following years a large number of directives and regulations have been adopted with respect to numerous technical customs matters, resulting in a significant reduction of disparities of customs treatment and of uncertainty for traders. By far the most impressive accomplishment has been the agreement on a Single Administrative (customs) Document, coming into force on 1 January 1988 at the latest. This document is identical for all EC Member States and will contain standardized information, greatly facilitating the paperwork for traders and transport firms, as well as the cooperation among national customs services. Moreover, the design is such that it can be utilized for purposes of customs automation (in the so-called Caddia and CD programmes),<sup>6</sup> which, in turn, may greatly facilitate proposals for deferred-VAT payments for regular exporters and importers (i.e. obviating the queuing at frontiers), as is already practised inside Benelux. The utility of the Single Document is further enhanced by the 1985 Convention on the Harmonized System of Product Classification which has also been signed by the USA, Japan and EFTA countries. The latter point is important because the serious disadvantage of the Single Document is that it does not (yet) apply to extra-EC export and import (although there is agreement, in principle, to realize this as well).

Throughout the years, also the Court of Justice of the EC has built up case-law, greatly limiting the freedom of customs services to render formal access to national markets more difficult than for domestic economic agents (see, for instance, Lasok and Cairns, 1983). Nevertheless, judicial review is, by its nature, not suited to solve the fundamental questions of formal access: the omissions have to be tackled at the Council level.

Intensive cooperation among national customs services, harmonized procedures and documents as well as judicial review can be effective in reducing transaction costs for enterprises, traders and transport firms, enhancing perceptions of legal certainty for cross-frontier (intra-EC) trade and hence fostering product exchange and competition in the Euromarket. Yet, it does not do away with the reasons for residual customs controls. In order to pursue credibly the target of prohibiting customs checks (P.8 in Tables 1 and 2) inside the Community, harmonization is needed in fields where customs officers have been given extra tasks outside the strict execution of commercial policy. Examples include harmonization of indirect taxes and excises, trade statistics, certain technical specifications (e.g. of lorries and buses), anti-drug policies, public security policies and exchange controls. The list is longer when agricultural markets are also considered, especially because of veterinary and phyto-sanitary controls. These matters will now be taken up very briefly.

#### *Omissions in technical harmonization*

The given physical properties, including the actual performance, of a product may render market access more difficult or, occasionally, impossible, if there is national legislation imposing specific physical properties. When aiming to realize one internal market one either has to prohibit such legislation or to harmonize its specifications or at least mutually recognize each other's specifications. According to Article 36 EEC, Member States have retained discretion to legislate for health

<sup>6</sup> For the CD programme the Commission communication to the Council on the 'Coordinated development of computerized administrative procedures', COM(84) 556, as in *Official Journal of the European Communities*, C 15, 16 January 1985. For the Caddia programme see the Commission communication of 16 March 1984, in *Official Journal of the European Communities*, C 112.

and safety protection of their citizens and for a few less important reasons. This article serves as a major exception to a general prohibition, ex Article 30 EEC, of 'measures with an equivalent effect' to quantitative restrictions, such as technical barriers to trade.

The matter at issue is whether and how the European Community can organize itself in such a way that the Member States can keep their own responsibilities, while at the same time a true common market of products will come into existence. This depends on the authoritativeness and inventiveness of the case-law, ex Articles 30 to 36 EEC (the legal regime), and on the efficiency and effectiveness of the chosen method of harmonization, ex Article 100 EEC (the policy regime).

The 'legal regime' turns on the prohibition of 'measures of equivalent effect' as quantitative restrictions and the liberal or non-liberal interpretation of Article 36 EEC, which indicates the exceptions to this prohibition. It is not possible to set out here with sufficient care the interesting and liberalizing case-law of the European Court of Justice.<sup>7</sup> At any rate it is important that, in juridical procedures, the burden of proof lies with the importing Member State to show that products which are lawfully produced and put on the market somewhere else in the European Community do not comply with the demands of health or safety, or at any rate to an 'incomparably' lesser extent. But even then the measure taken should be 'in proportion' to the aim, which may, for instance, mean that a prohibition to import should be replaced by certain information on the label.

In other words, there is absolutely no question of an 'actual deregulation' by European case-law because of the undermining of national regulations by (less regulated?) imports. A number of national measures may indeed be brought before the Court because of their unnecessarily restrictive trade effects. This in itself may stimulate Member States to agree as yet on an originally opposed harmonization in these cases, so as to have some influence on the technical requirements of the imported products.

The 'policy regime' is derived from Article 100 EEC. If essential aims of societal importance, such as health, safety and protection of consumers, lead to such differences in national regulations that intra-EC trade is being hindered or is becoming more expensive than disposal of the products at home, Article 100 EEC provides the possibility to adopt (unanimously) directives 'for the approximation of such provisions laid down by law, regulation or administrative action in Member States'. This is called harmonization (although this vague concept is not mentioned in Article 100 EEC).

For some 15 years or longer the European Community has been trying to follow an ambitious harmonization programme, based on the greatest possible uniformity.

Until the so-called mutual information directive was adopted in 1983, incredibly much official and professional energy was dedicated to a rather limited stock of Council directives. During this period the EEC attained an average of (a little over) 10 directives a year. Many of these directives are focused on aspects of products and do not solve all the problems of access to a product market. It is doubtful whether in this way the technical trade barriers will diminish within the EC, since regulation in the Member States is continuing as usual. To put it even more strongly, one might reasonably assume that the tempo of national regulation has for years been higher than the yearly produce of aspect directives at the EC level with respect to a limited group of products. Meanwhile, the professional capacity for regulation in all the Member States was extended and the social preference for more stringent and broader regulation in the field of protection of the environment and consumers, tended to rise, at least until the early 1980s. So, besides being inefficient, because of the very minute consultations about technical specifications, the method was also ineffective: a general improvement in the mutual market access was not achieved. Many consider a slowing down of the

<sup>7</sup> See, for instance, Gormley (1985) and Oliver (1982).

increase of technical trade barriers to be a more accurate formulation. The omissions in this field are therefore numerous and their economic impact — though great — is not quantitatively known even by approximation.

#### *Other omissions in formal access*

Formal market access may also be made more costly or impossible by omissions in related EC policies or by complete absence of EC competences. The following items may therefore overlap with observations made in Section 3.2 of this chapter.

- (i) Industrial, commercial and intellectual property rights have remained a national competence, ex Article 222 EEC. This is most unfortunate. Although the market fragmentation that could result from this very serious omission has been kept somewhat in check by case-law of the Court of Justice of the EC (respecting the existence of property rights but limiting the exercise of them in so far as it would lead to induce market fragmentation), both patents and trade marks are still national. Not only is this wasteful and may it inhibit technical progress at the margin, it may also effectively block access to specific national product markets. An attempt to agree on a Community patent failed in the 1960s and the only (significant) reduction of transaction costs, accomplished since that time, is a unified and centralized application procedure under the Munich Patent Convention of 1973. However, patents remain national and (distinct) national laws apply.
- (ii) Clearance of excises and VAT payments at inner frontiers is probably the most important reason for maintaining the customs there. Again, having harmonized the indirect tax system and (at least, formally) the base in terms of taxable products, reduces significantly the waiting times and enhances economic and legal certainty *vis-à-vis* the national customs services. But it does not do away with all transaction costs and, in this way, renders cross-frontier intra-EC trade more costly than domestic trade (*ceteris paribus*). The problems are even greater in the case of excises where little harmonization has been achieved in the EC. 'Fiscal frontiers' are an important omission because they relate to very many products and because they make it easier for Member States to employ the 'residual' customs services for other checks or interventions (like the 'monetary compensatory amounts' in agriculture, for instance) and so prevent a customs-less internal market. Even attempts to defer VAT payments for regular traders and shift clearance to inland tax offices (as is established practice in Benelux, and was practised by the UK until 1985) have failed at EC level.  
Insofar as wide disparities in indirect tax rates lead to distortions in intra-EC trade despite the application of the destination principle (entitling exporters to a full tax refund), some approximation of tax and excise rates may serve a double purpose: it would permit especially the high-tax Member States to give up their resistance to customs-less trade and it would virtually eliminate such distortions by removing their cause. But no approximation of indirect tax rates and virtually none in excises has taken place.
- (iii) Exchange controls of Member States are required not to inhibit intra-EC product trade but in fact they have implied extra paper work, waiting time or even interest losses on deposits, causing intra-EC trade to be less attractive than domestic trade. Moreover, also exchange controls may stiffen Member States in their resistance to give up customs controls at frontiers. More generally, exchange controls can create or maintain a general perception that risks and thresholds for intra-EC exchange are fairly high, so that small enterprises and new entrants may well be discouraged in exploiting the internal market; also, individual arbitrage may be effectively blocked by such measures.

Of course, exchange controls are a consequence of macroeconomic policy differences and their removal is dependent upon spontaneous alignment or explicit coordination of such policies. After very modest attempts in the 1960s, little or no joint surveillance of exchange controls (especially on financial capital movements) was exercised until, in December 1984, the EC Monetary Committee resumed this function. Today's Community has six

- Member States with exchange controls that may, directly or indirectly, discourage intra-EC trade: France, Italy, Spain, Portugal, Ireland and Greece.
- (iv) The common trade policy is, in fact, not so common. This unfortunate fact does not impinge upon free intra-EC trade of products of Community origin. However, certain products from certain third countries are subject to *de facto* or even *de jure* national trade policies and hence do not enjoy free circulation inside the EC. Important examples include virtually all textiles and clothing products from exporters under the Multifibre Agreement, cars from Japan and various consumer electronics and leather and sporting goods from several East Asian countries such as Taiwan, Hong Kong, South Korea and Singapore. The complexity of the mixed EC/national trade policy regime is too great to explain here.<sup>8</sup> Crucial is that Article 115 EEC is used as a legal base for permitting Member States in a number of cases to interrupt free circulation inside the internal market. Not only does this tend to create differences in competitive conditions in the various national markets (hence, it violates the notion of one internal market), it also leads to frontier checks on intra-EC shipments in order to find out the origin of the products traded, even if they do not come from those third countries. This amounts to a serious setback in that such origin controls are a characteristic of (much less ambitious) free trade areas, rather than of a customs union like the EC. In case national trade policies utilize so-called 'voluntary export constraints', Article 115 EEC can not be invoked and 'parallel imports' from other EC Member States remain possible. Typically, the 'voluntary' restraint will include a promise not to exploit the transit trade opportunities in the EC (by imposing a maximum market share) and individual arbitrage by independent traders or consumers tends to be discouraged by administrative and technical controls, whenever possible.
- (v) The physical transport of products is not entirely free in the Community, unlike the payments for intra-EC trade. Unrestricted transport of products is a necessary condition to realize one internal market and the present state of EC accomplishments leaves lamentable omissions. Ruling in 1985 on a case brought before the Court by the European Parliament, the Court convicted the Council of Ministers, declaring that it had 'failed to act' (in the sense of Article 175 EEC) because no common transport policy had been adopted in violation of Articles 74 and 75. In other words, accomplishments in 1985 had not removed discrimination in transport of products, particularly not in road haulage and air transport. Serious derogations from the principle of unrestricted provision of transport services are the national road transport quota and permit systems, and the effective denial to non-resident road carriers of 'cabotage' (i.e. intra-country transport by non-residents). In air transport, business travel (i.e. scheduled air traffic) is governed by a very restrictive and anti-competitive system of (secret) bilaterals, preventing easy entry into the sector, limiting product innovation, virtually freezing the route structure and capacity and weakening seriously the incentives for price competition.<sup>9</sup> Air freight transport has a less restrictive regime but these services are of lesser importance for intra-EC transport. It should be realized that transport is a highly regulated sector. Hence, the freedom to supply transport services throughout the internal market will depend on agreement about the common regulation of the sector. Experience has shown that progress on the latter is slow and difficult.

### 3.2. Omissions caused by domestic interventions

In this category one is confronted with public economic barriers, although formally there is no problem of access to a Member State's product market. Dis-

<sup>8</sup> See the essays in Völker (ed.), 1983, Pelkmans, 1984 (Chapter 8) and Pelkmans, 1986-b for elaboration. See also Hine, 1985.

<sup>9</sup> For recent analyses, see, for instance Pelkmans, 1986-c, Michaud and Thoening, 1982 and Sichelachmidt, 1984.



criminy interventions by national governments cause distortions of competition in that non-resident or non-national competitors are put at an artificial disadvantage. Many regulatory possibilities to maintain such discrimination can be (and have been) effectively eliminated by Commission surveillance and the Court's judicial review based on several articles in the EEC Treaty. It is especially the financial capabilities of Member States that have continued to engender serious economic fragmentation of the internal market. The omissions should be looked for in inadequacies and weaknesses in the factual Commission surveillance, including its capacity to assemble all the relevant information and its political authority to employ sanctions or other credible threats. To be sure, this is frequently a result of unwillingness of Member States or insufficient Commission powers. Three categories will be briefly mentioned:

- (i) surveillance of national aids to industry;
- (ii) surveillance of public enterprises;
- (iii) surveillance of public procurement practices.

#### *National aids to industry*

During the 1970s and early 1980s a sharp contrast developed between the Commission surveillance of public aids to industry, on paper, and the actual distortions of the internal market.

For the details of the aid regime the reader is referred to the literature.<sup>10</sup> On paper the key provisions are a few Treaty articles and the Commission's official policy criteria. Article 4 of the ECSC Treaty prohibits public aids to coal and steel, in principle. Article 92 of the EEC Treaty declares as 'incompatible with the common market' 'any aid ... which distorts or threatens to distort competition'. Articles 92 and 93 EEC provide for a few major exceptions and a few marginal ones, particularly for regional policy (subject to criteria that are to be developed by the Commission), sectoral policy ('facilitate the development of certain economic activities ... where such aid does not adversely affect trading conditions to an extent contrary to the common interest') and special cases ('the execution of an important project of common European interest' or in case of the need 'to remedy a serious disturbance in the economy of a Member State').

Although problems may arise with regard to regional aids, particularly when regions in different Member States attempt to overbid one another in attracting direct investments or when the sectoral composition of regional aids tends to undermine the surveillance of sectoral aids, the real problems are to be found in general and sectoral aids programmes. The Commission has tended to take a fairly strict view on general aids. This position was endorsed by the Court in the *Phillip Morris* case: '... State aids are in principle incompatible with the common market. The discretionary power of the Commission should only be exercised when the aids proposed by Member States contribute to the achievement of the Community objectives and interest set out in Article 92 (3) EEC. The national interest of a Member State or the benefits obtained by the recipient of aid in contributing to the national interest do not by themselves justify the positive exercise of the Commission's discretionary powers'.<sup>11</sup> With respect to sectoral aid appropriate guidelines have already been published in 1972. Sectoral aid has to be selective, temporary and degressive over time. Purely conserving aid, propping up firms without reference to restructuring or reconversion programmes has to be abolished. In sectors with adjustment problems, aid ought not to have capacity-increasing effects. Finally, aid ought not to hinder structural industrial change.

Thus, on paper aid surveillance in the EC appears to aim to facilitate rationalization processes in industry. Aid is strictly conceived so as to strengthen the adaptive capacity of firms and lower the tangible and intangible social costs of

<sup>10</sup> See, *inter alia*, Winter (1981), Seidel (1984), the contributions of especially Zippel and Rengeling in Börner and Neundorfer (eds), 1984, and Völker *et al.*, 1986.

<sup>11</sup> Case 730/79; quotation taken from EC Commission, *Tenth Report on Competition Policy*, Brussels, 1981, p. 151.

transition. Therefore the problem of a possible distortion of competition in the internal market would seem to be bearable.

In the economic reality, especially after 1973, distortive aids in the Community have rapidly multiplied, in some sectors to plainly ridiculous levels. In shipbuilding, textiles and clothing and steel, so-called 'crisis aid' has come to be accepted that was at times so high that non-aided competitors had no chance to exploit their efficiency and competitive edge in the internal market. In shipbuilding and steel it is no exaggeration to state that, for many years, competition was not merely distorted but throttled by national aids and recurrent 'matching' by other Member States. Of course, the Commission was well aware of this fragmentation (and undermining of the functioning) of the internal market<sup>12</sup> but for years it had to struggle against the unwillingness and resistance of many if not all Member States to respect the surveillance criteria, and even notification obligations.<sup>13</sup> The situation has improved later in the 1980s but aids in steel, shipbuilding and the car industry are still substantial. Helped by a change in the socio-economic climate and budgetary constraints of Member States, the Commission has become much more strict in using its powers and has significantly stepped up the number of infringement procedures before the Court.

#### *Public enterprises*

Article 222 EEC specifies that Member States are free to regulate their systems of property. But the exercise of these property rights is subject to Community law, including the rules on competition. Thus, Article 90(1) states that national governments are not to make public enterprises behave any different from private firms except when explicitly provided for. Particularly the overt and covert financial ties between public authorities (including public banks and special credit institutions) and public enterprises are a major source of concern in the internal market. The most worrying aspect is undoubtedly the practice of automatic underwriting of losses of some public firms in countries such as Spain, Portugal, Italy, France and Greece and, for public steelmills, in all relevant Member States. More subtle and less visible distortions of competition may also result from the special financial ties between governments and 'their' public firms.

The 'transparency directive' of 1980<sup>14</sup> signalled the beginning of Commission surveillance of public aid to public enterprises irrespective of the channels of transmission. The directive (upheld in Court in 1982) obliges Member States to collaborate in supplying all the relevant data and other information on the financial ties between public firms and public institutions so as to enable the Commission to exercise surveillance and prevent or eliminate distortions of competition in the internal market.

The Commission has initiated investigations in five sectors (motor vehicles, man-made fibres, textile machinery, manufactured tobacco and shipbuilding). In 1985 the Commission adopted a directive<sup>15</sup> extending the coverage of the transparency directive to sectors (hitherto excluded) such as water supplies, energy, posts and telecommunications, transport and credit institutions.

Now that the informational and procedural problems in the question of aids to public enterprises are gradually reduced, the policy problem begins to converge more and more with the general one of public aids to industry, to wit, how to make the surveillance effective in getting rid of the distortions in the internal market.

<sup>12</sup> See, for instance, the statement in EC Commission, *Eleventh Report on Competition Policy*, Brussels, 1982, pp. 111-115.

<sup>13</sup> See for instance a Commission communication on cases of non-notification and late notification, in *Official Journal of the European Communities*, C 252, 30 September 1980.

<sup>14</sup> Directive 80/723/EEC as published in the *Official Journal of the European Communities*, L 195, 27 July 1980.

<sup>15</sup> Directive 85/413/EEC as published in the *Official Journal of the European Communities*, L 229, 28 August 1985.

### *Public procurement*

Neither the formal prohibition of discriminatory public procurement in 1969 nor the harmonization of procurement and tendering procedures (in 1971 and 1977) has had any discernable impact on the actual (virtually complete) fragmentation of the markets for supply of products to governments and for public works. The first report of the Commission on the matter <sup>16</sup> demonstrates that there is no such thing as an internal market for these goods, i.e. intra-EC cross-frontier public procurement (for products falling under the procedural directive) is barely above zero percent. Since this compares with large absolute intra-EC industrial trade and also with penetration rates for intra-EC exports in Member States ranging between roughly 20% and 40% or even higher, the failure to remove discrimination in public procurement amounts to a cardinal omission in the internal market. Not only is the omission striking in that the failure is so 'complete', it is also lamentable because the economic importance of public procurement is big: 'guesstimates' amount to some 400 billion ECU or more!

Yet, the Commission will have a hard time to overcome resistance. Data are extremely difficult to come by and discretion is almost always such that infringement procedures will remain unsuccessful. Even more importantly, the unwillingness to liberalize has to do with '... a deep-rooted feeling ... that taxpayers' money should be used to purchase domestic goods and not foreign goods', as Charpentier and Clark (1975, p. 15) observed in their penetrating survey.

There are at least three arguments mitigating the economic importance of this large omission. First, budgetary constraints have increased the sensitivity for large cost differentials, hence competition may perhaps be indirectly effective through tendering with non-resident suppliers (even though they do not obtain the order). Second, market interdependence in the EC is so great that nearly all 'domestic' awards of contracts still lead to foreign subcontracting or imports of components. Third, in high technology sectors or defence, domestic supplies may not be available or may in fact serve as consortia with little or no effective discrimination resulting. Data do not bring out these considerations.

Of course, this does not in the least undermine the inference that this omission needs to be tackled before the internal market can ever be 'completed'.

#### **4. POLICY INCOHERENCE AND MARKET FRAGMENTATION**

The perhaps somewhat encyclopaedic treatment of a long list of 'omissions' in the internal market *acquis* may obscure the fundamental nature of the problem. It would be mistaken to believe that the 'completion' of the internal market could be realized by merely agreeing on a list of 'thou shalt not' rules, improving market access and eliminating distortions. The economic insufficiency and political impossibility of this approach is attributable to the fact that the Community is composed of 'mixed economies'. In a schematic way the severe requirements of coherent economic policy integration, necessary for removing the 'omissions' in the internal market, are also brought out by Tables 1 and 2.

Therefore, it may be insightful to approach the problem of 'incompleteness' of the internal market from the other end. The question posed in this section is: which incoherences in economic policy integration should be overcome before the consequent market fragmentation will be removed? Putting the question like this emphasizes the fact that the incompleteness of the internal market is inseparably linked with insufficient integrative ambition in a number of important economic policies. An exhaustive treatment is unfortunately impossible in this study. The analysis will concentrate on the needed coherence among four EC policies: competition policy, industrial policy, trade policy and formal market access. As will become clear from the requirements for formal market access, a more comprehensive analysis should also trace the demands on positive integration (harmonization and coordination) for transport policy, fiscal policy and macroeconomic

<sup>16</sup> COM(84) 717, Public supply contracts, conclusions and perspective, 14 December 1984.

stabilization policy. Although this study will be relatively short on macroeconomic issues, while referring to the literature in the cases of transport policy and fiscal policy, one central conclusion becomes evident already at this point: 'completing' the internal product market is a highly ambitious objective, requiring an inter-dependent programme of economic integration in a number of important policies. This conclusion is elaborated in Chapter 3.

Figure 1 gives a schematic view of the fragmentation of the internal market resulting from the incoherences in the four economic policies at EC level.

The central idea is that combinations of formal market access, trade policy, competition policy and industrial policy at Community level are possible which will lead to complete industrial product market integration in the economic sense. Various grades of governmental intervention are conceivable; the proviso is, however, that no fragmentation takes place, in other words, that neither the national frontier nor the connected residency or nationality of economic agents is the differentiating criterion in this governmental intervention. This means that for all national interventions the compatibility will be stipulated at Community level. Obviously this also implies that Community decision-making — prefederal as it is — does not lend to the *de facto* fragmenting national measures a formal cover of jointness squeezed out by threats of vetos. How ambitious both conditions are can be perceived at a glance from Figure 1.

The core of the figure is the integrative policy rhomb which stimulates the main goal — market integration, in the centre of the figure. In short the internal market regime, as defined here, consists of the elimination of border interventions and other barriers to access (formal market access), uniform protection towards third countries, uniform competition policy with respect to enterprises and negative and positive joint industrial policy. Measures within the policy rhomb are integrative; the omissions, as shown outside the rhomb, fragment the internal market.

Each of the four policy sections of the internal market regime has imperfections or exceptions in the assignment of functions to the EC level, that lead to market fragmentation. Figure 1 aims at giving a simplified inventory. That the fragmenting effects of all sorts of national measures or Community exceptions differ quite strongly cannot be deduced from the figure itself. The attraction of Figure 1 lies primarily in the fact that it provides a clear picture. In fact each discontinuation of a fragmenting omission comes down to the 'internalization' of this policy question within the integrative policy rhomb. The internal product market is completed should all omissions be 'internalized' by policy changes.

In Chapter 3 Figure 1 will therefore be used as guideline. In this section the figure will be briefly discussed with respect to competition policy, trade policy and industrial policy. For an explanation of formal market access we refer to the previous section, be it that the questions described there concerning technical regulations and standards are included here under industrial policy.

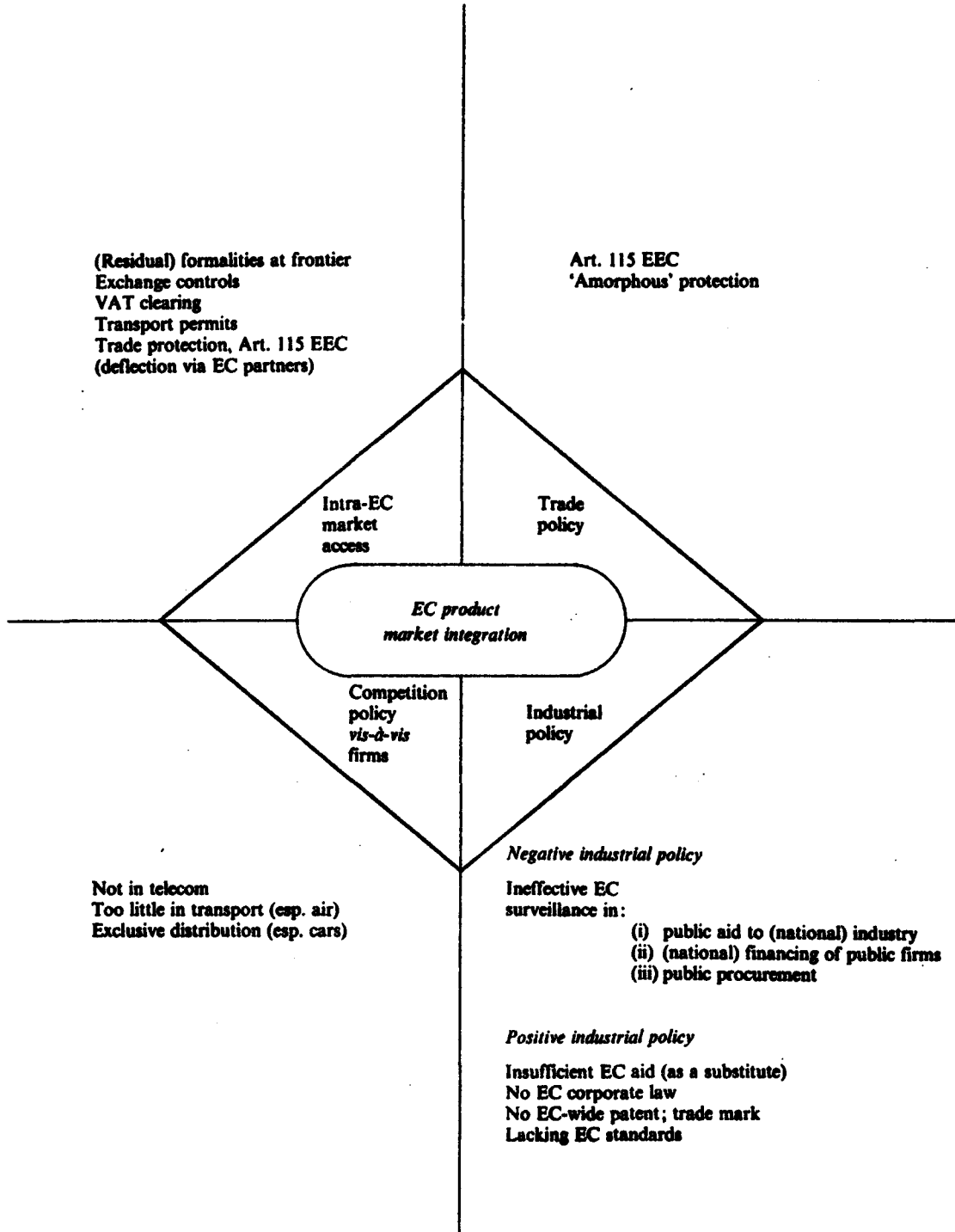
#### *Competition policy and market fragmentation*

Community competition policy is generally differentiated with respect to the conduct of undertakings (Articles 85 and 86 EEC; Article 90 EEC) and that with respect to the distortion of competition due to Member States (Articles 92 and 93 EEC; Article 4 ECSC). Both aspects are included in the same EEC Treaty chapter under the title 'Rules on competition'. From an economic perspective this joining is arbitrary. Thus, similar, if not more serious infringements of competition in the internal market by Member States can be countered by rules and case-law on 'measures having equivalent effect' such as quantitative restrictions (Articles 30 to 36 EEC) and by perfecting the Community trade policy. It seems a better idea to take competition policy in a narrower sense to mean the policy concerning the conduct of undertakings in the internal market and to consider the supervision of public aid as 'negative' (for imposing restrictions on Member States) industrial policy. This distinction is adhered to in the following.

If one investigates the extent to which the common competition policy concerning undertakings still leaves significant scope for fragmentation of the internal market,

Figure 1

Remaining fragmentation of the EC industrial product market



Note: Integration in the rhomb, fragmentation by omissions of the EC regime still outside the rhomb. Completion of the internal product market consists of the 'internalization' of the fragmentating omissions into the rhomb.

then three problems can be mentioned: the (in)sufficiency of EC competences in certain kinds of markets, the exemption policy and questions of application and implementation.

The competition policy competences of the EC are not applicable in all markets of importance for the internal market. So they are not operative in factor markets (e.g. for labour and financial capital) and only to a limited extent in a number of service markets. These markets are often strictly regulated by the Member States so that factor or services interchange in the EC cannot by a long shot be ascribed the integrative significance trade has in the internal product market. Consequently segmentations of or differences between services and factor markets of the Member States can lead to divergent competitive conditions for undertakings from the various Member States which, for what concerns their market conduct in the internal product market, do fall under the Community competition policy. Neither has the Community competition policy any relation to government interventions which arise from macroeconomic stabilization or redistribution policy, such as credit policy (whether or not quantitative), tax policy, social surcharges or wage structures. However, because trade and establishment are liberalized to quite an extent within the Community and market interdependence has increased strongly, these formal policy freedoms of the Member States have in fact shrunk to small margins of autonomous policy. This does not detract from the fact that when eventually intra-EC trade and/or establishment is restrained — often with other legitimate goals in mind — the pressure of competition will disappear and symptoms of market fragmentation emerge.

For instance the EC market for private cars (as opposed to that of automobile spare parts) is seriously fragmented by the combination of exclusive distribution systems on a national basis permitted by the EC, national technical inspection, fiscal differences and differences in macroeconomic and factor market policy between Member States.<sup>17</sup> In a federal economy the exemption of car dealers from Article 85 EEC could not easily cause large price differences which are indicative of market fragmentation. In the prefederal EC of 1983 the Commission felt compelled to propose that the exemption of the dealers from Article 85 be linked to maximum price disparities between national auto markets. That this is somewhat of a threat for dealers is apparent from the sometimes considerable differences in business cycles between Member States, and the regularly occurring changes in exchange rates in the EMS (and floating rates of exchange for the pound and the drachma). Obviously it cannot be stipulated that competition policy ought to reach all factor and service markets unless one wants to dismantle the prevalent mixed economic order in the Member States. None the less divergent insurance tariffs and telephone tariffs between Member States bring market fragmentation costs with them, which, with the current intensity of trade, are not so marginal as one would presume at first sight. One can also point out all sorts of market fragmenting effects of the omission of competition policy in air transport, partly in freight but primarily in regular passenger traffic.

The exemptions policy is primarily of importance for Article 85 EEC which forbids cooperation, collusion or concertation of conduct between otherwise independent undertakings. Three important group exemptions are allowed: exclusive distribution (in a Member State, and per region), cooperation between undertakings to promote specialization in the production sphere or joint research and product development in the so-called pre-competitive phase and the sale of restrictive licences to other undertakings in the internal market. Ultimately all three are based on retaining and strengthening high quality production and distribution and the promotion of innovation, goals which are instrumental for '...a continuous and balanced expansion' and '...an accelerated raising of the standard of living' as mentioned in Article 2 EEC. However they can have market fragmenting effects which go further than a marginal curtailment of competition. This is namely the case with the group exemption for exclusive distribution. If one prevents arbit-

<sup>17</sup> See Pelkmans, 1984, pp. 214-216; for more extensive and legal-technical treatments, see the papers by Joerges, Glatz and Sharpe in Goyens (ed.), 1985.

ration between two 'national' car markets, then price discrimination can result which must be seen as a prejudicial by-product of the group exemption for car dealers. Personal arbitration<sup>18</sup> is allowed but for all sorts of other reasons, such as government interventions at the borders; VAT clearance; inspection, is strongly discouraged while the exemption is not connected to the general obligation to carry out repairs and controls falling under the guarantee independent of the place where the proof of guarantee has been issued. As stated previously all of this can be aggravated by diverging business cycles and changes in exchange rates.

In the application of the Community competition rules the scope is in fact being further restricted. In principle the competition rules are applicable to all five types of transport (rail, road, inland waterways, sea and air). However this was only acknowledged in the 1970s after the pronouncements of the Court of Justice on sea transport which *mutatis mutandis* can also be applied to air transport. In the EC the implementation measures for air transport have as yet to be agreed in the Council. The regular passenger air transport, and to a lesser extent freight traffic, remain for this reason subject to bilateral agreements with extremely restrictive regulations concerning route access, landing rights, prices and route capacity. In addition the national air transport authorities allow far-reaching cartel formation which would be extremely pernicious in other markets even if one considers the social and regional functions of public (air) transport. The functioning of the internal market is certainly not furthered by this fragmentation of the internal transport market, because the passenger-kilometer price in the EC has become relatively high due to these practices (for instance in the USA the price for routes of comparable distance is lower even if one leaves the complex landing and take-off routes in Europe and the airport taxes outside consideration).

The implementation of EC competition policy is relatively unproblematic, at least with regard to private undertakings. The Commission and the Court of Justice are unanimous in strictly refusing cartels or concertation of conduct along national lines, e.g. by agreed export and/or import bans. The fines in these cases are high in order to generate the required shock effect. Despite this, incidental cases are still being found in industries with relatively homogeneous products (bulk chemicals, glass, zinc, cement, etc.). In November 1984 the European Commission imposed the highest fine ever in the EC on a cartel of hydrogen peroxide and derivatives producers: five companies together were punished for 9 million ECU because for 20 years (!) they had divided the market up along national lines, with fixed quotas and harmonized prices. Also the segmentation of product markets of Member States and price discrimination by dominant multinationals (ex Article 86 EEC) has been repeatedly punished. Supervision of public enterprises is much more difficult. There are many public enterprises in the EC which, in their economic behaviour, cannot be distinguished from private enterprises. Other public enterprises are however under government control or indirectly benefit from government policy, admittedly often to serve as instruments for the implementation of social and regional industrial policy. It seems more correct to list these problems under the incoherencies of internal market and industrial policy.

Taken altogether the market fragmenting effects of the shortcomings in EC competition policy for undertakings are limited, although in some cases, whether or not by interaction with other omissions in the negative or positive integration, certainly not marginal.

#### *Trade policy and market fragmentation*

Community trade policy has two sorts of omissions which (can) have market fragmenting effects: all disparities in trade policy sanctioned by the Commission arising from Member States, ex Article 115 EEC, and informal forms of national

<sup>18</sup> Arbitrage is trade between markets with different prices (tending to exert a price-converging pressure between the two markets). Personal arbitrage indicates non-professional trade by individuals; it is, in the case of cars, usually based on transactions of one piece at a time (given rules for technical inspection).

protection *vis-à-vis* imports from third countries. The two omissions are distinct according to grade and durability of the resulting market fragmentation. Article 115 EEC makes it possible for Member States to resort to intra-EC border interventions in order to hinder certain imports from third countries deflected via other EC countries. The informal forms of protection, e.g. voluntary export restraints with certain third countries or their sectoral export organizations, do not make this intervention possible. Should here trade shifts threaten to undermine the 'voluntary export restraint', then the Member State concerned will have to come to an understanding with the exporting country. This fundamental legal difference may well be of much smaller economic significance because product substitution remains possible. It is for instance known that the voluntary limitation of Japanese car exports to the United Kingdom entered into by the British auto sector and the Japanese auto exporters has led to 'trade diversion': the impossibility for the United Kingdom to carry out border interventions within the internal market gave continental European auto exporters the chance to increase their share in the British market considerably. Thus a disparity in EC trade policy led to an artificial increase of intra-EC trade. Such a trade diversion is actually better for the British consumer than a national protective screen but inferior to relying on limited tariff protection at EC level with otherwise free import from Japan.

Article 115 ought only be used in extremely exceptional cases: a known, but at the same time unique example was the temporary flood of synthetic carpets from the United States in 1980 which were only exported to the United Kingdom. Because of a temporary fall in the dollar, the use of certain retailing networks in the United Kingdom (which quickened market penetration) and the then still applicable subsidy on oil produced in the USA as raw material for synthetic fibres, an equally dramatic as well as short-lived import peak arose which justified (temporary) protection (under EC supervision) for the United Kingdom. If Article 115 were only used for these exceptional cases, with strict EC supervision, then the fragmenting effect of trade policy would hardly arise. For that matter the Commission can vary the nature and intensity of the border interventions within the internal market quite considerably: e.g. the Commission can empower a Member State to introduce 'national' protection while on the internal borders of the internal market only statistical surveillance is permitted (so-called 'monitoring') as long as no serious trade deflection threatens to arise.

#### *Industrial policy and market fragmentation*

Insufficiently effective EC supervision of national aids, national government procurement and the conduct and financing of public enterprises have a fragmenting effect on the internal market. This is discussed in Section 3.2. If the negative Community industrial policy is ineffective this means that the competitive conditions in the Member States are unequal. This not only leads to distortions in the trade flows within the internal market, but will also hinder market integration or could lead directly to disintegration. In some cases it can even cause or help to maintain serious distortions in the competitive position on third markets.

National technical regulations, because of their precision or connection with nationally agreed industrial standards, can hinder or even block trade. The requirement for national test certificates can raise costs or sometimes lead to hardly contestable import restrictions. Industrial standards for products for which no legal regulations exist can in fact acquire a quasi-industrial policy significance: the national government advances the standardization process only in a general sense and on the basis of general objectives, such as efficiency, but realizes at the same time that the domestic and quite often the international competitive position is enormously strengthened by tying the domestic demand to the domestic standard by homogenizing specification and quality requirements. This point is primarily of importance in the four large EC countries.

Differences between national company law are, strictly viewed, not of direct importance for product market integration. Economically viewed this conceptual division between the free movement of goods and the mobility of production



factors or parts of undertakings is not particularly adequate nowadays. Not only does trade in the internal market quite often lead to such intensive cooperation between companies over Member State borders that quasi-vertical connections are created which meet all kinds of legal problems, but at the same time the trade pattern is the outcome of the integration of commerce and industry in the EC. Momentarily this integration is only possible by means of direct investments; mergers across borders remain extremely unattractive and other forms — such as a European limited company — are still blocked. This repercussions on the trade pattern, e.g. because it cannot allow the specialization and cooperation potential to be exploited completely. This leads to product and marketing being Europeanized to a lesser extent than is possible and that indirectly maintains fragmentation.



## CHAPTER 2

### ECONOMIC ARGUMENTS FOR COMPLETION

Despite considerable and laudable achievements in building one Community product market, Chapter 1 inescapably leads to the conclusion that numerous causes for continued fragmentation of the internal market have remained in existence. There are good legal and political arguments to go further down the road towards 'completion', if only because Treaty prescriptions, jointly adhered to, have to be fulfilled. The credibility of the European Community would be at stake if it would fail to accomplish the common market, conceived in the Rome Treaty as the economic core of integration as well as a major political expression of the aim of closer togetherness of the peoples of Europe.

This chapter will stress, however, the economic arguments for completing the internal market. Although there has been ample attention for the comparatively poor economic performance of the EC since the mid-1970s, the link with the (fragmented) internal market has virtually always been dealt with in a casual way. The present analysis certainly makes no claim to fill this gap, but it does attempt to solidify somewhat the economic underpinning of the arguments for 'completion'. The need to do this is apparent from the rather scant attention, *inter alia*, in the White Paper<sup>1</sup> for the economic case for a completed internal market. What is lacking is not so much an exposition of the economic weaknesses in terms of European economic growth and employment, or, for that matter, the waning competitiveness of the Community's industry — such analyses are available — but attempts to attribute these weaknesses, to a significant extent, to the fragmentation of the internal market. Conversely, it has to be argued what economic stimuli a complete internal market is likely to engender. A modest beginning to answer these questions is attempted below.

First, the direct advantages of completion will be briefly discussed. Unfortunately, no thorough empirical research seems available so that it is hard to get beyond rough 'guesstimates'. Second, the indirect advantages — i.e. the impact on the behaviour of economic agents in the markets — will be discussed. In the longer run it is in this category that the true gains ought to be looked for, particularly as they relate to competitiveness of EC firms and overall economic growth.

#### 1. DIRECT ADVANTAGES OF COMPLETION

By direct advantages we mean the economies arising from the abolition of border interventions and the avoiding of short-term costs of distortions caused by domestic interventions such as aid, hidden or not, government procurement policy and special advantages for public enterprises.

At the start of 1983<sup>2</sup> the European Commission estimated the social costs of border interventions within the EC at about 12 000 million ECU. In these costs, obtained by means of extrapolating roughly estimated averages, elements have been included such as the waiting time of trucks (estimated at about 1 billion ECU), delays, extra personnel or the man-hours needed to fill in documents, and the costs and the waiting time for various technical controls. Apart from that, this total includes all cross-border trade, for example, trade in agricultural goods and in agro-industrial products. Potential economies in the total costs of national customs services with the completion of the internal market have not been counted. The gradually diminishing and, in the course of time, unnecessary customs work on the intra-EC frontiers would presumably be compensated for by a marginal strengthening in the VAT control on businesses (in the case of the

<sup>1</sup> See White Paper, p. 5; COM(85) 310 of 14 June 1985.

<sup>2</sup> See COM(83) 80 of 28 February 1983.

implementation in the entire EC of the VAT deferred payments scheme); moreover good re-training facilities should be set up before customs officers are incorporated elsewhere in the public administration. The changes required in the sizes of the national customs services diverge sharply with Luxembourg at the one extreme — Luxembourg has only EC frontiers — and Greece, Ireland and the United Kingdom at the other extreme, with no immediate EC borders; also Italy and Denmark, and later Spain and Portugal cannot in this respect be compared with, for instance, Belgium and Germany.

Economies in costs caused by a lack of harmonization in technical regulations are not known. These costs are extremely difficult to calculate, even per enterprise, because larger companies literally produce thousands of products of all shapes and sizes which are modified according to varying technical regulations, but also according to intrinsic or commercial business requirements for reasons of market strategy. Extrapolation is also not possible, even by rough approximation because scale and product specification can diverge quite sharply. In industrial sectors such as pharmaceuticals, automobiles and consumer electronics, the costs of insufficient harmonization of regulations and standards can run quite high because it is known that technical requirements are not completely (and sometimes not at all) harmonized there, while at the same time scale production is in most cases decisive for the cost-price. However, a number of cases have been solved by 'spontaneous' standardization in industry, standards which quite often appear as national legislation (e.g. by reference). Everything considered, enormous potential savings are at issue but how much these could be cannot be stated.<sup>3</sup> For example, in the Dekker Plan (Dekker, 1985) it was reported that 30% of the working capital of Philips is stock. Unfortunately Mr Dekker makes no estimate of the expected savings in this should the internal market be completed.

The short-term costs of national interventions which aim to prevent or delay adaptation to Community and other competition are probably even greater than the costs connected with border interventions.

Firstly there are the 'invisible' costs of discriminatory government procurement policy. As stated earlier, relevant statistical information on this subject is not available. Nevertheless even the simplest calculations show that in this field enormous savings are possible. In their report to the European Parliament Albert and Ball (1983) start from a calculated total EC government market for goods and services, including public works contracts of 400 billion ECU in 1982. According to Albert and Ball, should 10% too much of this purchase price have been paid by giving preference to national producers, then the potential savings is 40 billion ECU, a gigantic sum. In 1982 this was twice as much as the entire EC budget! It is just speculating to try to establish any certainty with such sums. For simple consumer goods 10% seems fairly high; the government is a huge buyer and with good coordinated procurement is likely to obtain discount. However in the case of advanced or strongly differentiated (therefore not comparable) products, military equipment purchases and special public works, this percentage could sometimes be on the low to very low side because in these cases there is usually little competition to be expected on the national scale while in the internal market this would certainly be possible. Moreover it should be realized that actually only France has a central procurement policy and even the quite unique Dutch State Procurement Office does not by any means coordinate all special purchases. The question can also be asked of whether the entire sum of 40 billion ECU can be considered as wasted money. In the current world relations of industrial politics procurement policy plays an important role in a number of sophisticated industries. This certainly applies to the USA (Nelson, ed., 1983) and Japan. It is therefore realistic, and under certain conditions even advisable that the actual liberalization of government procurement policy in the EC Member States be accompanied by a European procurement policy for sophisticated products, prototypes, capital goods for power stations and military equipment. The political, technical and psychological barriers to such a policy cannot be underestimated.

<sup>3</sup> See Pelkmans, 1986-d, for elaboration.

Whatever happens a limited part of the estimated 40 billion ECU would then be necessary for European procurement policy. It is not possible to judge whether this should be considered as necessary 'investment' in the competitiveness of European industry or as unnecessary costs; ideally, positively the first.

Secondly, tremendous economies are possible in the social costs of government aid. Two types of costs are mentioned: budgetary costs and 'welfare losses' (i.e. overall output losses). Although it is often said that politicians prefer 'invisible' instruments, like trade protection, to financial aid, which is 'visible' on the government budget, it is undeniable that financial aid to enterprises in EC countries has increased substantially ever since the 1973 oil crisis. In addition governments have done their very best to channel this financial aid through so many institutions, in so many forms and by means of so many measures, that we can speak of a confusing and unclear picture. Accurate studies concerning financial aid in the entire Community do not exist, at least not publicly (as a matter of fact, the European Commission should be formally informed of all aid granted! Whether this really happens is doubtful).<sup>4</sup> If sectoral, regional, export and general aid (e.g. fiscal investment measures, which aim for a stimulating effect) are added up, the most reliable estimate for 1981 is about 32 billion ECU of budgetary support to European industry. This estimate was presented to the author by well-informed circles but to his best knowledge it cannot be verified from documentation on the subject. Also the following information broken down per Member State was given: aid, expressed as percentage of the country's industrial production, was between 2% and 5% for Greece, The Netherlands and Germany; between 5% and 10% for France, the United Kingdom, Denmark, Italy and Luxembourg; between 10% and 15% for Ireland and over 15% for Belgium. Now that it is generally realized in the EC that aid on this scale cannot be maintained nor does it make sense, these estimates show clearly the huge economies which can be achieved by a policy aimed at adaptation, with only minimal and strictly temporary and degressive aid. In the very short term one may not merely define reduction in aid as a savings considering that it will be accompanied by temporary social costs. On the other hand aid leads to 'welfare losses' as well, because the efficient enterprises are inhibited in their expansion over the Euromarket. Estimates of these 'welfare losses' have similarly not been documented. However it should be kept in mind that steel subsidies are a considerable part of the aid reported (one-third, probably): in the steel sector underproduction losses are mentioned which, at least in the 1980s, ran into many hundreds of millions of ECU even in the larger efficient enterprises. Reduction in aid, and consequently restructuring, would reduce the underproduction losses of the efficient enterprises (frequently not subsidized) quickly or turn them into profit.

The European automobile industry has been running at a loss for many years (in 1984 alone, around 1.2 billion ECU)<sup>5</sup> and receives what is in fact aid to cover underproduction losses, or if you prefer, overcapacity losses. In this sector reduction in aid would also benefit efficiency in addition to obvious budgetary savings. The fragmentation of the internal market because of the aid granted is much greater than many have realized or have wanted to realize until just recently. This fragmentation could be stopped by ending sectoral aid (both direct as well as fiscal), by strictly limiting the so-called 'general' aid and really coordinating regional aid. Over time billions of ECU could be saved in the budget and, by the better use of the Euromarket, the healthy firms' efficiency in the relevant sector would be considerably stimulated.

Thirdly economies are possible by only allowing public enterprises to be protected from EC competition in special cases, ex Article 90 EEC. Although this question is politically and legally more complicated than the granting of aid to private enterprises, it does not appear to be economically different from the previous two points. Mostly protection of public enterprises is in the form of preferential treatment with government contacts, aid, hidden or otherwise, and capital par-

<sup>4</sup> See note 13 of Chapter 1.

<sup>5</sup> *The Economist*, 12 January 1985, pp. 59-60.

ticipation, etc. Where moreover regulation is employed, it must fall under the current 'omissions' of the internal market (such as telecom).

All together the roughly estimated direct economies with completion of the internal market might perhaps reach about 2% to 5% of the Community gross product, which can certainly be referred to as considerable. If this 'guesstimate' would be correct, it is worthwhile to undertake empirical research to obtain more reliable outcomes.

## **2. COMPLETION OF THE INTERNAL MARKET, ECONOMIC GROWTH AND COMPETITIVENESS**

The completion of the internal market also leads to indirect advantages, which are mostly operative in the medium and long term but will continue to influence industrial development favourably. The connection between market integration, competitiveness and growth is primarily concerned.

### **2.1. Growth and competitiveness**

Economic growth can be referred to as a process of 'creative destruction' (a term of Josef Schumpeter). It is in fact a mixture of processes of quickening and slackening growth in the sales of products on the one hand and of decline in unsuitable or (relatively) unwanted products on the other. A strategy of growth for a region, country or group of countries, but also for multiproduct enterprises, should permanently anticipate shifts towards more suitable or new products by making use of the scale technology available, the development of new process technology or comparative advantages of other countries, or as the case may be, enterprises with a specific location or market advantage.

This process of creative destruction leads simultaneously to new and disappearing products, to new, old and disappearing production techniques, to intrasectoral factor mobility and factor mobility among entirely different sectors, but also among regions. The more rigidities there are in this anticipation and adaptation process, the more difficult it is for these transformations to take place and the more economic growth is held in check. These rigidities can be caused by all kinds of barriers to entry, such as limited access to technical knowledge, insufficient specific 'human capital' (employee training plus experience), inadequately developed risk capital market, regulations as to entry or government limitations on sales. Besides this rigidities can arise from barriers to exit, such as employment contracts, dismissal law, bankruptcy law, limited labour mobility (which can again be influenced by the housing market, social relationships, unemployment allowances, etc.) and too costly private and infrastructural capital destruction.

Both types of rigidities can be mitigated a great deal by adaptations in prices and earnings. For instance the process of replacing old products by new ones can be slowed down by a relative reduction in the prices of the old products. Such relative price reductions require again improvement in process technology and distribution — if no technical progress, innovation or product differentiation takes place there then (relative) price reduction is often only possible by a (relative) reduction in earnings. If for example wages are sticky and unlikely to move downwards then price reduction does not take place fast enough or the technical progress will be at the expense of labour. In the first case the substitution of products speeds up again so that the 'old' product branch shrinks; in the second case an increase in output will go together with a reduction in employment in the branch (or both drop or rise but in distinguishable tempo). In addition intersectoral labour mobility and for instance financial capital mobility is a positive function of wage flexibility. If growing sectors offer a higher wage for a certain type of work, then this will promote mobility; at the same time this can reduce the barriers to exit in the stagnating sector. Insofar as wages are linked to the human capital 'stored' in the worker, intersectoral labour mobility can lead to 'capital destruction' because the growing sector requires other sector-specific experience. This will lead to lower wages and broken careers; rigidities will then lead to slower adaptation and more limited growth.

Economic growth is thus promoted by letting the economic system react flexibly to sales and profit impulses which in fast-growing industries are in fact greater. At the same time the exit costs of undertakings in stagnating or shrinking sectors should be kept as low as possible because the marginal factor input can deliver a greater contribution to the added value elsewhere in the economy. Growth comes about through for instance intertemporal factor mobility between declining and expanding sectors.

If we study the 'golden' 15 years between 1958 and 1973 of economic growth in the European Community then apparently <sup>6</sup> a number of sectors in all six EC countries, plus the United Kingdom, did well: intermediary products such as non-solid fuels, chemicals, rubber and plastics; the electric and electronic equipment industry and automobiles; and services such as telecom, banking and insurance. Besides these 'growth triggers' there was a group with no clear picture. In steel, for instance, the average annual production growth rate over 1960 to 1973 per EC country diverged sharply, from 0.4% in the United Kingdom, and 3.8% in Germany and 4.8% in France to 7% in The Netherlands and even 8.2% in Italy. The low growers contained mainly final consumers articles, mostly mature products (i.e. where little manufacturing is necessary) in strongly competing markets, such as food, drinks, tobacco articles, textiles, clothing, catering services, etc. In the golden period only one branch can be found in which production decreased: solid fuel, mainly coal. But generalizations should not be made too soon about the low growers; while the textiles and clothing sector hardly increased production in for example Germany and the United Kingdom, this was certainly the case in Italy. The anatomy of the growth can for that matter be exercised at different levels of disaggregation. If one looks at sub-sectors then it appears for instance that the Italian leather industry grew strongly in the high quality products and decreased in very simple footwear which (for example) competed with rubber and synthetic substitutes. One would also find that the German machine tool industry grew weakly in mechanical instruments and strongly in electronic instruments.

In the enterprise growth is important, if not the most important aim, under the constraint, which should not be taken too lightly, of sufficient gross profit for depreciation, new investments, dividend and capital growth. Naturally growth and profits are not independent. A well-directed investment policy leads *ceteris paribus* to growth in sales and as a rule growth need not be at the cost of adequate profit but profit is more likely to be linked with growth. Detailed treatment of corporate strategies obviously cannot take place here but some observations cannot be left out. The most important condition for growth with adequate profit is permanent retention of competitiveness. This is only possible in the multiproduct enterprise, with the apparent wage rigidities, by constant shifts within the product package in the direction of growing product markets; for products in stagnating markets this is only possible through (relative) drops in prices (or quality improvement for current prices) which are possible because of scale enlargement, better process technology and partial contracting out to countries where lower wages are paid.

If the market shrinks, or foreign competition increases, then even the price reduction strategy cannot prevent a process of restructuring. This process will be faster the more limited exit barriers are, in other words as the alternative utilization of product factors such as entrepreneurship, financial capital and labour are not greatly hindered, the capital market works better and human capital depends more on (re)training rather than on experience only. If restructuring is postponed by encroaching on capital or by government subsidies then this must hinder growth, and in the long term can reduce growth, independent of recovery in competitiveness by product quality improvement or reconversion. Restructuring in stagnating or shrinking sectors is therefore a normal and healthy part of, but at the same time a condition for economic growth.

In expanding or new markets in highly developed economies permanent competitiveness will mostly be defined by investments in sector specific human capital and in research, product development, process improvement and marketing. Once their

<sup>6</sup> See Maldague *et al.*, 1978.

products and processes are standardized then worldwide entry into these markets will be simpler (although with regard to capital intensive branches the transitional period in newly industrialized countries can be extremely long); at the same time with standardization the price of the product will be decisive. This must mean that wages corrected for productivity differences will define competitiveness to a considerable extent. If products are differentiated and processes complex and partially variable then there are numerous specific determining factors of competitiveness. An undertaking should certainly be aware that product improvement and/or process improvement will be needed permanently because otherwise one arrives in the course of time in a stagnating market segment of standardized products so that growth and profit will both come under pressure

## 2.2. European industrial competitiveness: a recurring issue

Ever since the initial phase of post-war reconstruction in Western Europe ended, repeated surges of concern about the competitiveness of industry could be witnessed. The first one emerged from what looked like a stubborn 'dollar shortage'. A number of national productivity centres, established under the auspices of the OEEC, discovered large differences in productivity at plant and sector level between European and US enterprises. Apart from reflecting an arrears in industrial investment, caused by the war, a substantial part of the gap was attributed to the fragmentation of European and world markets. This reasoning supported the OEEC drive to get rid of intra-OEEC quantitative restrictions as quickly as possible. Scitovsky based his forceful plea (Scitovsky, 1957) for European integration on this remarkable technical inefficiency of the industry in OEEC countries. Most prominent of all, the Spaak Report (Spaak *et al.*, 1956), laying the foundation for the EEC Treaty negotiations, introduced the innovative concept of the common market with succinct references to the advantages of the big US internal market.

The second wave occurred in the mid-1960s when it was feared that the Atlantic comparison showed a 'technology' and a 'management gap', explaining specific elements of the insufficiency of European competitiveness. The preoccupation was especially directed at the high-tech sectors, with high value-added and the highest growth rates. It was maintained that American firms enjoyed decisive size advantages and were also better at exploiting the common market than EC firms, or UK firms for that matter, appeared to be. The third wave began in the late 1970s and has not subsided yet. Were the previous two relatively easy to overcome, even at the time, given the favourable macroeconomic climate? During both waves, growth rates of European economies were in general higher than those of the USA, and also high by historical standards. Present concerns have been aggravated by faltering economic growth until very recently and unsatisfactory relative economic performance compared to Japan, Asean and the USA after 1981 both in terms of growth and employment increments.

And once again, industry and politicians have turned to the 'common market' as the core of a strategy to improve the competitiveness of European industry. The Round Table of European top industrialists was founded, the Esprit programme was jointly initiated and set up by the European Commission and industry, UNICE loudly called for completion of the internal market and individual big companies launched effective campaigns with cogent papers.<sup>7</sup> Successive European Councils since the one held in Copenhagen (December 1982) have emphatically stressed the priority objective of completing the internal market, a separate Internal Market Council of Ministers was established and, in June 1985, Commissioner Lord Cockfield published an ambitious White Paper, meanwhile embraced at the highest political level of Community decision-making, aiming to achieve a completed internal market by late 1992 by means of more than 300 substantive policy proposals.

<sup>7</sup> For quotes, see Peikmans, 1985-a.



There is, therefore, every reason to study somewhat more carefully the relationship between the completion of the internal market and the improvement in the competitiveness of European industry. I shall do this in several steps. First, a brief review will be provided of the economic effects of the existing internal market for industrial products, incomplete as it is, yet not without significance. Second, a bird's eye view of some indications, commonly used as an underpinning of the low-competitiveness thesis, will be given. Third, the relation between competitiveness of European firms, especially in high-tech sectors, and the state of the internal market will be worked out. Fourth, an attempt will be made to show that the present fragmentation in the EC internal market for high-tech products coincides with weak positions both in the internal market and worldwide for EC exporters of these products. Despite the use of simple statistical indicators — preventing any analysis of correlation — the results are striking.

### 2.3. Economic effects of 25 years common market

European integration has achieved substantially 'freer' trade among EC Member States than anywhere else among sovereign States. The so-called *acquis communautaire*, both in terms of negative and positive integration, is comprehensive and has led economic agents in the industrial markets to respond forcefully. Thus one should not dismiss the present achievements in the internal market as economically insignificant. The following is merely a brief reminder of the more important effects, as based on empirical economic research and other careful observations:

- (i) Academic literature has concentrated on the effects of market integration on trade flows. A large number of statistical or econometric studies can be found, different in many respects.<sup>8</sup> From the survey by Mayes (1978) it appears that the trade flow concept of 'trade creation' was estimated to lie in a range of 8-22% of the total industry imports of the EC-Six of 1970 (with one study even at 34%), whereas the trade flow concept of trade diversion moved in a range up to 15% of the external imports of the EC-Six in 1970. If one is interested in the growth of intra-EC-Six trade, attributable to market integration only, trade creation and diversion have to be added, hence giving an order of magnitude of between a quarter and one half of the intra-EC-Six industrial trade of 1970. Measuring from 1959 in constant prices, the EC-induced trade increase ranges from 50%-100% of intra-EC-Six industrial trade of 1959. In agriculture even larger increments have been found, be it that the trade diversion component tends to dominate. Studies of the British and Spanish accession come to results not dissimilar to these orders of magnitude.<sup>9</sup>
- (ii) Insufficient attention has been paid to economic 'welfare' effects, directly connected with the performance (i.e. competitiveness) of industry. It is somewhat doubtful whether the conventional theory of customs unions is the appropriate guide but the full appreciation of that point might be better discussed elsewhere.<sup>10</sup> Three welfare effects can be said to have been prominent in European market integration:
  - (a) Static reallocation: in the theory of customs union, trade creation and diversion are 'welfare effects'. In other words, they measure changes in the allocative efficiency caused by the establishment of the (EC) customs union. The empirical measurements of these welfare effects have clearly shown that they are uninterestingly small: ranging from 0.15% of GNP to, at most, 1% of GNP,<sup>11</sup> realized after the transition period had been completed.
  - (b) Technical economies of scale: even when one assumes that entrepreneurs/managers are well-informed about the available options

<sup>8</sup> For surveys see, for instance, Balassa (1975) and Pelkmans (1985-a, Chapter 5).

<sup>9</sup> For instance, Miller and Spencer (1977), Mayes (1983) and Viaene (1982).

<sup>10</sup> See Pelkmans, 1984, Part I.

<sup>11</sup> See Balassa, 1975, op. cit., and Johnson, 1958.

in process-technology and practise cost minimization as if there were perfect competition, a tariff-ridden European economy may impose such market fragmentation that plants/firms remain technically inefficient, because they cannot reap (all the) technical economies of scale. Cost reduction effects due to technical economies of scale, made possible by opening up a continental market of a multiple of the size of the home market, can be substantial. Studies by Pratten (1971) and others have shown that there is no escape from disaggregation when measuring these effects or at least the potential for scale economies. In a number of sectors, however, these effects can be important. Owen (1976), in employing an indirect indicator, has found evidence that economies of scale were widespread in the EC-Six of the mid-1960s.

- (c) Reduction in technical inefficiency: there is abundant evidence in works describing the European industry in the mid-1950s that domestic competition in European countries was anything but fierce, that market research, distribution methods and marketing were hopelessly underdeveloped, that entrepreneurs were not investing in the permanent search for the best technology and that cost minimization was not being pursued as if there were perfect competition or at least sufficient rivalry. European integration has caused a healthy 'cold shower' effect, engendering great advances in technical (also called 'X-') efficiency, especially in countries with a traditional and overly inhibitive regulated competitive environment such as Italy and France. These two countries had also introduced (diverging) methods of indicative planning that, if anything, fostered concerted practices and collusion. Although no good empirical analysis of this cold shower effect is available, it is conspicuous to say the least that, despite widespread expectations to the contrary, precisely Italy and France extracted by far the most from the transition period of the common market, in terms of trade increase and economic growth. Thus, intra-EC industrial exports of France and Italy over 1958-63 increased with an annual average of 23.2% and 27.1% (far higher than Germany or Benelux), and over 1963-73 still with 16.4% and 17.1% respectively (again higher than Germany). Given the relatively higher technical efficiency of the German economy in the 1950s, the conclusion of a drastic increase in technical efficiency induced by the competitive threats and opportunities of the common market seems to be the only plausible explanation (there are, of course, other indications pointing in the same direction).
- (iii) Adjustment processes and secondary effects of a large increase in trade, as apparent from a high rate of investment in physical capital, physical infrastructure and means of light and heavy transport. Such investments tend to have relatively high multiplier effects, sustaining economic growth and tending to reduce the unit costs of products.
- (iv) Terms of trade improvement *vis-à-vis* the rest of the world. One crude estimate put this at roughly 1%,<sup>12</sup> in the light of trade liberalization in GATT.
- (v) Other effects such as the attraction of substantial flows of US direct investments. Repeated empirical attempts to trace the determinants of these investments have singled out (continental) market size as the only statistically significant one, whereas the growth of the market or tariff discrimination (of the EC; the common tariff discriminates US firms in their access to the French market *vis-à-vis*, say, German firms in their access to the French market, hence, the expectation would be to 'jump over the tariff wall') remained insignificant in practically all studies.<sup>13</sup> The 'American challenge' in turn has had a favourable impact on the competitive behaviour of European firms of the day.

<sup>12</sup> See Petith, 1977.

<sup>13</sup> An extensive survey is in Chapter 5 of Pelkmans, 1984.

#### 2.4. The competitiveness of European industry

In 1986 the world economy, obstacle-ridden as it still is, should be nevertheless characterized as a fairly open one. For this reason it is appropriate to assume that, sooner and later, the underlying forces of comparative advantage will exert their powerful influence. If exchange rates are sufficiently flexible, it will be economic nonsense to maintain that the entire industry of a diversified modern economy would become internationally uncompetitive. Therefore, 'the' European industry cannot be competitive or uncompetitive, at least not in terms of the current account.

The statements about its competitiveness usually are:

- (i) in terms of market shares, almost always referring to the extra-EC trade shares in the world or OECD economy;
- (ii) based on an implicitly desirable relationship with economic growth, if not employment, derived from the structure of exports (i.e. what type of sectors retain or increase their market shares; which ones do not).

With some 32% of world trade, the EC-Ten is by far the largest exporter in the world economy. Excluding intra-EC-Ten trade (in the EC and in world exports), the EC share is still more than 18%, with the USA barely getting to 13% and Japan 9%. These figures immediately put the whole debate into perspective: the Community has neither shrunk to insignificance nor lost its leading position as a world trader.

Yet, an anthology of inferences from a number of studies does not convey a satisfactory picture:

- (i) In EC (1979) it appears that the EC share in total OECD exports of industrial products between 1963 and 1977 steadily decreased from 58.1% to 55.36%.
- (ii) From GATT (1984; 1980) it can be calculated that the EC share in world exports of industrial products between 1973 and 1983 decreased from 46.3% to 39.1%.
- (iii) In EC (1982) statistical evidence of drastic declines in EC export shares in the total OECD exports between 1968 and 1980 can be found for important sectors such as cars; consumer audio and video sets; chips and tubes (etc.), iron and steel and machine tools.
- (iv) Also in EC (1982) it appears that the EC specialization index<sup>14</sup> for 28 high-tech (three- and four-digit SITC) products as a group fell quite dramatically between 1963 and 1980 from 1.02 to 0.88.
- (v) From an analysis in *European Economy*, July 1983 (No 16) one can learn that the EC has failed to strengthen its export specialization in the products subject to favourable demand conditions (irrespective of recession) while, at the same time, the EC imports of these products has increased more than proportionately.
- (vi) Peeters (1984) found, when utilizing a variant of the specialization index, that the EC performs weakly in products that may be associated with technological leadership, compared to US or Japanese export performance.
- (vii) In the crucial information technology sector the Community has experienced a rapidly increasing deficit and has occupied a weak position in the internal market itself (Kalbhen, 1984).

It is possible to counter these inferences in various ways. For instance, the use of specialization indices is not without problems. The famous table of the Community's high-tech specialization indices between 1963 and 1980, published in EC (1982, p. 19), exhibits a fall from 1.02 to 0.88, but it is most curious to find that, of all EC Member States, it is Ireland having both the sharpest increase and the highest 1980 score (namely 1.03). The reason is known (foreign investments in high-tech assembly plants for exports to the EC and elsewhere), yet the index is totally misleading for policy conclusions. Another observation can be made by emphasizing that the EC did well in increasing or maintaining large market shares

<sup>14</sup> The definition is the same as in Table 4 (further).

in sectors such as motor vehicle components, aircraft, plastics and resins, organic chemicals and telecom equipment. Other counter arguments can be found in Pelkmans (1985-b).

Nevertheless it is hard to escape the impression that a problem of European competitiveness exists. Table 3 shows that the problem is not merely one of defending market shares in third countries; it is also manifest in the internal market itself.

*Table 3*  
Japanese and US manufacturing exports to the internal market

	Japan/EC (%)	USA/EC (%)	intra-EC (billion \$)
1973	4.9	13.5	79.12
1979	6.0	13.9	213.19
1984	9.7	17.3	199.05

*Notes:* — Columns 2 and 3 indicate percentages of the trade values in column 4,  
 — Internal market = intra-EC-Ten trade of industrial products,  
 — All flows are taken from import statistics,  
 — Since flows are dollar-based, the intra-EC trade seems to have declined; it has not declined when converted to ECU.

*Sources:* GATT (1985; 1980).

For 11 years now there has been a steady increase in the combined (and separate) market shares of the USA and Japan on the internal market, up from 18.4% in 1973 to 27% in 1984. Given the lack-lustre performance of the internal market in the 1980s, this must mean that US and Japanese exports are more recession-resistant than intra-EC exports, in other words, are better adapted to those segments of demand that have continued to increase. It might also imply that their price/quality combination increasingly outperformed European competitors in their own home market.

A recent contribution by Buigues and Goybet (1985) has shed further light on the matter. They have avoided one of the serious difficulties with the various approaches described above: rather than base market shares on trade flows — indeed, frequently merely extra-EC trade flows — they have studied systematically developments in market shares in terms of 'apparent consumption' (output plus imports, minus exports), disaggregated over 13 industrial sectors for Japan, the USA and seven EC countries.

Table 4 provides some interesting indications of the weak capacity of EC firms to orientate themselves on rapid growth sectors, and withdraw from stagnant or shrinking ones, whether at home or abroad. The three strong demand sectors in the table are all among the leading high-tech sectors and between the three of them account for 50% of all R&D expenditure in the OECD. The EC growth of demand in these sectors is much lower than that in Japan, but slightly higher than in the USA. The key question for competitiveness is whether EC firms have been able to beat other competitors in supplying the demanded products. As Buigues and Goybet, *op. cit.* (p.18) show, the cover rate for domestic (EUR 7) demand in these sectors has steadily declined from 90.7% in 1972 to 83% in 1982, whereas both the USA and Japan have resisted import competition much better. In moderate and weak demand sectors cover rates have not declined as fast (hence, either competitiveness is better or there is some form of protection).

Table 4 enables us to link the usual import and export specialization indices to the sectoral growth performance over 11 years. It appears that, relative to average OECD sectoral import rates, the EC has tended to increase its import rate in strong demand sectors (with 0.13) whereas it has marginally lowered the import rates in moderate and weak demand sectors. The differences with the USA are minimal and even with Japan not particularly striking. Looking at individual sectors, however, the rapid increase of the import index in information technology

**Table 4**  
Sectoral growth orientation of EC domestic output, import and exports: 1972-82; 1983

	Volume growth 72-82			Import specialization index 83-72 change			Export specialization					
	EUR-7	USA	JAPAN	EUR-10	USA	JAPAN	index			change 83-72		
							EUR-10	USA	JAPAN	EUR-10	USA	JAPAN
<i>Strong demand sectors</i>	5.2	4.8	13.5	+0.13	+0.13	+0.08	0.96	1.18	1.16	-0.11	+0.06	-0.01
— electr. eq.; electronics	3.7	5.5	15.1				0.89	1.20	1.82	-0.08	+0.06	+0.12
— infor. tech.; precision inst.	8.9	5.7	6.8	+0.23	+0.12	-0.44	0.64	1.62	1.44	-0.19	+0.13	+0.14
— chem.; pharmac.	5.5	3.7	11.8				1.16	1.03	0.49	-0.02	+0.02	-0.25
<i>Moderate demand sectors</i>	1.9	2.3	4.8	-0.04	-0.06	+0.01	0.97	1.12	0.96	-0.03	-0.10	+0.23
— rubber; plastics	3.2	5.0	1.2									
— transp. eq.	3.2	1.4	7.1	+0.20	-0.13	-0.01	0.84	1.04	1.51	-0.08	-0.22	+0.09
— paper; packaging; print.	1.8	2.9	3.7									
— food, tobacco	2.0	1.7	3.8									
— industrial mach.	0.2	3.2	3.6	+0.16	+0.21	-0.09	1.25	1.29	0.87	-0.05	-0.10	+0.27
<i>Weak demand sectors</i>	0.2	0.5	3.0	-0.04	-0.04	+0.03	1.11	0.55	0.84	+0.17	-0.04	-0.38
— misc. prod.	1.3	1.8	1.4									
— textiles, leather, cloth.	0.2	1.5	2.7	+0.16	+0.01	+0.12	1.06	0.38	0.69	+0.13	+0.02	-0.45
— steel, metal ores	0.7	-0.7	3.7	-0.13	-0.10	+0.33	0.95	0.44	1.26	+0.10	-0.02	-0.12
— metal goods	-0.5	0	4.2									
— construction, etc.	0.9	0.3	1.8									

Notes: — EUR 7 = F, D, I, UK, NL, B and DK.  
 — Import and exports specialization indices exclude intra-EC trade.  
 — Import specialization index =  

$$\frac{\text{Imports of sector } q \text{ in country } A / \text{total imports of } A,}{\text{divided by total OECD imports of sector } q / \text{total OECD imports.}}$$
  
 — Export specialization index, *idem* for exports.

Source: Buigas & Goybat (1985); various tables (adapted).

and precision instruments (+0.23) compares unfavourably with the USA (+0.12) but is totally different to Japan's decrease (-0.44!). The striking differences are in the export specialization indices, being much higher in the USA and Japan for strong demand sectors than in the EC, and also falling substantially in the EC, against constancy in Japan and an increase in the USA. Japan's sensible de-emphasis on chemicals has caused a considerable fall in the index; leaving this out, the improvement is greater than in the USA. The EC export specialization index in 1983 for information technology and precision instruments was low (0.64) and falling (-0.19), in sharp contrast to the USA and Japan. In moderate demand sectors the Community nearly held its own, Japan improved its performance largely — as it seems — at the cost of the USA. It is hardly gratifying to observe that the EC is the export champion of the weak demand sectors with a 1983 index double that of the USA, and an increase of 0.17, with rapid decrease in Japan.

Although part of the explanation of these data has to be based on the macroeconomic performance and the restrictive monetary policy combined with budget cutting, cover rates and extra-EC trade specialization indices are not directly affected by that. It follows that the Community is competitive in those sectors that grow little or not at all, and is uncompetitive, and increasingly so, in strong demand sectors with expanding employment of high quality.

Also the geographical orientation conveys a picture with signals of waning competitiveness. A well-known illustration of declining British competitiveness around 1900 is that, while Britain still exported locomotives to Argentina, it already imported the most advanced ones from Germany. Table 5 might well be interpreted in the same vein.

*Table 5*  
Geographical composition of industrial exports: 1983 (%)

	OECD	USA	EC	JAPAN	Rest	LDCs	S-E Asia	OPBC	Other
EC-Ten	48.5					43.4			
Strong demand	14.5	3.6	—	0.9	10	12.5	1.2	4.7	6.6
Moderate demand	19.8	6.9	—	0.9	12	20.1	1.4	8.5	10.2
Weak demand	14.3	4.4	—	0.7	9.2	10.8	0.9	4.5	5.4
USA	59.2					33.2			
Strong demand	22.9	—	10.9	3.5	8.5	13.2	4.2	2.4	6.6
Moderate demand	28.1	—	8.9	3.2	16.0	15.8	2.7	5.1	8
Weak demand	8.2	—	2.7	1.6	3.9	4.3	0.9	1.2	2.2
Japan	51.4					40.6			
Strong demand	21.6	11.5	6.6	—	3.5	12.5	5.7	3.4	3.4
Moderate demand	23.1	13.8	4.8	—	4.5	16.6	4.1	6.5	6
Weak demand	6.8	4.2	1.2	—	1.4	11.5	3.8	4.0	3.7

Notes: — EC exports to third countries only.  
— horizontal adding does not give 100% because the rest of the world has been left out (amounts to 7.5%-8.1%).

Source: Buigues & Goybet (1985), Table 7 (adapted).

The strong demand sector exports of the EC form a lower share of total industrial exports than for the USA and Japan; what is worse, they tend to be directed less to OECD countries than the competitors are (14.5% as against 22.9% and 21.6%, respectively). A similar picture emerges for moderate demand sectors — here, the share of these exports that is directed to LDCs is much larger for the EC (20.1%) than the US share (15.8%) or the Japanese share (16.6%). Is the Community seeking to avoid the hardest and most competitive markets? Furthermore, the selection of LDC markets is not very promising either: the fast growing South-East Asian markets are relatively better served by Japan and the USA whereas the

problematic OPEC market has received much more attention from EC exports. If anything, this does not augur well for the near future.

Decomposing the intra-OECD industrial exports, strengthens the impression that EC firms may export lower quality or less advanced products in strong and moderate demand sectors, because the performance on the toughest markets (USA and Japan) is relatively weak, whereas it is stronger in the rest of the OECD. The strong demand sector shares in all industrial exports of the USA shipped to EC and Japan (14.4%) and of Japan shipped to USA and EC (18.1%) compare very favourably with that of the EC, shipped to Japan and USA (4.5%). This also holds for the moderate demand sectors but less strongly: 12.2% and 18.6% compared to 7.8%. Apparently (although the source provides no detailed statistics), the 1972 EC shares were more favourable.

Finally, another way of looking at it is to study the export share of industrial output. It is revealing that, in strong demand sectors, EC export shares of output have increased rapidly, yet less rapidly than those of its trading partners, so that market shares had to fall.

## 2.5. EC fragmentation and high-tech competitiveness

Curiously enough, the European Commission has never attempted to relate through empirical research, the waning competitiveness of European industry in high technology goods and the fragmentation of the internal market. Fragmentation is however said to be precisely a major reason for European competitiveness being low. Knowledge about intra-EC trade is rather limited; interest has always been in the Community's world trade.<sup>15</sup> In the following an attempt will be made to verify and clarify this relationship.

First, it would be a mistake to underwrite general statements about the incapacity of the EC to adjust intersectorally. The question is really one of sufficient or insufficient adaptation, and at what level of disaggregation. Without going into an extensive treatment of statistics, in Pelkmans (1985-a, Chapters 6 and 7) it is shown that at the one-digit SITC level between 1963 and 1982 substantial adjustments among Member States and among sectors can already be found. Thus, the share of SITC 6 (traditional products and relatively simple intermediary goods) in the EC-Nine<sup>16</sup> declined between 1963 and 1982 from 36% of the intra-EC industrial trade to 27%, with machinery and transport equipment down to 41% (from 42%) and chemicals and pharmaceuticals up to 17% (from 10%). Countries like France and Belgium reduced their SITC-6 shares from 42% and 59% respectively to 30% and 39% respectively.

Second, it will be necessary to make a rather crude distinction between low, medium and high technology goods, and subsequently employ a disaggregated empirical analysis of the high-tech competitiveness. The central thesis which cannot be substantiated here in full detail<sup>17</sup> is the following:

- (i) although the intra-EC industrial trade is almost completely free of obstacles in traditional, low-tech products (most of SITC 6; some of SITC 8), the adjustment is slowed down by a combination of external protection (steel; textiles, clothing; *ad hoc* VERs) and national aid to industry (again steel, textiles and clothing, ceramics, glass, etc.),
- (ii) whereas the large group of mature, medium-tech products has numerous problems of access to other Member States' markets, caused by insufficient European standardization, insufficient harmonization of technical regulations and almost no mutual recognition of national test certificates,

<sup>15</sup> An attempt in *European Economy*, No 16 (1983), employing income and price elasticities at a highly aggregate level, yielded little, especially because of statistical insignificance.

<sup>16</sup> The EC without Greece, Spain and Portugal; throughout the period considered, the EC is assumed to consist of nine countries, for reasons of comparison.

<sup>17</sup> See Pelkmans, 1985-a, for digression.

- (iii) whilst high-tech products suffer from access difficulties of this kind, in addition to distortions of competition due to discriminatory government or public agencies' procurement, national aid, patents and monopoly positions of certain public enterprises.

Put in simple terms, the first element of the central thesis can be derived directly from traditional arguments of comparative advantage. Intra-EC free trade has worked itself out (except for the southern enlargement), having caused a relative (and lately even an absolute) shrinkage of the size of some of these sectors and a shift to relatively low-wage countries in the EC. However, the overall adjustment to NIC competition has not been fast enough to regain competitiveness in 'up-market' products of these sectors in all cases, and the shift to the 'south' has been accentuated by trade diversion behind Community protection.

The second group has not been able to reap sufficiently the gains of an even more intensified division of labour and, more importantly, has frequently not exhausted technical economies of scale behind technical barriers to trade. This is at the same time the main cause of the slowness of European standardization and harmonization, since product-specific lobbies vehemently protect their vested interests on the basis of artificial arguments of 'health and safety' (see Article 36 EEC) and the unanimity required by Article 100 EEC in the case of harmonization.

In both groups the perceived costs of adjustments in times of high unemployment, frequently with high sector/region concentrations, lead to a political precedence to conserve employment rather than face the issue of permanent competitiveness squarely. There are essentially two complementary policy strategies that may restore the growth-inducing properties of the common market. One is an improvement in the macroeconomic climate so that job markets become tighter, relative wage flexibility increases and modernization investments will not be purely of the labour-saving type. The other is that high technology industries are given every possibility to compete and grow over a continental home market, so as to improve the competitiveness *vis-à-vis* import competition as well as worldwide. It is the second strategy that will be discussed in some detail.

The relation between the completion of the internal market and high-tech competitiveness hinges on the decisive significance of the turnover per unit of time in the introduction and growth stages of the product cycle both for the market position of the new product and for (further or entirely new) product development. In many high-tech sectors process and/or product innovation is a major tool of competition. This context reduces the well-known concept of technical economies of scale to one of several interacting determinants of competitiveness at the firm level.

Technical economies of scale state a negative relation between the average costs per unit and the volume of output, for a given product and a given set of process techniques at different scales. The relevance of the fragmentation of the internal market is then that scale economies cannot be exhausted because the largest scale process technology — though known — cannot be installed or, if installed, not be used at full capacity. In high-tech sectors where both product and process technology would be (or have become) standardized, the problem is therefore no different from the one mentioned for medium-tech industries. It is, however, characteristic of high-tech sectors that they are in a permanent state of flux with a great deal of uncertainty about the most 'consumer or user friendly' design of the product and the 'right' process technology for each one of the various competing goods in the market. Of course, this turbulence by recurrent upheavals might calm down in the mature stages of the product cycle, but by then rapid market growth will subside as well and market positions will have become more entrenched.

Therefore, besides technical economies of scale, three other determinants will simultaneously play a role:

- (i) Learning effects

After a product has been invented, the firm's problem is to find the associated process technology, product routing, etc. It is almost certain that imitators or competing inventors will find a different process technology; also initial scale effects may differ among competitors. The initial stages of



the product cycle will be characterized by energetic probing to improve product design, the technical features of the product (including homologation, which has a direct bearing on process technology) and the process technology, including the problems of larger scale, greater precision, automation, etc.

Hence, the initial scale curve will tend to shift down because of learning effects. But so will those of competitors. In industrial economics there is evidence that learning effects are a positive function of the cumulative output over time. It follows that security of (large) market access will act as a positive inducement to invest heavily in these learning effects so as to achieve or retain (temporary) absolute cost advantages, giving a greater market share, in turn helping to enjoy further learning effects.

Observe that learning effects depend not only on market size; consumer, or user acceptability (a known problem at the beginning of product cycles), should also be overcome. The latter can be facilitated if problems of incompatibility can be overcome before the product actually hits the market or in the very early stages. Thus, early or anticipatory standardization over a large market can be crucial for competitiveness.

(ii) Technological renovation

The scale curve can also shift down by interaction with subcontractors, by introduction of partial inventions done elsewhere and by imitation. To some extent this applies, *mutatis mutandis*, to products. The rate of cost-reduction per unit of time depends on the organizational, technical and financial capacity to introduce these improvements smoothly and on a regular basis. This will imply a further burden on management, plant organization and the R&D capacity of the firm, and will require a sufficiently high cash flow to finance it. Again, this requires high turnover early in the product cycle.

(iii) Once user/consumer acceptability and the first scale problems have been solved, a growth market will emerge. In an optimal corporate strategy, it is essential to conquer large market shares in growth markets in order to sustain the necessary R&D base for permanent competitiveness. There are two elements:

- (a) sufficient turnover to recuperate the (usually high) R&D investments incurred to invent and develop product and process as well as to engender learning effects and technological renovation;
- (b) sufficiently rapid realization of the high turnover so as to
  - make R&D recuperation of competitors more difficult,
  - prevent competitors from exploiting fully their scale and learning potential,
  - finance new product development, as well the associated process technology.

The completion of the internal market is crucial against this economic background. On the one hand, it is reasonable to suppose (*ceteris paribus*) that a large European home market will offer advantages to European firms given their profound knowledge of market preferences, their marketing networks, local subcontractor networks, smaller distances, etc. On the other hand, the security of access to a completely unified Euromarket without divergent technical regulations, without purely national standardization, without discriminatory public procurement (especially in equipment products, such as aircraft, armaments, medical equipment, telecom products, etc.) and without distortive national public aid will undoubtedly greatly lower the threshold for firms to assume (*ceteris paribus*) higher R&D expenditure, higher risk ventures, set up wider networks of subcontractors, agree to specializations with similar firms and cooperation in (i.e. share the burden of) R&D. This can be expected to lead to both higher and faster interpenetration (with inevitable victims in every instance of new product cycles to be sure), yielding the desired turnover rate, hence setting into motion the cumulative effects described above. This would strengthen competitiveness both in intra-EC trade and in the world market *vis-à-vis* US and Japanese competitors.

Furthermore it would also accelerate and augment secondary effects of emerging growth markets. When high-tech products are capital goods or intermediary goods, sectoral interdependence will lead to spread-effects (through the input/

output relations). This might lead to special applications in closely related product markets, that might later separate and develop on their own, possibly with unexpected further developments. In other cases, more traditional product sectors may be 'regenerated' or at least be subjected to technological renovation.

## 2.6. Fragmentation and low competitiveness: empirical analysis for high-tech

In a strict sense, the positive relation between fragmentation of the internal market and low competitiveness cannot be 'proved'. Nevertheless, the indications presented below are telling, and even striking in the light of the economic case for completion, set out in Section 2.5.

Table 6 provides a qualitative overview of the nature of the internal market fragmentations in 28 high-tech sectors at three- and four-digit level.

*Table 6*  
Fragmentation in the EC internal market for high-tech products

SITC product market	public mono- poly	(discr.) public procur.	ineff. EC surv. nat. aid	nat. patents	nat. stand. s, regulat.
523 oth. anorg. chem.					
524 radioact. mat.		0			0
541 med./pharm. pr.				0	0 or 00
714 non-electr. eng.		0 or 00			
716 rotat. electr. mach.					
718-7 nuclear react.	00	00	0		0
736 mach. tools				0	0 or 00
752 data proc. ma		0	0		
761 TV sets				0	0
763 audio eq.					
764 telecom eq.	00	00	0		00
771 electr. eng. (not 716)					
773 electr. netw. eq.	0	0			0
774 med./X-ray eq.		0		0	0
775 househ. dom. appl.					0
776 chips, valves			0		
781 cars			0		0
782-1 trucks			0		0
791-1 electr. loc.		00	0		0
792 aircraft + parts		0 or 00	0	?	0
871 opt. instr.					
872 med. app.				0	0
874 measur. instr.					0
881-1 photo cameras					
881-2 film cameras					
882-2 film mat.					
884-1 lenses, prisms					
885-1 watches					

*Notes:* For this overview no formal sources are quoted because of incomparability, or confidentiality.  
0 = makes penetration in markets of (some) Member States more difficult.  
00 = penetration in one or several Member State(s) very difficult, or *de facto* blocked for certain products.

This overview is impressionistic, in the sense that it could not be based on thorough empirical research, but is derived from literature and interviews. The table is meant to give a global impression only and is almost certainly incomplete. For instance, surveys on fragmenting standards and technical regulations do not exist as such; also, Table 6 does not include frontier formalities as they may, but need not be specific to the product market. None the less, only 11 out of 28

sectors might perhaps not suffer from fragmentation of the internal market. Together they represent only 13.5% of the 1983 intra-EC exports of high-tech products — in other words, more than 85% of the present intra-EC high-tech trade is subject to one or more national restrictions. If this picture is roughly correct, it will be clear that the potential of the intra-EC exchange in high-tech is still very large.

A less impressionistic approach can be attempted by comparing intra-EC high-tech trade with some 'normalized' value for the purpose. What underlies Tables 7, 8 and 9 is a comparison, in relative terms, of intra-EC high-tech trade with indicators for what, on the basis of certain assumptions, could be considered as a minimally expected 'normal' intra-EC trade. Following the warning signals of Table 6, Table 7 applies simple statistical indicators about a possible 'underdevelopment' of intra-EC high-tech trade compared with certain 'normal values'. Tables 8 and 9 relate the so-found indicators explicitly to various alternative indicators of competitiveness, and hence attempt to establish the sought relation (although, strictly, merely as a coincidence, be it sector by sector).

Table 7

Ratios for 1983 of Japanese and US exports to intra-EC exports of high-tech products for which the internal market may be underdeveloped

SITC	Japanese exports in % of intra-EC exports	US exports in % of intra-EC exports	intra-EC share in EC exports	extra-EC trade as % of total OECD exports (a)
523	35	110*	38	42
524	2	196*	35	40
541	12	91	37	46
714	80	327*	26	40
716	150*	119*	29	41
736	117	69	29	44
764	243*	153*	33	28
771	158*	78	32	37
773	133*	105	34	36
774	87	243*	31	37
782-1	257*	54	45	19
791-1	370* <sup>b</sup>	0	14 <sup>b</sup>	41 <sup>b</sup>
792	4	302*	39	31
871	164*	75	45	29
872	57	105	42	39
874	44	177*	41	33
881-1	624*	101	42	15
881-2	109	128*	42	35
884-2	403*	80	40	22
885-2	781*	25	35	9

Notes: For definitions, see text;

\* = beyond critical value (for Japan: 125%; US 110%).

a = without intra-EC trade.

b = extremely low volume of trade.

Source: Polkmans (1985-a).

For the purpose of Table 7 intra-EC trade in a high-tech product market is considered as 'possibly underdeveloped' if the intra-EC share in the EC exports of the sector remains below the average intra-EC share of all EC high-tech exports: for 1983 the latter was 47%. The 20 sectors included in Table 7 all exhibit a lower intra-EC share in the total EC exports of that product (see column 4). An objection against this method of selection is that, in some cases, a high extra-EC share in total EC exports may rather point to a strong competitive position. Therefore, column 5 gives the 1983 shares of extra-EC exports in the total OECD exports.

The 'normal values' are related to Japanese and US exports of high-tech products because, in high-tech markets, the EC can virtually only be compared with the USA and Japan (for the cases in which EFTA and Canada would also be eligible, the risk of sizeable and incidental variations at three- and four-digit level would be too large). Normal values have been defined as 125% of intra-EC trade and 110% of intra-EC. These critical values have been established in two steps: first, in 1983 total Japanese high-tech exports amounted to 115% and total US high-tech exports to 101% of the intra-EC high-tech trade; second, in view of the crudeness of this approach, these percentages have been arbitrarily increased to 125% and 110% respectively so as to minimize random variations. Table 7 aims to indicate that, in the cases of Japanese and/or US exports in product *i* amounting to more than 125% respectively 110%, intra-EC trade in *i* might be considered as 'abnormally' low and below potential.

Table 7 shows that, in 1983, no less than 17 out of 20 high-tech product markets with an intra-EC share in total EC exports of less than 47% seemed to suffer from 'abnormally' low intra-EC trade, in the statistical sense that the critical values for Japanese and/or US trade in *i* compared to intra-EC *i*-trade are exceeded. In 10 product markets Japanese exports are beyond the critical values and in 9 cases (2 of which overlap with Japan) the US exports are higher. The ratios are not infrequently very much higher. All this suggests that the exchange of high-tech products inside the EC remains far below potential in the large majority of product groups that export relatively more to the world market. This tentative conclusion is only strengthened if Tables 7 and 6 are read together.

Of course, this approach has no predictive value for the external competitiveness, certainly not with a snapshot of one year. Column 5 is a useful reminder of this point. For a proper assessment of column 5 the following should be taken into account: the 1983 EC share in total OECD exports of industrial products (both, excluding intra-EC trade) is 34%, but only 28% for the high-tech group. This is in accordance with the data in Table 5. In order to facilitate adjustment processes, not only should the Community try to eliminate the disparity in external competitiveness between traditional and high-tech products by stepping up exports of the latter, it should aim to move beyond that and establish and maintain a higher than average EC/OECD share in high-tech products than in all industrial products.

Of the 17 product markets in Table 7 with 'abnormally' low intra-EC trade there are 8 with an extra-EC trade share in OECD exports below 34%, but there are also 5 with a share of 40% or higher. Thus, the jump from apparent 'underdevelopment' of the exchange in the internal market — by means of two crude indicators — to 'low' competitiveness worldwide does not hold in this simple way and needs further elaboration.

This is done in Table 8, comprising the same 20 sectors as in Table 7, with the common property of a lower than average intra-EC share in EC exports. This relative orientation need not imply greater competitiveness. This could be deduced, first of all, from the ratio of Japanese (respectively US) exports to the world market and extra-EC exports. Table 8 contains two such indicators: the first one, column I, is an index indicating how much lower or higher the ratio of EC export of *i* to third countries (excluding Japan and the USA) to the Japanese and US exports to third countries (without exports to each other and to the EC) is *vis-à-vis* the average ratio for all industrial products (this average ratio amounts to 1.068 for 1983 and is defined as 100); the second one, column II, is an index of the ratio of the EC exports of *i* to the USA *vis-à-vis* the Japanese exports to the USA, related to the average for all industrial exports of Japan, respectively the EC to the USA (this average amounts to 0.789 for 1983 and is defined as 100). Underlying the second index is the assumption that the US market for high-tech products is relatively open (in contrast to that of Japan) yet highly competitive, so that its penetration can be considered as a measure of competitiveness. This indicator has two further advantages: there is no great difference in distance between Japan or the EC and the USA, whereas the picture is also relatively undistorted by discrimination in access to third markets (after all, the EC has preferential access to EFTA and to some Mediterranean countries, unlike Japan). On the other hand, EC countries have at least in part substituted transatlantic trade by direct investment and Japan still seems to rely more heavily on trade penetration.

Table 8

Indicators of competitiveness of high-tech sectors for which the internal market may be underdeveloped

SITC	Index of EC position on third markets vis-à-vis Japan and the USA (I)	Index of EC position on the US market vis-à-vis Japanese exports (II)	Index of EC position on the internal market vis-à-vis Japan and the USA (III)
523	127	494	88
524	89	*	257
541	292	586	154
714	92	*	605
716	100	73	101
736	183	89	150
764	79	15	300
771	101	47	105
773	84	100	70
774	72	446	490
782-1	54	7	68
791-1	—	—	—
792	57	1 223	277
871	29	69	147
872	117	180	205
874	75	335	269
881-1	32	22	1 028
881-2	83	89	276
884-1	53	45	753
885-1	27	15	529

Notes: Index I =  $(\text{exp. } i_{ed}/\text{exp. } i_{ju})/(\text{exp. } t_{ed}/\text{exp. } t_{ju}) \times 100$   
 where i = SITC product group,  
 ed = EC export to third market, except USA and Japan,  
 ju = export of Japan and of USA, except those to each other and to the EC,  
 t = total industrial exports.  
 Index II =  $(\text{exp. } i_{eu}/\text{exp. } i_{ju})/(\text{exp. } t_{eu}/\text{exp. } t_{ju}) \times 100$   
 where i and j as above,  
 eu = EC exports to USA,  
 ju = Japanese exports to USA.  
 Index III =  $(\text{exp. } i_{jus}/\text{exp. } i_{isc})/(\text{exp. } t_{jus}/\text{exp. } t_{isc}) \times 100$   
 where i and j as above,  
 jus = export of Japan and USA to EC,  
 isc = intra-EC exports.  
 \* beyond 10 000.  
 — no significance because of lack of trade.

Source: Falkmann (1985-a).

In the second place, the competitive position of Community industry can be measured by the Japanese and US competition on the internal market itself, as is attempted in column III. Column III gives an index, based on the combined share of Japanese and US industrial exports of intra-EC industrial exports for 1983: this share is 23.3%<sup>18</sup> and is defined as 100%. The Japanese and US high-tech exports to the EC are then calculated as a percentage thereof for product i.

Indicators for a weak EC competitive position of product i are indices lower than 100 in columns I (on third markets) and II (on the US market), and higher than 100 in column III (on the internal market). In column I 13 out of 19<sup>19</sup> product groups score below 100. In other words, the relative orientation of these product groups on the world market rather than the internal market nevertheless coincides

<sup>18</sup> Compare with Table 3, where the 1984 share has already gone up to 27%.

<sup>19</sup> One product group (SITC 791.1, electrical locomotives) is excluded because trade volumes are very low and patterns random.

with a high-tech export performance on third markets (excluding the USA and Japan) relative to Japanese and US export performance on these third markets that is inferior to the average EC industrial export performance on these third markets. The only two really favourable cases among the other six product groups are medical and pharmaceutical products (SITC 541) and machine tools and robots (SITC 736). Seven of the 13 weakly performing ones also exhibit a low score in the US market (compared to Japan, there), as appears from column II, and six out of seven experience relatively strong competition in the internal market (column III). Five out of the six ones, having a high score on the US market (against Japanese exports, there) but exhibiting weaknesses on third markets, also run up against heavy competition (by US firms) on the internal market.

More generally, column III is worrying as a whole. Out of 19 high-tech product groups, no less than 16 experience import competition from Japan and the USA above the industrial average, usually far above it. In combination with the indicators in columns I and II this points to an unsatisfactory if not, at times, weak competitiveness; in some cases, like photo cameras (SITC 881.1) and watches (SITC 885.1) Japanese dominance is so overwhelming that an internal market hardly exists anymore. It appears from column III that it is the strategy of US and Japanese firms to exploit their comparative advantages in high-tech and to conquer a good position on the EC internal market in response to or anticipation of the rapidly rising demand for high-tech products (see Table 4) in the Community. It is of vital importance for the Community to match this competitive drive in the internal market first and so lay the foundation for the maintenance and improvement of the competitive position elsewhere.

Taking Tables 6, 7 and 8 together, it is hard to escape the conclusion that there is a negative correlation between the fragmentation of the internal market (and hence, the 'underdevelopment' of intra-EC trade) and the competitive position of the European high-tech industry. Surely, 11 out of 19 high-tech product groups in Table 7 have an extra-EC export share in total OECD exports (without intra-EC trade) above the average (of 34%) of industry as a whole, but it is telling that there is only one having a good score in all three columns of Table 8 (SITC 523, other inorganic chemicals). Two other product groups (SITC 541, medical and pharmaceutical products; SITC 872, medical equipment and apparatus) score high in third markets and in the USA but experience strong import competition in the internal market. It is reasonable to assume that these two sectors have very refined intra-industry specialization, due to extreme product differentiation, so that a three-digit disaggregation may conceal the robustness of the competitiveness at the product level while still permitting substantial imports on functionally different equipment. This accords well with the observation that precisely these three sectors are the only ones not having an 'underdeveloped' intra-EC trade as measured in Table 7. Apparently quality is so high that patents and health and safety regulations (and tests) constitute no real barrier. If this is accepted then the coincidence of 'underdeveloped' intra-EC trade and unsatisfactory or weak competitiveness (in high-tech) constitutes an almost perfect match.

This leaves 8 high-tech product groups with a higher than (industrial) average orientation on the internal market rather than on the world market. Mechanically spoken, one would expect that the greater orientation on the internal market would imply the exploitation of scale and learning effects, in turn tending to strengthen competitiveness. Although this is correct, it is not the only inference possible:

- (i) a relatively strong orientation towards the internal market is, in and by itself, no proof that the internal market is not fragmented; or, in other words, that intra-EC trade in the product groups is not 'underdeveloped', as defined in Table 7. If there is fragmentation then the expectation of satisfactory or high competitiveness would not follow;
- (ii) it is also conceivable that, for some historical reason, competitiveness was not high, having subsequently led to external EC protection to shield off the internal market from too heavy import competition. In this case regeneration of competitiveness would be possible if no fragmentation existed (or if it were removed, with all the necessary adjustments following it) and

appropriate restructuring investments would be made from the rents enjoyed from the external protection.

In Table 9 the indicators of Tables 7 and 8 have been combined for the eight high-tech product groups with a relatively strong orientation towards the internal market. The picture that emerges is a sombre one. From the fifth column it appears that four product groups have an 'underdeveloped' internal market, according to the criteria of Table 7. In one group (SITC 776; TV tubes, chips, valves) this even holds true on the basis of a comparison both with the USA and with Japan. One of the other four is a special case (SITC 718.7, nuclear reactors and parts) given minimal trade, with curious patterns and such a predominance of discriminatory public procurement and countertrade that 'competitiveness' is hardly a useful concept here.

Table 9

Indicators for 1983 of competitiveness of EC high-tech sectors with a relatively strong orientation towards the internal market

SITC	Index of EC position on third markets <i>vis-à-vis</i> Japan and the USA (I)	Index of EC position on the US market <i>vis-à-vis</i> Japan (II)	Index of EC position on the internal market <i>vis-à-vis</i> Japan and the USA (III)	indicators for 'underdevelopment' (as Table 5)
718-7	556	— <sup>a</sup>	0	
752	60	28	314	y
761	34	3	107	x
763	8	2	1 877	x
775	105	53	38	
776	17	30	230	x, y
781	67a	54	64	
781	107b	54	64	
882-2	74	104	220	

Notes: <sup>a</sup> above 10 000.  
 — no significance because of lack of trade.  
 a = calculated according to definition.  
 b = calculated without counting US car exports to Canada (91% of US car exports; preferential access).  
 Column 5 uses indicators for the 'underdevelopment' of the internal market as applied in Table 5.  
 x = Japanese exports are more than 125% of intra-EC trade.  
 y = US exports more than 110% of intra-EC trade.

Source: Peikmans (1985-a).

The seven other product groups have a modest or even a definitely weak competitive position. Their economic significance is great, if only because of the trade volumes: 57% (!) of the intra-EC high-tech exports takes place in these products. The competitiveness on third markets (see column I) is however weak, if not very weak, in five groups out of seven; in household electrical appliances (SITC 775) and cars (SITC 781) the position is reasonable but far from strong. The position in the US market, compared to Japanese exports (column II) is bad: six out of seven have (very) low scores and one (SITC 882.2, photo and film material) reasonable, probably as a result of the strong EC position in chemicals. The Japanese and US competition on the internal market is far above average in four out of seven groups (column III). Where this is not so, a few remarks are in order:

- (i) TV sets (SITC 761): the internal market is split by two competing standards (PAL and Secam), yet (still) protected by patents that near their termination. It is obvious that moving to one standard would improve competitiveness.<sup>20</sup>

<sup>20</sup> This is strongly suggested in a tentative study of standardization in the EC colour TV industry by Peikmans and Beuter, 1986.

- (ii) Household electrical appliances (SITC 775): the strong position is not incidental but a result of the exhaustion of economies of scale at one time (Pelkmans, 1984, pp. 81-83); yet there are signs of price discrimination that are only possible when fragmentations persist.
- (iii) Cars (SITC 781): 25 years of the common market has engendered a shake-up of the structure and trade patterns of the European car markets; Japanese competition now brings to light that adjustment has remained incomplete. The market for components and parts is well-integrated, including standards and homologation; the market for final cars is still fragmented by national aid (preventing sufficient capacity utilization of scale plants), a few national technical regulations, registration laws and VAT border clearance; distortions of competition occur in addition because of national quantitative protection *vis-à-vis* Japan. Restructuring still goes on and the completion of the internal car market could greatly improve competitiveness.

Table 9 conveys the impression that the relatively strong orientation towards the internal market is frequently the consequence of a weak external competitive position, forcing EC firms to 'withdraw' on the internal market, with or without some form of external protection. It goes without saying that, in this way, the internal market is prevented from playing the role it could play: offering perspectives for the high-tech sectors as job-creators and propellers of growth. The completion of the internal market, combined with appropriate investment and marketing activities of enterprises having to compete fiercely in price, quality and product innovation, can restore this beneficial role, rendering superfluous the protection that is, at times, still practised.

Finally, two caveats should be mentioned. The analysis does not imply that market size (i.e. the completion of the internal market) is the sole and only determinant of competitiveness. Small EFTA countries, for instance, manage to retain competitiveness in a number of industrial sectors, be it because of specialization or because of a 'follower strategy' based on inward direct investments. However, this does not undermine the strong case for the completion of the internal market of the EC. The EC-EFTA free trade area agreements as well as EFTA countries membership of the European standardization institutes CEN and Cenelec (and EFTA's frequent copying of standards of large EC Member States) are indispensable for their being able to reap scale economies and enjoy learning effects rapidly enough.

A second caveat is that for the internal market to play its role, Europe needs a revitalized industry that assumes risks and enjoys competing. The latter task is one that industry should accomplish itself, helped in the margin by other (pre-competitive or conditional) EC policies.

### 3. CONCLUSIONS

The previous analysis provides a strong, though tentative, economic case for completing the internal market. More data on the direct costs of fragmentation and more rigorous statistical methods with respect to the determinants of industrial competitiveness are needed to establish with greater confidence the quantitative range of potential benefits. Furthermore, it is crucial to observe that the completion of the internal market serves as a necessary, probably not as a sufficient condition to realize permanent competitiveness. This chapter has made implicit assumptions about:

- (i) the kind of internal market the EC would construct;
- (ii) the responses of European industry to the termination of fragmentation.

With respect to the latter, the analogy with the 1960s (that can be inferred from Section 2.3 of this chapter) is certainly instructive: technical inefficiencies can be overcome and the dynamics of greater rivalry can be highly beneficial. With respect to the former, it is assumed — if only, on the basis of the elimination of the direct costs of fragmentation — that unrestricted market access inside the EC and a minimization of discriminatory distortions would characterize the completed internal market. Complementary elements of positive integration (see Figure 1, Chapter 1) would also be necessary, such as effective joint standardization, faster



technical harmonization and appropriate public and private cooperation in high technology R&D as well as in technological application in general — where suitable, at EC level. The Community for Technology may well be a policy package worth embracing as an indispensable complement to internal market completion.

In short, although the overall economies directly obtainable via a completion of the internal market are considerable, in the light of the aim to foster secular economic growth it is especially important to provide high-tech sectors with the greatest market opportunities where possible, while also guaranteeing certainty about uniformity in the regulation of product markets of the EC, where necessary.



## CHAPTER 3

### HOW TO COMPLETE THE INTERNAL MARKET: THE DEMAND FOR COHERENCE

Completing the internal product market is a demanding political, administrative and socio-economic exercise. This chapter will present a synopsis of the many demands at the two levels of government (EC and national) and between pairs or clusters of economic policy functions that have to be addressed. A 'completed' internal product market between countries with mixed economies imposes, above all, coherence.

To keep the analysis manageable, the chapter will concentrate on the four economic policies, shown in Figure 1 (Chapter 1) as the four main constituents of product market integration. Transport and fiscal policy will only appear in so far as 'formal market access' is at stake, but no attempt will be made to outline the demands for coherence in a similar fashion. On the other hand, the fundamental question of coherence between macroeconomic policy cooperation and product market integration will be addressed at some length.

In the four policies the negative integration at EC level is juxtaposed with the positive integration needed in the same policy field. In addition the demands upon coordination (be it at national or EC level, or both) with other policies is set out as well; for the sake of clarity these coordination requirements are split up into those within the 'integrative rhomb' of Figure 1 and those with other policies. In all four cases, tables are used to facilitate the presentation and use the available space economically.

What the chapter will bring out emphatically is the pervasive and comprehensive nature of 'completion'. The mixed economy, prone to regulate and protect be it often for justifiable and honourable reasons, has raised enormously the demands for coherence, that have to be fulfilled before the internal product market can be said to be complete. Politically and institutionally, very complex bargaining will therefore result. Steering this process towards a 'completed' internal product market is a great challenge that the Community has to meet in the next six years.

#### 1. FORMAL MARKET ACCESS

Table 10 shows concisely the integration and coordination with respect to border interventions and formal market access which are needed to complete the internal product market. It is noticeable that the removal of all border interventions is particularly ambitious and in addition that current incoherencies are rather numerous. It is not an exaggeration to state that in each Member State half of the cabinet is concerned in completing formal market access. This leads irrevocably to choices which affect the established domestic policy and administrative traditions and for this reason give rise to technical and/or political resistance. Thus, the Benelux 'single administrative document' was introduced as of 1 July 1984, probably born according to the wishes of the statistical services of The Netherlands and Belgium. Before that time control took place with invoice copies, and therefore without extra formalities. The question is: What has priority? And can one abolish exchange and capital export controls simply in order to reduce border interventions? What is the most important, and with what deadline? Can one for instance expect the Federal Republic of Germany to follow another social transport policy by the German railways, or must other means be employed to protect the German railways from the competition of road transport so that transport quotas can disappear? The question is not whether the completion of the internal market calls for that — it clearly does — but whether the requirements in Table 10 must be imposed in all cases on a prefederal Community.

It is noteworthy that negative integration is in one case (VAT) not a necessary and, in the other cases, not an sufficient condition. Moreover in three cases coordination requirements still arise; these can assume the character of necessary conditions.

*Table 10*

**Formal market access: removal of inconsistencies**

Omission	Integration		Coordination	
	Negative	Positive	In policy rhomb	Other policies
Border formalities	Prohibitory measures	Cooperation customs, plus EC Code	Trade policy	Transport policy, statistics, tax policy, agriculture policy, monetary and exchange policy
Exchange controls	Prohibitory measures	Macroeconomic cooperation in EMS, further phases		
VAT		Deferral scheme or alternatives; convergence VAT rates		
Transport	Prohibitory measures	(not treated in this study)	Industrial policy (standards vehicles); competition policy	Social policy (public transport function)
Trade protection	Prohibitory measures	Improvement common import rules	Industrial policy	

## 2. COMPETITION POLICY TOWARDS ENTERPRISES

Table 11 is analogous to Table 10 but now the omissions in the competition policy take central place. It has been assumed that group exemptions for specialization and for research and development cooperation between companies as well as for restrictive conditions in licence contracts are consistent with, and a desired addition to, the industrial policy requirements of a completed internal market. This study is not the place to bring up for discussion the detailed conditions for exemption. The fact that stricter conditions (namely no automation) for exemption are imposed on large, frequently oligopolistic companies is, in its generality, hardly susceptible to economic controversy; where the borderline is and what the implementation modalities are, these are questions which fall outside the scope of this work.

Table 11

Competition policy: removal of incoherencies

Omission	Integration		Coordination	
	Negative	Positive	In policy rhomb	Other policies
Exclusive distribution (autos)	Ban territorial protection in guarantee, repair and for individual arbitrage		Formal access (border formalities) industrial policy (national technical regulations: recognition tests of other Member States)	Fiscal policy (VAT); exchange rate policy
Non-application telecom	Prohibition of restriction terminal equipment and, e.g., parts for switching stations	Harmonization network tariffs; harmonization regulation market access	Industrial policy (aids; financing public enterprises; government procurement; tech. reg.; tests)	
Non-application transport	Prohibitory measures, quotas, etc.	Harmonization various regulations	Industrial policy (financing companies; technical regulations; formal access (border formalities))	Social policy; regional policy
Non-application other services	Prohibitory measures	Harmonization Member States legislation; establishment policy; data and privacy protection		Fiscal policy; consumer policy; capital market policy

Table 11 shows the most important implications of the eventual removal of omissions — these points (certainly with regard to services) are in no way exhaustive. Once again it is valid to state that negative integration is not a sufficient condition for attaining uniform conditions of competition. It is no exaggeration to state that negative integration in industry-related services will if anything be the final stage in a process that mainly consists of positive integration and coordination with other policy areas. The stimuli for the various ministries and private interests to bring this about are often very different. Table 11 consequently cannot exhibit in all clarity the serious difficulties of extending the scope of competition policy to such services in the internal market. Another example is the European car market: the EC has failed to let safety tests of autos originating in the Member States be recognized in the entire EC, despite the fact that nearly 35 (!) directives have been adopted for the harmonization of standards of car spare-parts and aspects of performance and that there are only three problem areas remaining. Non-recognition of tests creates fragmentation, e.g. because of the extra formalities and increases in the costs for imported autos. In addition the side effect is that because of the exclusive distribution it unintentionally strengthens territorial protection of dealers. A similar side effect unintentionally occurs if the national tax authorities adopt an inflexible attitude in dealing with VAT (plus special surcharges). The Danish inhibition to agree to a VAT deferred payments scheme, with an indirect tax on autos in Denmark in the region of 175%, is illustrative. It increases the actual working of the territorial protection of national dealers.

The application of competition policy to telecom is extremely complicated. If one refers to telecom products, then competition (in this case free trade in the internal market) is upset by industrial policy aspects such as procurement policy, standards and tests. Moreover the existing network imposes requirements for some products (although the PTTs often exaggerate here so that innovation in terminal equipment and price competition are stifled). If one refers to telecom services then competition is only possible should the national monopolies be discontinued for the use of the network as well as for non-terrestrial communication. If one wants however competition throughout the entire internal market then surveillance can no longer remain national and moreover a joint basis for tariff calculation and market access must be laid down. This is only possible in the long term.

However, the newest telecom/informatics services and the increasing digitalization of switching equipment are forcing, if for only technical reasons, towards compatible, if not uniform standards in the EC and EFTA. This obviously increases the scope for gradually introducing European competition in this field for the benefit of the commercial user. It is interesting that there has been movement in recent years in the telecom sector in the EC (sometimes in EFTA) primarily for industrial policy reasons, and not so much because, for example, the multinational large users have been bitterly complaining about tariff differences, tariff structure differences and discrimination between the Member States in the terminal equipment or new services permitted.

### 3. TRADE POLICY

Table 12 is analogous to Tables 10 and 11. Amorphous protection is (not exhaustively) split up into three sections. Certain practices have been omitted, for instance tied development aid and import substituting joint ventures between domestic and foreign producers that are informally imposed through protectionist threats.

At one glance one can see how demanding the reduction in the call on Article 115 EEC to the minimum number of exceptional cases is for the sake of obtaining a non-fragmented internal market. If one leaves national seasonal agricultural import quotas outside consideration (because these are at the most of indirect importance to the industrial market) then a great deal of political entrepreneurship and coordination is still necessary before conditions are created which make joint import regulations in this connection into something more than a rather formal EC codification of existing national practices. It will be necessary to set up a multi-annual programme in which the improvement of EC import regulations arises from the abolition of the Multifibre Agreement, and similar *ad hoc* sectoral arrangements. The abolition of the Multifibre Agreement ought to begin with the gradual expansion of intra-EC quotas, linked to restructuring plans with special temporary and limited adjustment aid to companies and to workers. The phases that follow ought to bring about the abolition of the Multifibre Agreement itself without it being replaced by bilateral voluntary export restraints (VERs). The latter has again to be avoided by renegotiating Article 19 GATT, aiming for multilateral supervision on the combination of decreasing volume protection and the required restructuring. The industrial programmes can be supplemented by suitable social and regional policy. It would be proper to set the time-frame for the latter two more liberally than for the programmes of capacity reduction. This will all be difficult and demand a great deal of time and political energy.

**Table 12**  
**Trade policy: removal of incoherencies**

Omission	Integration		Coordination	
	Negative	Positive	In policy rhomb	Other policies
Art. 115 EEC	Absolute ban of 'urgent' own measures	Improvement joint import rules	Industrial policy (aid supervision; restructuring plan EC textiles and clothing)	Agricultural policy (harmonization season import quota); EC Social Fund, social policy (adjustment assistance); regional policy
Amorphous protection	Ban intra-EC quotas MFA (until abolition)	Abolition MFA	Formal access (abolition origin controls)	
(1) voluntary export restraints (= VERs)	First obligation to report all VERs; then absolute ban national VERs without EC supervision	More delegation to the Commission for EC VERs	Industrial policy (aid supervision)	Social policy (adjustment assistance)
(2) differentiation customs requirements		Revision Art. 19 GATT pursued Improvement joint import rules	Competition policy (Art. 85) Industrial policy (testing and certific. as trade policy weapon)	
(3) cooperation agreements	Stricter EC supervision	Directives	Industrial policy ( <i>de facto</i> tying to purchases; <i>de facto</i> link to national standards)	

There are however other quite important cases which still fall under Article 115 EEC. The gradual increase in the Italian quota for the import of Japanese cars will raise the market share of Japan in Italy, after a while, to 10% (the share in Germany) or perhaps even higher. At the moment it is barely beyond zero. In such a case, should one extend public aid to the Italian car industry (read: Fiat and Alfa Romeo) in order to cushion adjustment? This does not seem correct because Fiat, and to a lesser extent Alfa, are competitive throughout the entire Euromarket. That applies to a lesser extent to the Italian motor cycle industry. France protects just about all thinkable measuring instruments with quotas *vis-à-vis* a 'zone' comprising 45 countries including Australia, New Zealand, Japan and all (current) NICs. And so one can go on. The fact that 'misuse' of Article 115 EEC is no longer rampant — favourable as that is in itself — is of lesser significance than the reduction in the calls upon it. In the meantime the competitive conditions on the internal market consequently remain unequal and even origin controls at inner frontiers can be retained for a relatively large group of products. For years all kinds of exceptions will have to be added for Ireland, Greece, Spain and Portugal considering the respective accession treaties (Ireland still for cars and tractors, for instance).

The VERs form the greatest problem of amorphous protection. Precisely because Member States have trade policy departments and independent customs offices, VERs can still credibly be negotiated with third parties. For instance the official EC list of permitted national quotas does not report the French and British VERs

in autos with regard to Japan of respectively 3% and 11% of the domestic demand. The Commission has already been trying for many years to bring these questions under Community control by getting procedures accepted concerning 'statistical surveillance' (also called 'monitoring') and thus gradually shifting the policy debate to Community level as well. For some years a 'surveillance list' has been published from which indeed appears that France keeps non-discriminatory supervision on imported cars. The British however do not do that officially because the VER has been entered into on a private basis. If that is so, the Commission should nevertheless institute legal proceedings, ex Article 85 EEC, and in that way force the VER to become a government affair and hence more visible. After all, won't price competition tend to decrease and be replaced by a token form of rivalry through advertisements and product differentiation, due to it being impossible for Japan to expand its volume of imports to the UK by price competition? Obviously, once the Japanese raise prices, what incentive would other car producers have to employ price-cutting strategies? This can lead to price discrimination in the internal market, something on which a great deal of evidence exists.<sup>1</sup> In the automobile market in particular this form of fragmentation is difficult to undo by arbitrage. Besides this the artificially raised profit margins obtained by protection can be viewed as a disguised form of industrial aid. This disguised support is however not connected to Community industrial policy conditions as imposed in case of overt public aid.

In the long run infringements procedures are however makeshifts. If the internal market is to get rid of such fragmentation and differentiations then an obligation to report VERs will have to be introduced followed by a ban on national VERs without EC supervision. The latter can again be associated with industrial public aid programmes (national, under EC supervision) and social policy. What is even better is to shape Article 19 GATT, ultimately, into an article which meticulously links selective protection to temporary aid under multilateral supervision. Within the internal market more powers ought to be delegated to the Commission to administer these VERs in such a renewed GATT framework. As mentioned earlier this approach is also of considerable importance for reducing formal quotas, ex Article 115 EEC, in particular with respect to the abolition of the Multifibre Agreement.

Table 12 shows still other examples of amorphous protection with again other specific problems which cannot all fall within the scope of this study.

#### 4. INDUSTRIAL POLICY

Table 13 is analogous to Tables 10, 11 and 12. Although all tables suggest solutions which in detail one can without doubt view differently, this is applicable particularly to Table 13. Depending on the views held concerning the desired economic order, there can be differences in opinion about the 'best' industrial policy interventions. These arise to a large extent from divergent views on what industrial policy is and should be. In the European Community this is further complicated by the question of which industrial policy competence can be exercised at which government level — national (or even regional) or Community. Both the conceptual question as well as the question of the optimal allocation of competences has been discussed elsewhere (Pelkmans, 1984, pp. 252-257 and also pp. 170-175). Table 13 is a pragmatic elaboration of this: the suggestions are therefore not arbitrary, but there is a certain amount of room for alternative solutions for certain omissions. Also in these cases Table 13 can be used to clarify the hidden incoherencies which the omissions imply.

<sup>1</sup> See, for instance, BEUC (1984) and Greenaway and Hindley (1985).



**Table 13**  
**Industrial policy: removal of incoherencies**

Omission	Integration		Coordination	
	Negative	Positive	In policy rhomb	Other policies
Ineffective surveillance of aids				
(1) crisis aids	Stricter application of Commission supervision	Conditional upon restructuring	Trade policy Competition policy (crisis cartels)	ECSC aid; EC Social Fund; social policy; regional policy
(2) restructuring aids			Trade policy	
(3) regional (industrial) aids		More supervisory competences Commission		EC Regional Fund
(4) new industries	Stricter application Commission supervision	EC R&D policy with EC aid	Trade policy; competition policy (exemptions)	Research policy
Ineffective supervision government procurement	Extension Directive 1977	Reciprocity and specialization programme in certain sectors; EC standards for government purchases	Aid policy (above); trade policy	
Ineffective supervision financing public enterprises	Stricter application Directive 1980		Aid policy (above); trade policy	
Technical regulations and standards	Reduction national regulation without reference	Better implementation Directive 1983; greater emphasis on general EC safety/health demands and strengthening EC standardization		Health policy (including work inspection)
		Mutual recognition of testing	Trade policy (tests as trade policy weapon)	Consumer policy
		EC standards new industries	EC R&D policy (see above)	
National corporate law		Harmonization		Fiscal policy

The problems of aid surveillance, checking the financial relations between public enterprises and government institutions and the monitoring of government procurement are dealt with in Chapter 1. It is of great importance to realize that trade policy and aid can be both complementary and substitutive. In the first place sectors such as steel and textiles and clothing combine national aid with external trade protection. Stricter control of national aid in the textile and clothing tends — *ceteris paribus* — to put pressure on retaining and strengthening the Multifibre Agreement. The banning of Member State quotas in connection with the Multifibre Agreement will probably have to be 'bought' with 'more' EC

protection, and if that can be avoided, in any case has to be made acceptable by (temporary!) subsidies. Crisis aid and reorganization aid must become more conditional (preferably, it should disappear), but at the same time this must take place in the trade policy area: protection only temporary, decreasing and on the basis of a practicable reorganization plan with annual reporting. Attunement of capacity reduction via crisis cartels should be allowed — as took place later in synthetic fibres; not as proposed in 1978 — but on the condition that trade protection and aid must also be considered in the evaluation before approval is granted.

Supervision of aid for new industries and for innovation is still in its infancy. This supervision can be partly based on rules of thumb concerning the distortive character of the aid and partly on coordination via Community aid programmes for R&D projects with open, competitive application. The stricter application of Commission supervision is primarily concerned with the problems of demarcation between R&D and 'ordinary' replacement investments. The rules of thumb and the greater strictness must once more be combined with the exemption policy for R&D cooperation between companies (large companies must ask permission for this and thus the Commission will know of these forms of cooperation), ex Article 85(3) EEC, because the joint effect can give rise to possible distortions. This should apply with even greater force should trade policy become used to protecting new products within the Community, a consideration gaining more ground in Europe in view of the industrial policy behaviour of Japan and the USA, in particular for mass-produced, new goods with very large scale economies and great learning effects.

At this point question marks can be placed at the splintering up of higher scientific education in the EC and the near absence of a real European approach to achieve an effective rivalry between European researchers. It is still the case that this deficiency — and primarily the lack of European infrastructure in this area — leads to the contacts between researchers in each Member State and those in the USA being intensified easier than those between European researchers from various Member States. Without a genuine European policy it is rational for individual researchers to continue to do this which has negative repercussions on university research and industrial R&D as a whole in the EC.

With respect to technical regulations and standards it can still be added that these (i) can be used in harmonized form as a tool in making national government markets more accessible (in any case the EC institutions should demand this for their own procurement and for that of Member States and others financed by the EC institutions), (ii) have to be set up for new products or processes, in as much an anticipatory fashion as possible, not only to prevent unwanted fragmentation of the Euromarket (think of the colour TV systems) but also to strengthen the worldwide competitive position. Besides this the so-called 'third countries' problem for technical regulations in the internal market, which results in costly fragmentation, must be prevented since the true problem lies in a trade policy issue of (mutual) market access *vis-à-vis* Japan. For this reason this external question should be assigned to trade policy so that the weight is taken off the internal market on this point.

## **5. CONSOLIDATION OF THE INTERNAL MARKET AND MACROECONOMIC POLICY**

The connection between fragmentation versus integration in the internal product market and fragmentation versus integration of the macroeconomic policy of the Member States is too complex to analyse in sufficient depth in this paper. The concise observations which follow give no more than a perspective in order not to lose sight of the macroeconomic conditions for the consolidation of the internal market.

It has first to be stated that the industrial (product) market integration in the EC cannot be bracketed together with the extremely vague macroeconomic cooperation, contained in recommendations and statements of readiness as described in Articles 103-109 EEC. Naturally one can imagine various degrees of intensity or

degrees of commitment in macroeconomic cooperation, but purposefully the Treaty does not go so far as to include macroeconomic integration. In addition it should again be emphasized how ambitious (politically, economically and institutionally) macroeconomic integration is in view of the stabilization function as well as with respect to (federal) redistribution. The macroeconomic conditions can therefore — in the medium term — only be discussed in terms of cooperative options.

The following questions are posed:

- (i) Given the current internal market experience, what are the macroeconomic policy conditions at EC level which stabilize, or at least do not endanger, this experience?
- (ii) What is the interaction between the internal market and macroeconomic cooperation if market integration is expanded to include services and financial capital?

The first question refers to various relationships. Intra-EC free trade, as accomplished until 1985 led to complex industrial market interweaving in the EC Ten. This trade interdependence and related production, marketing and investment decisions has not merely and only arisen from the breaking down of existing barriers, but also because of the credibility of the Community legal system which makes the reversal or erosion of this negative integration extremely difficult and in many cases practically impossible. This credibility is greater than in ordinary international trade relations and lowers the barrier for trade and producers to make scale investments, to develop new large-scale processes, to build up long-term trade contacts, if not permanent trade networks, to make direct investments and thus to try to achieve a spatial division of labour within the enterprise over the entire internal market and to invest in European standardization in anticipation of reduction in costs by sales throughout the whole Euromarket. The greater the certainty of market access, the closer the estimated business risks approach the normal ones of economic intercourse within a national economy. The omissions in the internal product market *acquis* and the remaining national competences in the field of competition, industrial policy and trade policy define the borders of this credibility.

Macroeconomic instability can damage market interweaving in two ways. In the first place macroeconomic instability can make the normal functioning of the market more difficult. For instance price stability, almost full employment, secular economic growth and external stability are conducive for properly forecasting economic development which narrows down the margins of business risks and thus makes industrial change easier. Rigidities in product and factor markets can in their turn slow down the required microeconomic reactions to macroeconomic policy changes or cause high adaptation costs in bringing it about. 'In short, there is either a virtuous circle of microeconomic flexibility and macroeconomic stability, or a vicious circle of rigidity and instability' (OECD, 1983, p.23).

In various national markets of the EC indications became apparent in the course of the 1970s which pointed to the vicious circle of micro-rigidity and macro-instability rather than the positive interaction, probably still relevant, between flexible markets and stable macroeconomic relationships in the 1960s.<sup>2</sup> For the internal market as a whole this should in theory not need to have consequences for the *acquis* (but it certainly would for the economic performance and the attraction of the Euromarket) if macroeconomic instability were spread evenly over Member State economies, and this irrespective of their industrial and export structure. Obviously this was and is not the case.

The result was that between the beginning and end of the 1970s large fluctuations occurred in exchange rates and effective demand developments differed greatly between Member States at any given moment, but also over the period. This raises the question of whether flexible exchange rates are a suitable macroeconomic

<sup>2</sup> See OECD, 1979-a; OECD, 1979-b; Mالدague *et al.*, 1981; Albert and Bail, 1983; OECD, 1983; etc.

condition for European product market integration. Without reducing this complicated question<sup>3</sup> to a few simple observations it can nevertheless be stated that flexible rates are consistent with the vital wish in all Member States to retain a certain amount of autonomy in the macroeconomic policy. Another question is whether the variability in exchange rates between the currencies of the Member States (which trade 50% of their industrial exports with each other; the EC import share is even higher) is also consistent with reasonable stability of achieved market interwovenness. In academic literature the claimed negative effect of flexible exchange rates on the volume and the growth rate of international trade is contested. A great deal of research has been done into the effect of short-term (on a quarterly basis) variability of nominal and real exchange rates on a bilateral basis and as effective rates. From the survey in IMF (1984) it appeared that short-term variability exerted no empirically demonstrable negative effects on trade.<sup>4</sup> Some intuitive grounds may explain this result such as the existence of deep forward markets, long-term contracts and considerable intra-firm trade. Furthermore in the slightly longer term not the nominal but the real exchange rate is decisive for variations (*ceteris paribus*) in competitiveness even though, lately these real fluctuations were hardly smaller, surprisingly.

Notwithstanding all this it remains difficult to deny that the exporters' uncertainty will increase strongly, if they have to work in an internal market with gyrating exchange rates — and not in a predictable direction. Not only do the transaction costs increase with the term covered, great amplitudes over a period of some years will have considerable, although temporary, effects on competitiveness so that fluctuations in profits arise which — especially when concentrated on certain countries — will have a discouraging effect on investments. Furthermore, even with the propensity to invest being unaffected it remains unclear how price signals must be read causing the margins of profitability to become similarly larger so that (*ceteris paribus*) less will be invested. All of this slows down structural changes, investments and growth in trade. For this reason a considerably larger amount of uneasiness has arisen concerning exchange rate shifts which for some years have under- or over-compensated for the differences between the inflation tempos of the important trade partners. In de Grauwe & Bellefroid (1986) it is likewise claimed that short-term volatility assumes properties of insurable risks while long-run variability has more the character of a not-insurable form of uncertainty. The authors found that some 20-30% of the observed decline of the growth rate of international trade among the industrialized countries (1973-84) can be attributed to the substantial increase of the long-run variability of real exchange rates. In any case it should be kept in mind that 'uncertainty' is always an *ex ante* concept, which for the short term as well as the durable fluctuations can only be measured *ex post*; *ex ante* it is unpredictable for the businessman and dealer what *ex post* appears to have become greater or smaller variability.

In the second place the governments of the Member States tend to respond to macroeconomic instability by pursuing measures softening the negative effects on employment and controlling the consequences for income distribution. These measures can consist of typical elements of redistribution in the Welfare State which leave the internal market as such unaffected. In the mixed economies of Western Europe, however, that is not all: discriminatory, often informal trade protection *vis-à-vis* third countries, subsidies of all kinds, capital participation in companies, rescue operations, compensatory government procurement and, occasionally even spot strikes at the internal frontiers and in transport. Such (policy) reactions fragment the internal market further by allowing omissions in the *acquis* to grow in importance via conservative national policy. Recourse to these instruments increased for the first time when Italy and the United Kingdom, and to a lesser extent other Member States, gave up their conscious search for autonomous expansion behind a falling exchange rate and tried to break through the inflation spiral despite the indexation. The halt in the fall of the exchange rate (of the lira) and the fast rise in the pound (because of oil exports) was initially combined with

<sup>3</sup> See, for instance, Dornbusch, 1983; Cezanne, 1983; etc.

<sup>4</sup> But see Akhtar and Hilton (1984) and Gotur (1985).

domestic indexation so competitiveness suffered considerably. Both countries clutched at the subsidy instrument in addition to rescue operations and a greater reliance on discriminatory trade policy *vis-à-vis* NICs and Japan. Following a year of unilateral expansion in France under Mitterand similar phenomena arose: after a couple of quickly agreed devaluations within the EMS attempts were made to prevent a third by means of an austerity programme, capital export controls and a variety of industrial policy measures, in addition to spot strikes of the French customs (video recorders via Poitiers; sudden language requirements on documents, etc.). Continuation of austerity and an EC loan combined with a third devaluation brought the return of the desired exchange rate stability in the EMS.

The internal market thus benefits from exchange rate stability, preferably in a stable macroeconomic climate whereby the Member States avoid sharp divergencies, for two reasons: the first is the avoidance of the presumed direct and indirect damage to the market interweaving; the second is to obviate the almost predictable response of national governments which will accentuate stronger than before the omissions in the internal market *acquis* and in this way undermine the *acquis* itself.

After the turbulent mid-1970s the European Monetary System (EMS) has helped to bring about a return to a satisfactory nominal exchange rate stability.<sup>5</sup> It is not clear whether the EMS has also achieved similar 'comparative advantages' in terms of real, effective exchange rates. In any case the EMS exhibits shortcomings in structure and implementation. In structure it still focuses too strongly on external monetary stability with a great deal of freedom concerning the coordination of the domestic monetary and fiscal/expenditure policy. There is also no serious obligation to do more than consult.

The Monetary Committee has *de facto* gone further since 1982. The reasons for this are twofold: firstly one must decide jointly about exchange rate modifications and this has gradually led, mainly because of the forceful devaluation of 12%, then proposed by Belgium, to the reciprocal need to discuss in depth each others policy; secondly convergence has taken place in the national policy thinking and preferences in the Member States — it is to be presumed that this convergence at civil service level is promoted by EC consultation; at political level it can probably be traced back to the failure of 'autonomous' employment policy behind flexible exchange rates, and the great need to curb inflation by de-indexation and government budget cutting. Inflation in the EC has in fact dropped drastically: from 11% in 1980 to less than 4% in 1986. With the exception of Greece the inflation rates of the EC Member States for 1985 all lie below 9% so that convergence has arisen which makes the exchange rate stability more permanent.

In matters of implementation the EMS is weak and incomplete. A number of technical and legal weaknesses can be removed without there being a need for much willingness to make concessions;<sup>6</sup> others require policy decisions concerning the so-called second phase of the system. The imperfection of the EMS is that the United Kingdom and Greece do not take part in the exchange rate mechanism which causes the internal market still to be fragmented either by exchange rate fluctuations or by real interest fluctuations aiming actually to prevent exchange rate fluctuations. The former effects the internal market more strongly and more directly even though the unexpectedness of the latter (as in the case of the United Kingdom in the spring of 1985) is certainly not beneficial either for intra-EC trade stability.

The first question posed in this section can be answered with the stipulation that the internal market *acquis* will be consolidated and market interweaving advanced if the EMS is strengthened and extended to all Member States, but in any case to the United Kingdom in order to increase the credibility and predictability of macroeconomic stability.

<sup>5</sup> See for instance, EC (1984) and Ecosoc (1985).

<sup>6</sup> As proposed in detail in *European Economy*, July 1982 (No 12).

Complementing product market integration with that in services, and above all financial capital, cannot be seen as a simple extension. The possible turnover of a Community interbank loan market, of short-term Community financial markets, of an EC mortgage market, of a European network of interlinked stock exchanges, is such that their very existence imposes precise *ex ante* coordination of monetary, exchange rate and deficit-financing policies. Policy convergence can then no longer be the more or less happy outcome of coinciding policy insights in the various capitals but should be negotiated and agreed in detail in advance. This means that the domestic discretion which one nowadays may still pretend to have, be it within the constraints of the current EMS, will not only be further reduced but by definition also be partly defined, controlled and, if necessary, adjusted by other Member States in the Council. In practice it is difficult to imagine continuing to combine this with decentralized decisions for the creation of 'base money' and for the method of financing and the size of the government budget. In any case Article 68 EEC (this concerns mutual agreement of Member States for the borrowing of money in 'each others' financial markets) must be revised. The inference is that with one European capital market this article will be rewritten in accordance with Community decision-making concerning the public sector borrowing requirements or, as the case may be, the monetary financing of each Member State.

Should one choose not to combine capital market integration with more stringent central decision-making in the macroeconomic area then quite large exchange rate fluctuations could arise in response to divergent measures. This would hold especially if underlying macroeconomic developments and policies of Member States would alter the exchange rate expectations of economic agents, particularly in financial markets. It follows that the internal product market does not benefit from financial capital market integration unless it is irrevocably resolved that:

- (i) safeguard measures remain strictly in the financial sphere with due consideration given to the widest possible interpretation of Article 106(1) EEC (which prescribes permanent freedom of payment for all intra-EC transactions including services which do not arise directly from purely financial transactions);
- (ii) safeguard measures can only be entered into at Community level, even in crisis situations, and also terminated at Community level;
- (iii) policy conditions will be worked out precisely which will make the safeguard measures superfluous after a short period of time.

The requirements are so stringent that it is more efficient, and fosters stability, if a central institutional structure is chosen with a European currency, a central bank (*à la* the Federal Reserve System) and a federal system (thus with two governing levels) for budgeting, aggregate redistribution and the financing of deficits of Member States.

Given present Community practice this 'great leap forward' is not to be expected in the medium term. Therefore what has been described as dichotomy between integration in the internal market and cooperation in macroeconomic policy is actually a spectrum of various grades of more or less intensive and stringent macroeconomic cooperation, with increasing integrative elements, together with advanced liberalization in the financial sphere, besides Community harmonization, or partial unification of the institutions and the permitted behaviour on the emerging European capital markets. It would be welcome if, in particular, the French and Italian restrictions in foreign currency dealings and with respect to capital transactions over the border were to be discontinued. From the viewpoint of the internal product market however it has to be stressed that this is only a good idea if this discontinuation does not take place simply unilaterally (hence, revocably) but is imbedded in Community regulation concerning the Community decision-making (including conditions) of the eventual application later of Articles 73, 108 and 109 EEC (the safeguard clauses). Once again this requires further convergence and continuing, partially *ex ante*, coordination of macroeconomic policy in a stronger EMS structure. This point will not be fundamentally affected by staggering the capital control liberalization, for example, by only liberalizing private ECU denominated capital flows within the Community.

## CHAPTER 4

### HOW TO COMPLETE THE INTERNAL MARKET: GUIDELINES AND PROPOSALS

This chapter will summarize the guidelines and proposals for 'completing' the internal EC product market, as were given in the WRR-study of the author.<sup>1</sup> It is good to realize that these guidelines and proposals were formulated in a period during which the understanding of the problems was more limited than today and in any event tended to be fragmented among isolated specialists. In various Commission papers, initiated by Commissioner Narjes — dealing with internal market affairs, at the time — useful clarifications had been made.<sup>2</sup> Also, the Moreau-von Wogau report in the European Parliament<sup>3</sup> and the useful Dekker-plan<sup>4</sup> had contributed to the discussion. Nevertheless, the two functions of the set of guidelines and proposals in the WRR-study of the author were, first, to present an overview of the many issues in order to improve the information contents of the debate and, second, to analyse the complexity of the integrative and coordinative requirements. Writing in the summer of 1986 the former function seems still necessary but less urgent than a little over one year ago. For the student of internal market affairs, this is likely to be the most interesting aspect of all: the present Commission — and, above all, Lord Cockfield — has succeeded to get political and journalistic attention for the internal market, so that the overall need as well as the main issues are better understood and decision-making could be sped-up.

In the following brief comparative references will occasionally be made to the Commission's White Paper, where possible and useful. However, the reader is warned that purpose, limitations and timing of the original WRR differ from the June 1985 White Paper. The original WRR report's purpose was to provide an analytical and knowledge base for a critical appraisal of the Dutch European Integration policy. The goal of the White Paper is to substantiate in a policy programme the aim of completing the internal market, formulated by several European Councils since Copenhagen (December 1982). Particularly, the European Council meeting in Brussels, 29 and 30 March 1985, called upon the Commission 'to draw up a detailed programme with a specific timetable'. In view of the latter request the White Paper is all-embracing, whereas neither purpose nor resources (included expertise) permitted the WRR to be nearly as comprehensive. Hence, transport and fiscal matters are not covered in any detail in the WRR-report. As to timing the key observation is that the topic has become a 'moving' one. During the last years of the previous decade the internal market dossier was politically dead, economically uninteresting (because proposals meant only minuscule changes) and institutionally unimportant. But since 1982/83 (when the WRR formulated its very first ideas) the dossier has become ever more dynamic and involving.

The order of presentation will be based on Figure 1, Chapter 1, and the Tables 10-13 of Chapter 3. Space constraints lead to an emphasis on what is considered essential.

<sup>1</sup> Pelkmans, 1985-a, Chapter 11.

<sup>2</sup> For instance COM(83) 80 of 28 February 1983 on the functioning of the internal market; COM(84) 134 of 11 April 1984 on checks and formalities relating to intra-Community trade in goods; COM(84) 305 of 13 June 1984 on the consolidation of the internal market.

<sup>3</sup> Doc. 1-32/84 of 26 March 1984 on the necessity to realize one European internal market, European Parliament, Economic and Monetary Committee.

<sup>4</sup> Dekker (1985).

## 1. FORMAL ACCESS POLICIES

The following five omissions will be discussed as indicated in the first column of Table 10: border formalities; indirect taxes; exchange controls; trade protection; and transport.

### 1.1. Border formalities

Besides cost economies in transport, and eventually in intra-EC trade, the symbolic and psychological significance of borders 'within' the Community also plays quite a role. It is important for politicians in power to be willing to go further than giving quite generally worded voluntary statements and leaving the implementation of plans to civil servants and services that, for entirely understandable reasons, do not want to endanger their work, position and status by carrying out liberalizing proposals of their own accord. However boring or technical politicians may find customs problems, they cannot reasonably expect feasible, detailed and workable proposals from national customs services and finance ministries unless clear political instructions are given together with strict time schedules which force the politicians to keep track of and, if possible, guide the process.

The final aim of a programme to overcome this technical (but intricate) omission should be a prohibition of customs checks at inner frontiers (N.8, in Table 1). This seems to be precisely what the White Paper proposes for 1993. For the movement of persons this requires a number of measures, in turn asking for harmonization of laws and policies as well as daily cooperation between customs and/or police in all the Member States. The WRR proposals do not differ in essence from the White Paper proposals, to which the reader is referred.

For the movement of goods, more detail is needed.

Improvement of the EC single document which will be introduced at the latest on 1 January 1988 (the White Paper takes a similar orientation):

- (i) Further simplification by requiring fewer data; this depends on other liberalization measures in some Member States and is therefore more ambitious than might appear at first sight.
- (ii) Automation of customs data transmission; automation is two-faced and should not be ignored by the Internal Market Council as being merely technical. On the one hand automation permits export companies as well as the customs and inland revenue services to increase considerably the speed of administrative operations relating to the single document and the VAT payment and to reduce costs for commerce and industry by the joining of systems and compatible programming. On the other hand the incompatibility of hardware already installed and the systems between Member States may increase the administrative complications unnecessarily and also hinder Community data exchange between the Member States' custom services. By making early decisions and setting reasonable transitional periods a great deal can be achieved in this field.

Realization of an EC customs code, in which for instance the uniform treatment of goods from third countries has to be guaranteed.

Agreeing on this code has to be considered the most normal thing in an ambitious customs union, which is what the EC happens to be. Work in 1984 and 1985 as well as the first decisions on the White Paper programme have contributed a number of building blocks (frequently even in the form of Regulations). The White Paper's orientation is fully appropriate in this respect and ought to be followed.

Further cooperation between the Community customs services concerning training. This can be done through an EC exchange programme of civil servants (which is already happening on an incidental basis), in-service training and seminars on a multinational basis for middle-level civil servants and the establishment of a Community customs academy for the managerial functions to complement the national training. Some measured form of integration of the highest policy-



making echelons of the Member States' custom services with the EC customs services should be considered in the 1990s.

## 1.2. Indirect taxes

The most important but also for political and technical reasons the most awkward administrative frontier barrier is the complex of VAT controls and charges, and excise duties. National political interests can be summarized as follows:

- (i) The ministries of finance are apprehensive for Community measures regarding the administrative constraints for national taxes. Even greater apprehension exists for complete harmonization of the indirect tax base and strong resistance against a Community scheme for convergency of indirect tax rates however large the margins may be. This apprehension and negative attitude cannot be measured; they are the expression (hidden in technical objections) of the sacrosanct 'fiscal sovereignty' of the nation-state. Partly, they are genuine as high-indirect-tax Member States may have to alter their revenue structure drastically in order to avoid overall tax revenue losses.
- (ii) Flexibility in national taxation should be looked for in indirect taxation because many governments judge that the limits of income tax have just about been reached (in many EC countries the corporate tax rate is even going down); the consequence is that the emphasis on indirect taxation has increased, even in countries which traditionally had a smaller proportion of this taxation in their total revenue.

The technical aspects are extremely complicated and need special treatment elsewhere. Without the willingness to make concessions, satisfactory solutions are impossible and negotiations become bogged down: VAT rates still diverge considerably, the tax base in the so-called 6th Directive is still not uniform enough and the excise duties show wide disparities. The zero tariffs for articles of 'basic needs' in the United Kingdom (and partly also in Portugal) form a specially difficult problem, because from a political point of view they may be considered rather sensitive.

The Commission is therefore to be congratulated with its determination to tackle the issue thoroughly in the White Paper. A key problem with the Commission's approach is that the 14th VAT draft directive is resisted by some five or six Member States, primarily for short-term reasons of budgetary adjustment, whilst the Clearing House proposal is hardly more than a vague idea at the moment, is considered administratively as too ambitious by some specialists and in any event is only scheduled for 1989. There is a risk, therefore, to fall between two stools and still have fiscal frontiers for several years. This would throw the full weight for the elimination of fiscal frontiers on the harmonization of rates. Politically and budgetarily this harmonization will be difficult. However, if it would come to an agreement to harmonize rates inside two VAT bands, the Clearing House proposals appear to lose their force, because clearing would only be needed for a brief adjustment period (if, at all) and be superfluous thereafter. Furthermore, a debate is emerging about whether harmonization of rates is really needed for the elimination of fiscal frontiers.<sup>5</sup>

## 1.3. Exchange controls

Fragmentation of the internal market caused by quantitative and administrative restrictions on the movement of money still exists, in spite of the freedom in paying for delivered or to be delivered goods laid down in Article 106(1) EEC. For existing companies and commercial enterprises these restrictions do not

<sup>5</sup> See the papers by Alec Easson and by Dieter Biehl in the proceedings of the European University Institute's colloquium on the internal market, June 1986. To be published in the *European Perspectives Series*, Office for Official Publications of the European Communities, Luxembourg/Brussels.

usually give rise to serious problems but this is not so for new, small companies and for incidental transactions of representatives, tourists or for test deliveries. The real problem — the balance of payments problem, given the exchange rates of and the confidence in the currencies — cannot however be solved by export controls on financial capital alone, because hidden capital export will take place by way of the money market and the banking system.

Articles 67 to 73 and 108/109 EEC are a never-ending threat to the internal market and, moreover, for the time being they make the creation of a Community capital market seem an illusion. If the macroeconomic policies of the Member States have been coordinated sufficiently, we can expect these controls to be abolished. Even though the recent inclination towards convergence of the macroeconomic policy, especially of the inflation rates, should be judged positively, the abolition of exchange controls should be considered as an ambitious aim with far-reaching implications. The following action could be taken:

- (i) Gradual reduction in the *de facto* fragmenting effects of exchange controls on the internal product market. This can be attained by tightening EC policy with regard to the safeguard clauses in Articles 73, 108 and 109 EEC, in so far as this would hinder the trade in goods. In particular the amounts for small transactions and for tourists in the first instance should be raised to such a level that they will rarely be considered as restrictions on trade. In addition obligations as to import deposits for intra-EC trade, and measures with similar effect, should be excluded, now and in the future.
- (ii) The freedom of payment for trade in industry-related services liberalized in the EC should be accomplished.
- (iii) From the viewpoint of EMS consolidation (see Section 5) a programme should be drawn up for the elimination of controls on capital export. Meanwhile, application of the safeguard clauses should be limited in time and scope, as also suggested in the White Paper.

#### 1.4. Trade protection

For about two decades many have been wondering why such an ambitious customs union as that of the EC, has found it possible to go on without a complete common trade policy. The internal fragmentation of the textile and clothing market in the EC, or of the EC market for (Japanese) cars, for (Japanese) colour TVs or for certain East European products makes market unity seem unbelievable and blocks its consolidation. Still the question arises of whether it is really so surprising that Member States want to retain a certain amount of elbow room in trade policy. Is it not a fact that the fundamental qualms about agreeing to a single Community customs have not been overcome at all? The EC system does lead to far-reaching restrictions of national policy instruments, but it remains a prefederal system: in questions which are too sensitive both politically and socially the Member State's normal executive instruments may be employed for special cases or in escape clauses which are extremely persistent.

Therefore, fragmentation cannot be expected to disappear altogether before agreement has been reached on the EC customs code, and before the EC customs service has effective judicial and administrative means available to check and correct each national trade policy implementation measure. (The White Paper speaks about intensive cooperation between national administrations and the Commission.) Moreover, elimination of fragmentation is closely linked to two other policy decisions at European level: the nature and extent of Community protection and the replacement of (national and/or Community) trade protection by public aid and adjustment measures primarily at national level but with EC approval and under Commission surveillance.

The following points can therefore not be seen separately from those presented in Section 3. The fact that they are shown separately is to complete the discussion of formal market access.

Invocation of Article 115 EEC, by which controls on origin at the internal borders are sanctioned and national volume protection *vis-à-vis* third countries within the internal market are effected, should gradually be reduced to *ad hoc* special situ-

ations. The priorities here should be set clearly: barring special situations, market integration is more important than the specific form of external protection with regard to certain third countries. This means that:

- (i) no matter which arrangement is chosen for the Multifibre Agreement, it should definitely be acknowledged as *communautaire*, and any reference to even a potential return to so-called national powers should be banned in order not to fragment the internal market (in so far as this return is not already in defiance of Community law);
- (ii) the Commission should prepare a long-term plan to enable the Council to gradually reduce the number of products which are still subject to national restrictions;
- (iii) in addition a plan should be drawn up for bringing the safeguard clauses in bilateral agreements between Member States and third countries up to Community level. This does not necessarily imply that the application of the then necessary Community safeguard cannot at the outset take place in a differentiated manner. But this national differentiation should be discussed each year at Community level in order step by step to reach uniform application (including agreements with Comecon countries);
- (iv) the policy for more openness in the EC policy of surveillance and safeguard measures, which was introduced so tentatively a few years ago, should be expanded. The Commission should, accompanied by reasons, not only publish approvals but also rejections of requests for safeguards.

### 1.5. Transport

Because of the accumulation of numerous forms of national legislation in the transport sector, this field deserves specialized treatment and therefore it will not be covered in this study. Nevertheless it will be clear that the EC can never be or become an internal market unless free intra-EC trade is accompanied by unrestricted transport. In the economic sense there is no essential difference between the freedom of payment for goods freely traded, guaranteed in Article 106(1) EEC, and the freedom of transport of these goods.

## 2. TRADE POLICY

The European Community does not have a solid basis for a healthy trade policy directed towards growth and competitiveness. Although trade policy is one of the Community's most important competences, the general policy statements of the EC are so rare that one can reasonably doubt whether there is a sound long-term policy. There has never been an annual report on trade policy in spite of the fact that agriculture, the Regional and Social Funds and competition each have their annual reports, which not only contribute a great deal to understanding the policy problems but, first and above all, they force the Commission to make a systematic policy analysis and to set out the strategy to be followed and its reasons. Up till now the general debate on trade policy in the Community has only flourished in connection with the three GATT Rounds (Dillon, Kennedy and Tokyo). But the paucity is in fact even greater, because the short-term policy is also quite nebulous. Many trade policy decisions of the Commission remain unknown because they turn out negatively: e.g. requests for extra protection by voluntary export restrictions or requests for (temporary) abolition of tariff protection or pressure to change the tariffs or tariff structure are neither published at the time of request nor of rejection. Just as serious is the fact that positive decisions are only published in the *Official Journal* as a *fait accompli*, without any further comment on the motivation behind the request and without any reference to the overall trade policy.

All of this makes it impossible to get a good picture of the policy pursued and, even more important, to assess general policy in the light of the need for adjustment and growth, and to compare the individual decisions with the overall policy. In addition, no democratic control of EC trade policy is possible, except indirectly, incompletely and ineffectively via national parliaments and, extremely

marginally, via the European Parliament. Officially the European Parliament has no advisory competences in the numerous small short-term decisions.

A fundamental bottleneck in trade policy is the intermeshing of trade policy effects on the competitive conditions throughout the EC with the industrial policy effects and the competition policy effects on these conditions. This demands coherent policy in all three policy areas. It is true that awareness of this intermeshing is increasing but the resulting necessity for policy coordination is insufficiently addressed. The White Paper goes no further than a formal recognition of these effects without giving any detailed proposal.

This study concerns the internal EC market for industrial products and will look at trade policy from this limited viewpoint. Trade policy can have considerable influence on industrial competitiveness and thus on economic growth in the medium term. A liberal trade policy creates permanent pressure to maintain competitiveness in the internal market and helps entrepreneurs to anticipate future shifts in comparative advantage in relation to third countries by investing in new production processes (or in their R&D), in new products or in other specializations. Up to the start of the 1970s US trade policy initiatives served as a favourable complement to the internal liberalization in the EC, but since that time it has become increasingly obvious that the Community, as the largest trading block, should itself take initiatives. A too passive EC trade policy conflicts with the EC's own interest and will eventually lead to an increasing number of negative repercussions on the internal market.

The following programme burdens the still prefederal Community with quite an ambitious strategy. An active policy is partly a condition of and partly complementary to the proposals for the removal of access barriers due to protection (see Section 1.4).

The Multifibre Agreement must be abolished; if not then the EC must withdraw from it. The best solution is for the EC to propose a phasing-out scheme to the exporting countries, described below. Should this apparently not be possible then the fourth MFA should be stripped of some restrictive clauses (such as the surge mechanism), each safeguard *vis-à-vis* the poorest countries (definition UN/World Bank) should be excluded, a growth of at least a real 6% per year of all specified volumes should be made possible and the itemization according to quotas per Member State should be excluded. Further this fourth MFA for the EC should be explicitly connected to reorganization and adjustment programmes which should be discussed in the annual reports of competition policy and trade policy.

The following major points should be included in the phasing-out scheme of the MFA:

- (i) the phasing out scheme is for five years, beginning as soon as possible;
- (ii) the itemization by quotas per Member State should be ended during the first stage of the phasing out;
- (iii) in the first stage the quotas for the poorest countries (definition UN/World Bank) should be abolished;
- (iv) the second stage consists of the last chance to restructure 'sensitive' products; during the first stage negotiations on this matter can take place, in the second phase the restructuring plan can be carried out. The nucleus of the plan is a combination of decreasing volume protection and national subsidy arrangements under EC supervision with a maximum of five years and with no renewal. The protection can for instance in the three years of the second phase be reduced by allowing the quotas to rise by 10% annually and then be abolished;
- (v) the most sensitive products follow a similar restructuring process but at a slower speed. In the first phase the MFA 'surge mechanism' must be scrapped. In the second phase subsidy programmes for restructuring will be carried out simultaneously with a yearly rise in quota of 5%. After five years the quotas will be in principle abolished although for instance a two-year extension should be possible, be it in that case with 10% increase in the quota volume per year. The subsidy programmes could continue if the quotas are dropped; if quotas are to be extended, then the subsidy arrangements are dropped;

- (vi) for the problems of 'market disruption' and 'serious injury', after the abolition of the MFA, reference is made to a (fast) procedure in a rewritten Article 19 GATT (see below).

The European Community should take the initiative with respect to rewriting the safeguard Article 19 GATT, which should be directed towards adjustment and have good multilateral surveillance. During the last years of the 1970s the impression was received that in EC circles 'exemption from injurious market disruption' was another term for exemption from competition arising from comparative advantages. This refusal to accept developments in the world division of labour is damaging for the Community as the world's largest exporter.

The rewriting of Article 19 GATT has to be based on the following principles: openness of requests, by holding hearings with (partly) neutral experts; the permitted protection is temporary, decreasing and not directly renewable; surveillance and decision-making is strictly multilateral; non-compliance gives all exporting countries the right to impose immediate sanctions. Further the rewriting should be accompanied by a programme for the gradual abolition of volume protection, such as the MFA (so-called 'rolling back').

Possibly independent of the above a study should be made into how national 'amorphous' protection with respect to third countries can either be eliminated or come under Community supervision. In any case the Commission should carry out an exhaustive inventory of all temporary and permanent 'voluntary' export limitations at national level. This inventory should, together with the specified reasons of protection, be compared with national subsidy schemes and the Community external tariff so that the total protection becomes clear. This inventory should be published in the annual report on trade policy (see before) or as a separate study. Furthermore the Commission should come forward with some proposals.

Trade protection on new products must remain exceptional and based on explicit policy. This policy can be stipulated in such a way that, on the one hand, the precedent of the 'compact disc' protection may be restrained while, on the other hand, the lack of a 'high-tech code' in the GATT — on artificially caused differences in product and process development and in the early phases of the product cycle — would inflict no damage on innovating industry in the EC.

The Japan policy of the EC must be fundamentally reviewed. Starting point of this should be that trade protection in no case may be used as 'reward' for a worsening competitive position. Such protection delays adjustment, rewards lack of innovation and the ability to anticipate in the sectors concerned and contributes nothing to competitiveness on the third country markets which are of such importance for the Community. Also, and in line with the remarks before, the Japan policy needs to be truly communitarian. But the common trade policy should be used as an instrument for retaliation for the non-tariff protection of the Japanese market. The trade policy energy of the Community must not be concentrated on the 'organizing' of the textile, clothing, leather, steel, cars and TV and VCRs trade but on reducing serious competitive distortions and radical differences in the market access elsewhere of those products or sectors where previous negotiations on tariffs and codes are nullified by amorphous protection. The diplomatic offensive should be primarily directed at the newer and newest products because there scale and learning effects can be exploited on a protected market. The Community should see to it that in the introduction phase of young products between the large GATT trading partners there are no extreme differences in protection. If product development and the introduction phase of product X takes place in Japan without the least threat of European or American (or other) competition, while the EC and the US market are open except for a low tariff, then an absolute cost advantage can be achieved which cannot be overtaken and which makes research and development investments worthless. This exercises a shock effect on further research and development investments in other new products for reasons which cannot be primarily blamed on the enterprise.

Article 23 GATT, and other articles, were not written with this in mind so are therefore unsuitable. The EC should formulate a policy which, as long as a high-tech code in GATT has not been agreed, makes trade retaliation possible on the

basis of the above considerations. This retortion has nothing to do with the 'bilateral' deficit with Japan (which is irrelevant in a multilateral system) and primarily concerns young products and new products in their primary phases. The retortion is temporary and not renewable; obviously it can be abolished or reduced by negotiation. The retortion is not in terms of quotas but based on tariffs.

Finally the retortion can only be applied — because that is the industrial policy and competition argument — to those young and new products for which a completed or almost completed internal market has been achieved.

Traditional patterns of retaliation and protection are still too strongly adhered to in the EC. The retaliation suggested here is not a response to an internal political problem (e.g. the threat of unemployment because of import competition), but to a serious disparity in the reciprocal market access, thus a diplomatic problem. Consequently retaliation must be discussed beforehand with Japan and only applied if this does not bring about improvement in the access of these products. Retaliation must remain shortlived because it is not there to protect EC industry but to get Japan to open up the market. Also it is the trade diplomacy which can end retaliation before this comes to an end administratively.

Cases are conceivable for which the retortion would not be by way of tariffs but by other means. One of which is a Community technical certification policy which must be discretionary applied in response to excessive and non-reciprocal demands in Japan. This is discussed in short in Section 4 seeing that this policy makes certain demands of the new approach to technical harmonization.

### 3. COMPETITION POLICY TOWARDS ENTERPRISES

Competition policy with respect to enterprises is one of the relatively successful Community activities. The notoriously weak point of coordination with other policies (where economically justified) has improved considerably primarily due to the adaptation of the exemptions policy in relation to licences, R&D cooperation agreements and specialization agreements between otherwise independent businesses. Coordination with trade policy is not yet sufficiently developed in the case of so-called voluntary export restraints — certainly when these have been entered into between import competing industries and third country exporters.

The remaining problems which deserve attention concern the inadequately effective application of competition policy in the sub-sector assembled private cars (not parts), and the fact that Articles 85 and 86 EEC has hardly been applied to telecom, transport and other services. Furthermore the need to strengthen the hand of the Commission in its control of mergers continues to exist. Therefore, legislation to this effect should be adopted, especially since private barriers, maintained by powerful corporations, are inconsistent with the completion of the internal market.

More generally, competition policy *vis-à-vis* enterprises and the completion of the internal market can and should strengthen each other, not only in policy-making but first of all in the markets themselves. This is long recognized by the Commission and Court in their emphasis on the 'unity of the (internal) market'. As has been stressed in Chapter 2 it is essential for European industry to achieve 'permanent competitiveness', *inter alia*, by reducing barriers to entry and exit and overcome rigidities in large (and even more so in public) enterprises. Innovation, growth and adjustment require a set of policies promoting intersectoral mobilities of resources, access to markets and strict sanctions for anti-competitive behaviour. This broader perspective should underlie both competition policy and the approaches to improve market access.

### 4. INDUSTRIAL POLICY

By industrial policy we do not mean the drafting and promoting of a specific blueprint for European industry in the near future. To the contrary we mean attempts to achieve a legal framework and a coherent policy — with a distribution of tasks between EC and Member State levels, and between government policy

and the efforts of industry itself — which together guarantee equivalent competitive conditions in the entire internal market, with in principle equal access to the effective demand experienced in the market concerned, as well as the use of the funds in the precompetitive phase of the products and processes as efficiently as possible to promote to the greatest extent the (permanent) competitiveness of European industry both directly as well as indirectly.

This approach to industrial policy overlaps, and is directly connected with competition policy and trade policy. This connection is shown schematically in Table 13. With regard to orientation the 'industrial policy' should be 'market-guided' with anticipation, stimulated by trade which is as free as possible, of a response to changing comparative advantages within and outside the EC and with a great deal of emphasis on avoiding (national) aid except for R&D. It is essential that the economic advantages of the internal market should be thus exploited entirely which requires Member States to proceed to the necessary positive and negative integration. The latter is taking place too slowly and too minimal.

The following options concern policy relating to national crisis or restructuring aid, R&D aid policy, problems of standards, technical regulations and tests, government procurement policy and industrial property rights.

The so-called crisis aid in sectors such as steel, textiles and shipping should be terminated as soon as possible. The reasons can be summarized as follows: crisis aid has a conservational character, discourages the relatively efficient enterprises in the internal market, prevents the better alternative use of this government money and induces the granting of matching aid to competitors. The social-political reality in the Community demands that consideration be given to, for instance, the following impeding factors: every year in the EC elections in one or other Member State take place; regional concentration of crisis sectors arises in many Member States; the social adjustment costs accompanying the termination of crisis aid are politically evaluated in divergent ways; the granting of aid and protectionism in third countries is important; there is insufficient alternative employment in the labour markets.

In any event, crisis aid has to be converted to restructuring aid, with detailed adjustment plans, which also have to be reported interim. In the special case of steel this means that further capacity reduction is required after 1986.

With restructuring aid the surveillance, which has been carried out for some years, must become stricter. Besides this particular attention must be paid to three elements which up to now have received too little attention:

- (i) recurrence of aid, at the end of periods with aid, should be more strictly controlled; attempts should be made in principle to exclude immediate recurrence;
- (ii) the automatic covering of the losses of State enterprises must come under strict surveillance in order to bring these practices to an end unless it can be specifically justified. The Commission must attempt to circumvent the smouldering opposition by eliciting rulings from the European Court on the interpretation of Article 90 EEC;
- (iii) the cumulation of financial aid and various forms of trade protection should be taken into consideration; this is even more applicable if such double protection also has or can have a fragmenting effect on the internal market.

The policy with regard to aid for R&D deserves more attention. In contrast to the granting of aid for industrial production or normal business investments, where the EC's role as supervisor best serves the internal market, for many sections of R&D aid it is true that these can be given the most effectively and possibly the most efficiently at EC level. In addition to this a surveillance policy with regard to national aid should be further developed. Both should be consistent with competition policy with regard to enterprises and with trade policy as well as with other sections of Community industrial policy (e.g. government procurement and standards).

In a world economy with constantly shifting comparative advantages, highly developed market economies, making use of their relatively abundant production factor of 'high-grade human capital', ought to create their own comparative

advantage. At European level this role is almost entirely missing. No European structure for advanced multinational education exists, no 'centres of excellence' (except on nuclear energy), hardly any or no stimuli for EC-wide mobility of researchers (most university systems in the Member States are *de facto* somewhat closed), and much too little money for real multinational European research work (which is typically excluded by the national research foundations). Europe is often unattractive for the best (applied) researchers because a European dimension and the link with industry is missing. These discouraging factors feed the 'brain drain' and have never been counteracted by a European strategy. By a partial transfer of national university budgets to programmes with a European basis, it does not need to cost more. The following points could be studied:

- (i) some competitive European research centres in the field of technical or natural sciences;
- (ii) 'centres of excellence', as far as possible in cooperation with European industry;
- (iii) vast expansion of the European public research funding; conversion of the European Science Foundation or the setting up of a separate Community one (with a maximum of two languages and adequate funding);
- (iv) the sponsoring by European organizations of researchers in certain disciplines, and their publication policy;
- (v) a radical 'Europeanizing' of the best universities in the Member States.

There is also a role for the government in promoting the distribution of knowledge to business men and enterprises, the absorption of this and the transformation into applied research and eventually in product and process development. This role has a more direct industrial policy character.

The national level is not always the most suitable for this governmental role because of the lack of scale effects, the risks of market fragmentation in the EC when launching the product, the financial bottlenecks and the large amount of uncertainty with huge projects. The opinion that this can often take place better at European level is beginning to break ground, as is apparent from programmes such as Brite, RACE and Esprit. The scale of these programmes is however somewhat limited compared with some Member State programmes (the German informatics programme is almost as large as Esprit) and compared with the USA and Japan. The European Community for Technology, providing for the first time an overall vision with some coherence, should be supported not merely in words but in terms of financial support.

A much stronger European emphasis on R&D is the required complement to the reduction in crisis and restructuring aid in shrinking industries.

Surveillance of national R&D aid can be strengthened by:

- (i) letting the notification system function better also in these cases;
- (ii) forbidding disguised investment aid for technical renovation presented under the label 'R&D';
- (iii) linking up with the Community programme, including Esprit, Brite, RACE and the biotechnology project, so that in these cases guidance and coordination can be achieved without adding to the EC budget (ex Article 92(3b) EEC);
- (iv) establishing simple rules of thumb for aid ceilings for R&D, whereby attention should in any case be paid to the following:
  - (a) the aid ceiling (as % of the project's R&D figure) should be lower the closer one gets to innovation (the commercial stage after development; the Commission has meanwhile initiated this);
  - (b) to develop a separate policy for government assignments of prototypes and applied research (because these are excluded from the public supplies directive) on the grounds of possible competition distortion; the question is not so much to limit the freedom of the Member States to make these assignments — although with large-scale assignments one could in any case give some thought to this — as the later quasi-vertical connection which can arise between assigner and developer for a lengthy period;



- (v) to keep a sharp eye out for R&D cooperation between enterprises in two or more EC countries (by means of an exemption ex Article 85(3) EEC), which can enjoy cumulation of aid in two or more countries;
- (vi) to include fiscal facilities, to the extent enjoyed, in the project aid.

In some rare cases the scale and risk of product and process development and the consequent innovation investment is so large that aid surveillance is an improper instrument. Indeed by limiting national grants it is possible that no production will get started. Aid as well as risk can be limited by early coordination of product development in a form of cooperation allowed under the competition regime. If the product is of public or quasi-public nature then the Member States could in one way or another be involved. Such large-scale, not-purely-private industrial products are thinkable in markets for energy products, telecom switching equipment, airplanes (civil as well as military), fast trains, space travel, etc. They are suitable for the 'géométrie variable' method under explicit conditions which, considering the internal market *acquis*, ought to be stipulated, for instance in the field of competition.

This study is not the right place to go into the precise modalities whether inside Eureka or separate from it.

The so-called new approach to the harmonization of technical regulations deserves strong support. This is above all of importance now that the Internal Market Council accepted this approach on 7 May 1985 and the first draft directives will soon be able to try out the reach of Member States' willingness. What has to be prevented with the greatest possible insistence is that, in the absence of existing European standards, lengthy technical specifications are inserted as the substitute for more general formulations of health and safety objectives. It is also the Commission's task to see that CEN and Cenelec function better by way of clearly defined mandates and adequate financial support. CEN and Cenelec should improve their annual reports by means of presentation and analysis directed towards policy.

The internal market is not yet free enough for the food and pharmaceutical sectors. For instance with pharmaceutical products the arguments for recuperation of R&D (and costs of tests, which are extremely high in this field) begin to weigh heavier so that the strong position of EC industry in the world market could eventually be endangered by continued fragmentation of the internal market.

For instance the gradually improved harmonization of the national licensing policy ought to be completed in two steps: firstly the speeding up of the procedure via the EC Committee for Proprietary Medicinal Products (CSP) — which with a dossier makes parallel requests possible in many Member States on the basis of the CSP advice, analogue to the Patent Convention of Munich; secondly the principle of reciprocal recognition of tests should be accepted, possibly with an escape clause and on the basis of minimum quality criteria.

Further the fragmentation of the proprietary medicine market should be more effectively combatted by further harmonization of the applications in the social insurance system (concerning the refund scheme for medicines) and the price policy to be implemented. The emphasis here lies too much on the case-law of the European Court which does not solve the central problem. In addition the introduction of a European patent can reduce the fragmentation even further. The White Paper's proposal to extend the scope of the information directive (83/189/EEC) to food and pharmaceuticals should also be followed up.

The mistake should not be made to think that the 'old approach' to technical harmonization will disappear completely. In many cases the technical directives, accepted between 1969 and 1984, are 'aspect directives', under which trade is not always guaranteed to be free; frequently optional harmonization is applied whereby true freedom of the movement of goods is strengthened but not always the scale effects.

The White Paper still mentions some 90 directives that need to be addressed under the 'old' approach (ignoring agricultural products). Moreover the Member States can continue to press for the ordinary procedure, ex Article 100 EEC (thus without reference to standards to be agreed by CEN) in cases where uniformity or

a great deal of certainty is required. Therefore the Council should set for itself strict time limits within which the question would be presented at Coreper level or at the level of ministers for final decision so that it can proceed through the Council as an A-document.

Should a Member State insist on consensus then differentiation in the allowed transitional period should be negotiated in order to speed up the decision. In some cases the majority voting, as foreseen in the Single European Act may solve the problem.

The Commission is currently not obliged to report publicly on standards and technical regulations. That was quite reasonable in the framework of the 1969 harmonization programme in which the simple reporting of technical requirements in the General Annual Report can be considered sufficient. Currently there are various reasons for the Commission to formulate an analytical and policy-directed annual report in cooperation with CEN and Cenelec and possibly CEPT. In short, the so-called new approach gives much greater flexibility as well as direct connection with case-law, ex Article 36 EEC but it is becoming much more difficult to evaluate actual improvement in market access in the EC. The necessary information is very fragmented and competence is required in the juridical field (for future case-law on the conformity of standards or manufacturers' declarations with the so-called essential requirements for safety and public health), the administrative field and the technical field (the CEN and Cenelec standards; and temporarily even national standards).

This form of reporting can be an important instrument in clarifying real progress in this difficult field to everyone interested and to politicians in particular. Only progress reports accessible to decision-makers at the political level can sustain the political pressure with which the new approach was hammered out.

In telecom the quite vague world standards of the CCITT (the advisory body of the International Telecommunication Union) cannot suffice. The provisional decisions concerning the RACE programme do not offer enough certainty that the precise standardization programme for telecom terminals (for ISDN in the 64 kilobit variant and the 35 megabit broadband variant) which CEPT is currently carrying out, and the standardization in telematics and the future digital network for the EC will be harmonized with each other in time.

The interests of the PTTs (above all of the four large countries), the interests of the user/consumer and the intra-EC and world export interests of the EC telecom industry are here in the medium term converging. This means that the Internal Market Council, the Council of Ministers for industry and the Research Council should coordinate and possibly meet jointly to discuss these items. Moreover the Finance Council should consider whether switching from national to EC programmes cannot meet the budgetary objections.

The Commission should work with energy and drive on a test and certification policy. Besides the announced register ('directory') of certification institutes, general guidelines for quality control, testing and mutual recognition of tests and certificates should be set up. Extra support (from the Regional Fund?) should be given for this to Greece, Spain and Portugal.

Finally a Community test and certification policy should be developed for the discretionary application of reciprocity requirements in inspection matters which fall under the GATT Code for Technical Standards. At the moment Japan is the main problem. One possibility is to develop a variant based on a proposal made by the Commission in 1980 (at that time not approved) for a special Community approval procedure which can be connected with the new trade policy instrument. However, attempts to use this combination for a conserving protectionism must on the one hand be prevented, while on the other hand trade diplomacy (e.g. with Japan) has priority over the use of these two instruments together. The EC should however have this means at its disposal to correct extreme inequality of market access between Japan and the EC by retaliation. The importance of this, particularly with young or new products, is quite considerable.

With government procurement the public supply directive should be applied in the following way:

- (i) The market excluded up to now for transport material (for public transport), utilities (water, energy), telecom and military procurement (ex Article 223(1b) EEC, 'not meant for specific military purposes') should be brought under this directive and a solution for the legal obstacles ought to be agreed.
- (ii) Loopholes and possibilities for circumvention (such as the splitting up of contracts and heavy reliance on 'exceptional' non-competitive tendering; etc.) have to be cut off; local authorities have to be better informed; infringement procedures should come to be seen as an ordinary instrument also in this field.
- (iii) The Commission should have a study carried out into the extent to which national standards with transport material, water and power installations and 'civil' military purchases could form a hindrance to the *de facto* liberalization under the modified directive; where necessary European standardization should be begun. Liberalization for telecom terminals has meanwhile been agreed. Liberalization for telecom network material should take place in two stages: firstly within the EC and then worldwide.
- (iv) With government procurement of standardized goods European standards should be made compulsory, where relevant. Above a certain limit with prototype purchases, etc., aid surveillance rules should be operative.

Most important of all, public procurement should be taken out of the artificial atmosphere of secrecy and confidentiality. Where industrial policy motives play a clear role, industry should be brought in at EC level just as has become more customary in many other areas of the internal market.

The European Patent Convention of Luxembourg has been lying waiting for ratification for 10 years — an unacceptable situation. The Commission should remain active to promote that this convention becomes operational among the countries willing to adhere to it.

The modified proposal for the European trade mark law and a European Trade Mark Office should be accepted in 1987, as agreed. Should similar problems arise here then an option ought to be worked out in which not all Member States would be compelled to take part.

## 5. MACROECONOMIC COOPERATION

The credibility and predictability of macroeconomic stability in the European Community promotes the consolidation of the internal market *acquis* and of market interweaving while facilitating the completion of the internal market. Now that a combination of (i) converging policy insights in the national capitals and (ii) the intensive consultation in and the relative success of the EMS have reduced quite strongly the average rate of inflation in the Member States in what is *nota bene* a time of high unemployment, it can hardly be denied that the time is ripe for consolidating established 'informal' traditions in the EMS and for strengthening macroeconomic cooperation. The proper approach is to consider the intensity of monetary cooperation and the tightness of the link between (EMS) currency exchange rates as a positive function of the extent of rapprochement or compatibility in the Member States' macroeconomic policy.

It cannot be denied that some progress has been accomplished in the EC recently on the latter, and certainly under difficult circumstances for all Member States. This 'convergence' has taken place, entirely in accordance with the 'economist' approach, without there being any formal obligation for this in either the EEC Treaty or the EMS.

It is in the European interest to draw conclusions from these recent policy developments. Conditions are present for further cooperation with further macroeconomic policy convergence; if cooperation remains more intense and binding, then monetary integration initiatives can be based on this. The first is of prime importance for the internal market, the second forms a more fundamental decision, 'a big leap forward' with a much more far-reaching significance for all sorts of markets and policies.

In the following the 'big leap forward' is for the time being (i.e. in the medium term) considered to be premature and the emphasis is laid on further macroeconomic cooperation and negative market integration in the financial sphere. Proposals have not been worked out in this study; these can be done elsewhere — and indeed these have already been done many times in all Member States and by the Commission.

The consolidation of the EMS should be actively promoted. The modalities for such a consolidation process, and the sequence of the steps, are of minor importance for the subject of this study. In any case these include the following:

- (i) carrying out so-called intra-marginal interventions in EMS currencies;
- (ii) making the three-monthly swaps permanent between the European Fund and Monetary Cooperation (EFMS) with regard to the ECU equivalent of 20% of the dollar reserves, and probably a special formula for the ECU equivalent of 20% of the gold reserves;
- (iii) administration of the very short-term and short-term credit facilities by the EFMS;
- (iv) formulation and gradual delegation to the EFMS of a joint dollar policy now that the inflation rates of the EMS countries are continuing to decrease and the dollar will likely remain relatively low for a while.

Rules concerning the acceptability limits and other questions (such as narrowing the *liband*) can be applied when appropriate. Further the United Kingdom ought to become a member of the EMS exchange rate arrangement. To reduce the anxiety arising from 'petro currency' symptoms a more active policy could be carried out to invoice more oil and gas in ECU.

Control regimes on all sorts of exchange transactions, including capital exports in the EC, should be gradually discontinued. An extremely modest and, hopefully, not simply a symbolic step has been taken by the Commission, after more than 15 years, to again exercise formal supervision on the invoking of the escape clause Article 108(3) EEC. Despite the extreme political sensitivity of further liberalization in some Member States, it is apparent from the liberalizations in Denmark (1983) and the United Kingdom (1979) that extreme prudence with regard to discontinuance is unfounded if the macro policy is stabilizing.<sup>6</sup>

In any case the call on the safeguard clauses should be terminated within three years. To do this step-by-step attempts should now be made to carry on with the liberalization programme started in the 1960s and this will only be possible in the framework of stabilizing macro-policy and a stronger EMS.

The private ECU should be encouraged where possible. Obviously it is a private initiative of a fast-growing number of banks, enthusiastically supported — as far as possible — by the European Commission and the European Investment Bank. Proposals should be considered for the faster progress of the liberalization of exchange controls and of the market for financial services (insurances, mortgages) in so far as these are carried out in private ECU. The private ECU is not a currency forced from above nor is it pinpointed *qua* exchange rate. Political entrepreneurship serving European integration can here by way of an interesting diversion lead to market conducted developments which will stimulate the laborious EC decision-making to go further than is currently thought to be attainable. In this way the EMS will be served as well. On the other hand further consolidation of the EMS can again exercise a favourable influence on the private ECU market.

<sup>6</sup> See Vanheukelen and Pelkmans (eds.), 1986, for case-studies on both countries.

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## Seven years to build the real Common Market

By

Jérôme Vignon\*

How far will the Milan (June 1985) and Luxembourg (December 1985) European Council summits be seen as the start of a decisive new phase in building the EEC? The target they set was to complete the large European market by 1992, boosted, above all, by the reforms in the Community's decision-making mechanisms, by the renewed competitiveness of EEC industry since the early '80s and by the consensus on both sides of industry and amongst all economic circles on the need to create such an "area without frontiers". After recalling the standstill in building Europe in the '70s and analysing the correlation between the competitiveness of EEC industry and progress on integration, the author reaches an optimistic conclusion on the EEC's chances of shaking off "Europessimism".

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\* Jérôme Vignon is an Adviser to the Cabinet of the President of the Commission of the European Communities.

"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."<sup>1</sup>

The opening lines of the 1957 Treaty of Rome establishing the European Economic Community say it all.

These principles were the fruit of a political will inspired by contemplation of the bloody confrontations in Europe.

In the minds of Monnet, Schumann, Adenauer, Spaak and de Gasperi, the European market was to be a driving force for peaceful innovation and competition and to generate sufficient momentum towards integration to preclude any further confrontation.

Today, Europe is at peace. It has opened the door to economies as far apart as the United Kingdom (1973), Greece (1981) and, more recently, Spain and Portugal (1986).

This attraction emanates entirely from the momentum generated by a coordinated economic bloc, bolstered by free competition and the ties of complementarity.

But for all this, thirty years on is this really a common market? Nothing could be less sure.

European tourists' hearts miss a beat every time they pass through a customs checkpoint in the Community on their way home from their holidays with the car boot overladen with French wine, Belgian chocolates or Italian leather. Very few know the exact national currency limit. But all feel threatened when the customs officer asks the ritual question. Consumer associations taught us long ago that the after-tax price of a Golf GTI ranges from 12 000 ECU to Belgian motorists to 21 000 ECU to Danish drivers. And there are similar discrepancies for all other consumer durables distributed through networks controlled by the producers. A host of technical barriers prevent free trade from correcting this sort of price distortion.

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<sup>1</sup>Treaty establishing the European Economic Community ("EEC Treaty"), Article 2.

In practice, however, these disadvantages for consumers fade into insignificance beside the policy of allowing only national producers the right to supply undertakings with goods and services. This almost total reservation of business services (transport, insurance and financial services) and public contracts (defence, telecommunications and energy) to domestic manufacturers is a severe limitation to the Common Market, however understandable it may be that abrupt deregulation of markets so inextricably bound up with the distinct history of each country is an unacceptable risk.

By contrast, the tribulations suffered by lorry drivers day after day as they wait, on average, an hour at each customs checkpoint are absurd.<sup>2</sup> And it is more than just a run-of-the-mill "snag" when a French trade representative has to haggle for two hours with the Belgian customs authorities simply because his demonstration leaflets were printed in the Federal Republic of Germany and should, therefore, have been declared on a separate form. It is an enormous waste, since incidents like these only tempt tens of thousands of small firms in Europe to stick to national subcontracting, where the laws are strict but at least familiar.

Why has the momentum for opening up the markets failed to sweep aside all these obstacles in thirty years? The answer is all the more complicated when one remembers that the same momentum played its full part in the boom in intra-Community trade throughout the transitional period immediately after the Treaty of Rome entered into force (1957-69).

There is no simple answer, such as inertia on the part of the authorities, resistance to change at a time of oppressive unemployment or the conservatism of the undertakings themselves. Nor is a combination of these causes a convincing explanation, for there is nothing to suggest that Europeans were more adventurous in the late '50s than in the early '70s.

There are two sides to the correlation between economic growth in each Member State and interpenetration of their markets. Closer examination of this correlation makes it easier to interpret the key phases of European economic integration under the umbrella of a powerful common market and how they relate to the ups and downs of European competitiveness.

This in turn will allow a firmer grasp of the scale of the political and institutional changes since 1982 which, by late 1985, had shown that completing the single European market by 1992 was no longer a dream.

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<sup>2</sup>Lorry drivers have to carry three types of document for the customs authorities in the Community: first, the customs papers proper (customs declarations, Community transit document or frontier transit note); second, the documents required under the Community transport regulations (Community quota authorization, record sheets, way bill, etc.); finally, any papers required by virtue of the nature of the specific goods carried (public and veterinary health certificates, certificates for chemical products, etc.). And the fuel gauges of heavy vehicles are checked to stop the vehicles crossing the frontier with over 200 litres of fuel in their tanks.

## Economic integration and European competitiveness

The Treaty establishing the European Economic Community envisages a process of continued balanced economic integration.

The combination of deregulation, harmonization and structural policies mapped out to achieve this in the Treaty is a masterpiece of balance and prudence. Staunch supporters and vociferous opponents of the free market economy alike could learn from taking a closer look at the Treaty.

But just as much as the balance, the step-by-step approach adopted ensures that the plan will be carried out. The Treaty of Rome describes the development of the Community and the means of achieving it. It maps out four stages for the centrepiece - the large market without frontiers. The first two phases are explicitly mentioned in the "transitional period" described in the Treaty:

- (i) the abolition of customs quotas on goods, the abolition of export duties and the establishment of a common customs tariff at the Community Member States' frontiers with third countries;
- (ii) from 1957 to 1969, four-phase abolition of all customs tariffs applicable to goods traded within the Community.

Thereafter, the Member States are to agree detailed procedures based on the Treaty for embarking on two further stages to harness the momentum built up:

- (iii) harmonization of indirect taxation, based on general, uniform application of VAT<sup>3</sup>;
- (iv) approximation of "such provisions laid down by law, regulation or administrative action as directly affect the establishment or functioning of the common market"<sup>4</sup>.

To accompany this movement, the Treaty provides for liberalization of services (transport, insurance and financial services) and the free movement of factors of production within the Community (freedom of establishment, free movement of capital, etc.). Separate decision-making procedures are laid down for each of these cases, the degree of compulsion depending on the scale and severity of the obstacles to be overcome on the way to the ultimate objective of a single market.

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<sup>3</sup> EEC Treaty, Article 99.

<sup>4</sup> EEC Treaty, Article 100.

In practice, construction of the common market got off to a good start. The first two stages were completed before the end of the transitional period. Encouraged by these results, lawyers and diplomats set about approximation of indirect taxation.

It took them ten years, from 1967 to 1977, to progress from an agreement on the general principles of VAT to one on application of the tax. Today, VAT is applied in every Member State. Imposition of the tax is one of the conditions imposed on new States wishing to join the Community. But the procedures remain so varied that the differences in the number and level of VAT rates in each country are still the chief reason for persisting with frontier customs checks on goods and citizens alike<sup>5</sup> (see Table 1).

TABLE 1

TAX SPREAD AND PRE-TAX PRICES IN THE COMMUNITY

Example: 1.3 l Ford Escort at June 1985 prices

	Denmark	Netherlands	Belgium/ Luxembourg	France	Germany	Greece	United Kingdom	Italy	Spain	Portugal
Pre-tax price, for a new car <sup>1</sup> (Belgian price = 100)	92	92	100	108	109	112	147	122	116	107
Tax take on a pre-tax price of 100	173	50	B 5 L14	33	14	156	25	18	31	39

Source: Twelfth EEC Report on Competition Policy.

Approximation of national legislation and regulations (to combat technical barriers to trade) and the accompanying measures (notably deregulation of transport) soon became equally bogged down. Worse still, instead of declining, the number of obstacles increased throughout the '70s in the wake of the rapid expansion of national standardization prompted by the unprecedented technological boom. From the late '60s to the early '80s virtually no progress was made on interpenetration

<sup>5</sup>Problems and opportunities in the European motor business - an EEC view" by Paolo Cecchini, The fifth world motor industry Conference, Geneva, 23-24 May 1985.

of legislation in the European Community countries. And the same applied to the economic side too: from the first oil shock on, the European market ceased becoming increasingly attractive to Community producers (from the Ten) even though the United Kingdom joined the Community at around that time. Exports from the founder members (France, Italy, Germany and the Benelux countries) to non-Community countries even grew by more than average (see Table 2).

TABLE 2

INTRA-COMMUNITY TRADE AS A PERCENTAGE OF MEMBER STATES' FOREIGN TRADE\*

	1958	1960	1965	1970	1975	1980	1985
Belgium/Luxembourg	53.6	59.2	69.1	73.9	71.2	71.8	67.9
Denmark	58.2	56.6	50.5	43.2	45.5	50.5	43.9
Germany	35.8	38.5	43.8	47.4	44.8	49.1	47.3
Greece	50.5	42.8	45.5	52.1	49.7	47.3	55.0
France	28.6	36.5	47.8	54.8	49.9	51.9	48.7
Ireland	81.6	80.4	83.0	73.7	79.5	74.9	67.1
Italy	33.1	38.6	48.0	49.3	46.6	49.0	45.3
Netherlands	57.1	60.3	67.2	71.3	71.6	72.2	71.9
United Kingdom	20.3	21.5	27.0	30.1	32.9	42.7	44.5
10	35.3	39.0	46.7	51.2	50.3	53.6	51.6

\* Measured as  $\frac{\text{Exports to the EEC}}{\text{Total exports}}$ .

Source: Statistical Office of the European Communities.

Correlation, however, is no explanation. Other far-reaching shifts played their part in slowing down integration within the Community, such as the downturn in domestic demand in Europe and changing relative raw material prices. Consequently, two broader phenomena coincided: a marking-time in construction of the common market combined with a general weakening of the economic dynamism of the European Community which, all the indicators suggest, slightly predated the first oil shock.



Consequently, the overall competitiveness of European industry emerges as a firm indicator of the progress made by the Community over the last 20 years. But what is the "overall competitiveness" of European industry? It is the capacity of European industrialists to turn out goods at the prices dictated by international competition on the European and world markets.

This view of industrial competitiveness first took shape with the introduction of a common customs tariff and commercial policy towards third countries for all EEC countries (the birth of the Customs Union in the early '60s). Thereafter it steadily grew in importance, since expansion of international trade and reduction of barriers to trade were amongst the objectives set in the Treaty of Rome itself<sup>6</sup>. In reality, today the European economic Community is the market most open to foreign trade: the common market is the keystone of the world market (see Table 3).

TABLE 3

TARIFF PROTECTION ON THE MAJOR MARKETS UNDER GATT RULES

	Average level of protection for industrial products (%)	Number of products subject to duties over 20%	Proportion of industrial trade "bound"*
Community	6.4	5	100%
USA	6.3	many	100%
Japan	6.0	10	83%

\*"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.

Two further economic ideas complete this definition.

The first is bedded in the theory of competing economies. It teaches us that in any open economy industrial competitiveness plays a leading role in medium-term growth, investment and employment.

The second is based on observation of the micro-economic mechanisms for opening-up markets. The contribution made by this mutual opening-up of markets to the dynamism of industrial production in each Community Member State is a mixed blessing. It is undoubtedly beneficial in terms of direct reduction of production costs (e.g. by abolishing customs checks) or of modernization of services marketed within the Community but facing no competition from third countries (such as transport).

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<sup>6</sup>EEC Treaty, Article 18.

By contrast, extension of the markets for industrial products beyond national frontiers in no way favours European suppliers. In practice, the result depends on the overall competitiveness of the branches of industry concerned. If they are not competitive enough, there is a danger that the opportunities opened up by liberalization will be seized by producers from outside the Community (Japan, the USA and certain developing countries) who will "pocket" the benefits of the much vaunted economies of scale.

However sketchy, these general judgments help to explain the turn of the tide in the 1970s.

Throughout the 1960s, European industry on the whole was in a very strong competitive position. Its raw material supply costs, unit wage costs and production structures, particularly in the capital goods industries, enabled it to withstand the American challenge without difficulty. What was more, the comparative advantages of "made in Europe" were powerful enough to attract a constant in-flow of foreign investment, particularly in high technology industries. In such a climate, it is hardly surprising to find vigorous mutually supporting growth in employment and investment, led by an expanding internal market and high export market share outside the EEC thanks to the competitiveness of European industry. This was coupled with rapidly expanding trade inside the Community in immediate response to the opportunities opened up by the abolition of customs duties.

The turn of the tide in the late '60s was marked by a reversal in the determinants of European competitiveness. The historic decline in the exchange rate for the dollar in the wake of the Nixon declaration on inconvertibility in 1971 radically changed Europe's competitive position in relation to the USA. Just a few years later the tripling of imported energy prices hit Europe, which depended on imports for 70% of its supplies, far harder than the USA (15%). At the same time, real wage costs in Europe had been rising far faster than productivity since 1970-71. Although this was also the case in Japan, Japanese industry was so quick to adapt to the demands of new technologies that European industries soon faced a dominant rival on their own market and, even more so, on the world market in such strategic areas as automobiles and electronics.

Finally, the declining competitive position of European industry in the course of the '70s helps to explain the deterioration in European industry's growth, employment and investment performance in comparison with the USA and Japan and the difficulties hampering further progress in building the common market and in breaking down technical barriers to trade.

This lull in implementation of the Treaty of Rome coincides with a deliberate or inadvertent renationalization of industrial strategy. First, the reflex reaction of all governments and big businesses abruptly forced to balance their external trade was to preserve their domestic industrial base, complete with such assets as national standards. Second, nor could they overlook the real risk of exacerbating the penetration by third-country producers, particularly of public contracts.

However, this line of argument still leaves unexplained the Community's failure to adopt measures which would have boosted the competitiveness of European industry by any reckoning.

In essence, this boils down to abolition of customs formalities applicable to intra-Community trade. Close analysis of these formalities shows that the vast majority are connected with the collection of indirect duties (VAT, excise duties, etc.) on imports by each Member State. The only viable means of simplifying tax collection to some extent and collecting taxes at source is to approximate the VAT rates charged in each country.

Easy, one might think. But none of it! First, because taxation is a sacrosanct preserve jealously guarded by the tax collection authorities. Second, because adjustments to indirect taxation have been one of the variables in the budgetary policies of each Member State throughout the '70s.

This is why so many dark forces have combined to uphold a literally archaic system of payment at the Community's frontiers estimated to swallow up almost 4% of the Community's total GDP in administrative costs and time wasted waiting at customs checkpoints.

But the total cost of "non-Europe"<sup>7</sup> in the 1970s does not end there. By opting to do battle on the slippery national slopes rather than on the firm European platform, Community industry was able to restore the traditional industries hardest hit by the slump in world demand (for example, primary products, textiles, clothing and shipbuilding) and stem the loss of European market share by moderately-placed industries (such as automobiles, mechanical engineering and capital goods). By contrast, it deprived European industries benefiting from a heavy increase in world demand (particularly electronic engineering and telecommunications) of the economies of scale crucial to their competitiveness (see Tables 4 and 4a).

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<sup>7</sup> Expression coined by Michel Albert in "Pari européen".

**TABLE 4**

**SIZE OF HOME MARKET IN INDUSTRIAL PRODUCTS**

(as a percentage of total for EEC, Japan and USA)

	Bel- gium	Den- mark	Ger- many	France	Italy	Bel- gium/ Luxem- bourg	UK	Comm- nity	USA	Japan
Size of home market	1,4	0,6	10,5	7,5	7,9	1,5	7,7	37	40,7	22,3
Population	1,6	0,8	9,9	8,7	9,1	2,3	9,1	43,6	37,3	19,1

Source: Commission of the European Communities.

**TABLE 4a**

**EFFECT OF SCALE OF PRODUCTION ON COSTS (IN PERCENT)**

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.

As a result, in the ten years since 1973 the market penetration rate by high technology products rose 8 points in Europe, compared with 6 in the USA and 1.6 in Japan. By contrast, the export market share rate for the same products fell by 2.5 points for Europe, yet rose by 2.7 points for the USA and by 5.6 points for Japan<sup>8</sup> (see Tables 5 and 5a).

<sup>8</sup>"La compétitivité de l'industrie européenne: un bilan", Pierre Buigues and Philippe Goybet, *Economie Européenne*, No 25, September 1985.

TABLE 5

## Export market share (1983)

	EUROPE		USA		JAPAN	
	Percentage change* between 1973-1983	1983 %	Percentage change between 1973-1983	1983 %	Percentage change between 1973-1983	1983 %
<u>High-demand sectors</u>	-2.5	25.6	+2.7	20.4	+5.6	18.8
Electrical and electronics hardware	-1.8	23.7	+2.4	20.2	+11.4	29.1
Information technologies, office automation and precision equipment	-5	17	+5	27.4	+8	23
Chemicals and pharmaceuticals	-1	30.8	+1.9	17.6	+0.5	7.8
<u>Medium-demand sectors</u>	-1.2	25.8	-0.3	18.5	+6.1	15.3
<u>Low-demand sectors</u>	+4.1	29.4	+1	9.2	+1.4	13.4
TOTAL INDUSTRY		26.6		16.9		15.9

\* Percentage change: difference between 1973 market share and 1983 market share.

Source: Eurostat and Commission departments.

TABLE 5(a)

Penetration rate\*: industrial products on the internal market in 1982

	EUROPE		USA		JAPAN	
	Percentage change between 1973-1982	1982 %	Percentage change between 1973-1982	1982 %	Percentage change between 1973-1982	1982 %
<u>High-demand sectors</u>	+7.9	17.3	+5.9	11.5	+1.6	5.3
Electrical and electronics hardware	+10.9	19.1	+6.7	15.5	+1.7	3.8
Information technologies, office automation and precision equipment	+14.7	33.6	+4.5	14.1	+1.3	7.8
Chemicals and pharmaceuticals	+3.6	11.8	+2.9	6.8	+1.5	5.9
<u>Medium-demand sectors</u>	+1.8	8.5	+2.3	8.0	+0.2	4.1
<u>Low-demand sectors</u>	+3.8	12.8	+4.2	11.2	+1.4	6.2
TOTAL INDUSTRY	+3.6	11.6	+3.4	9.5	+1	5.2

\* Penetration rate =  $\frac{\text{imports}}{\text{domestic demand}}$ .

Source: Eurostat and Commission departments.

To sum up, a general reversal of the competitive position of European industry was the root cause of the blockage of the integration process after it had got off to such a good start in the 1960s.

In turn, this blockage had an adverse effect on competitiveness and the expansion of the industries spearheading the third industrial revolution, for which economies of scale play such a crucial role. But for all this, the situation broke out of the vicious circle of "Europessimism".

### Fresh momentum for Europe

Three major institutional, economic and social reforms marked the mid-'80s. They were no coincidence: they were the fruit of past imbalances, which opened up the way for a fresh phase of economic integration in Europe.

The most tangible signs of this reawakening came in the institutional and political arena. At the Copenhagen summit in December 1982 the Heads of State and Government adopted a vigorous resolution to revitalize consolidation of the internal market. They instructed the executive Commission of the European Communities to draw up an all-embracing programme for completing the large European market and implementing the final two stages mapped out in the Treaty of Rome. The Heads of State chose rigorous wording, speaking of abolition of frontier checks and the removal of all technical barriers to trade, but set no timetable.

The great merit of this first step was that it revealed the extent of the damage caused by ten years' inaction. In June 1984 the Commission submitted a detailed comprehensive programme setting out 45 basic measures indicating the path to be followed. And Community decision-making procedures were speeded up, particularly on standardization.

The decisive steps followed in 1985. At the Milan summit in June 1985 the Heads of State and Government adopted a Commission White Paper on completing the internal market (see Annex). This White Paper sets out the main thrust of policy, puts the objectives in order of priority and lays down a comprehensive timetable for 600 implementing measures spread over seven years starting in 1986. It marks the birth of the political objective of completing the large internal market by 1992.

The same Milan summit decided to convene an intergovernmental conference to prepare the ground for a reform of the Treaty of Rome by the end of 1985, primarily to make the Community's decision-making procedures more efficient. The conference set about the task with a flourish: in just four months it covered a vast amount of ground and genuinely revitalized the task of building Europe, 30 years after the Messina Conference had laid the foundation for the Treaty of Rome.

Driven by the same impetus, the Luxembourg European Council summit in December 1985 - the first attended by the Spanish and Portuguese Heads of Government - adopted a revamped Treaty. In particular, it made radical changes to Community decision-making procedures. Henceforth, the Member States will decide by qualified majority - no longer unanimously - in nine areas of Community policy, six of them with a direct hearing on the internal market.<sup>9</sup> The internal market is described as "an area without internal frontiers" in the revised Treaty. This applies not only to the common market but also to the citizens' Europe, thus stressing the political dimension of opening up Europe's economies to one another.

The new Treaty is still awaiting ratification by the Parliaments in each Member State. In the meantime, since the start of 1986 Europe has a revitalized institutional set-up which gives it every chance, though still no certainty, of attaining the objective of a fully-fledged common market by 1992.

Will the leading forces which set the pace of economic and social change be able to seize this opportunity? At this point, two other undercurrents come into play.

First, a series of key determinants of competitiveness in European industry have recovered enough to make up for the reversals in the early '70s.

Four consecutive years' overvaluation of the US dollar have reversed the relative competitive positions of Europe and the USA. At the same time the President of the USA has made rejection of protectionism one of his leitmotifs. Following the far-reaching agreement between the five "most prosperous countries in the world" in New York on 22 September 1985 the exchange rates between the leading currencies should more closely reflect the relative economic performance of the countries concerned. However, past imbalances will affect their relative competitive positions for years to come. Above all, revaluation of the yen in keeping with Japanese trade surpluses and with the structural competitiveness of the Japanese economy is one key factor to restoring the balance in Europe.

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<sup>9</sup> Conclusions of the Luxembourg European Council in December 1985. The six areas directly connected with the internal market are customs duties (Article 28), freedom of establishment (Article 59), free movement of capital (Article 70), mutual recognition of diplomas and access to self-employed professions (Article 57), air transport and shipping (Article 84) and harmonization of national legislation (Article 100).

The anti-inflation policies pursued by every Community Member State over the last few years are now producing spectacular results, particularly in terms of wage costs. Since 1984 wage costs (including social welfare contributions) have been growing slower than the average during the '60s in all the Ten except the United Kingdom and Greece. Since 1981 wage costs have been growing slower than labour productivity to peg wage costs' share of the value added back to the 1960s average (see Table 6).

**TABLE 6**

Unit wage cost trends in industry

	Real wage costs/unit output in national currency *			Relative unit wage costs in the same currency**		
	EUR	USA	JAPAN	EUR	USA	JAPAN
1982	-0.6	-0.5	-4.4	-3.7	11.6	-14.6
1983	-2.7	-5.2	-1.2	-3.6	2.7	8.6
1984	-3.7	-1.4	-3.8	-8.4	10.7	0.9
1985	-2.3	-1.8	-1.1	-3.4	6.8	-1.7
Cumulative reduction over the period	-9.1	-8.7	-10.1	-17.9	35.5	-8.0

\* Defined as real wages (per capita wages multiplied by the gross national product deflator), divided by per capita productivity

\*\* Wage costs per unit output in common currency (US dollars) in relation to the weighted average for the top 19 competitors.

Source : Commission departments

Since 1974, Europe has made a vigorous effort to save energy and diversify its sources of supply. The resultant reduction in Europe's energy dependence far surpasses Japanese and US achievements in this field (see Table 7).

**TABLE 7**

Energy dependence \*

	1973 (%)	1983 (%)	Percentage change
EEC (10)	64,3	41,5	- 22,8
USA	16,9	12,0	- 4,9
Japan	94,8	85,0	- 9,8

\* Imported energy  
Own consumption

Source: Eurostat and the International Energy Agency.



Finally, the enormous modernization by Europe's traditional industries hardest hit by world competition and declining demand should bear fruit soon. In relative terms, more jobs have been shed in these industries in Europe than in Japan or the USA. And the export market share captured by these industries, both outside the Community and on the internal market, in the mid-seventies is holding firm. Consequently, gradually it should be possible to redeploy the public funds currently spent on restructuring these industries.

Combined, all these reasons suggest that the current upswing in the economic cycle in Europe, fuelled by productive investment and consumption, is different from the 1976-79 recovery. On this analysis, the relaxation of the balance of payments constraints heralded by this revival will erode the obstacles to further expansion of the internal market.

Second, nowadays economic and social leaders in Europe are united behind the objective of a large internal market. For big businesses well versed in concentration and specialization to form pro-European lobbies is a welcome, but hardly surprising, development. But for the majority of workers' organizations in Europe to support the idea of unifying the national markets to initiate a revival which would generate jobs and growth is a less usual role. Nonetheless, this is what happened at the European Trade Union Confederation congress in Milan in May.

For senior representatives of workers' and employers' organizations from different Community countries to join together to express support for a concerted economic growth strategy in Europe, including completion of the large internal market, is a very rare event. Nevertheless this was the spirit pervading the joint declaration by the European Trade Union Confederation (ETUC) and the Union of the Industries of the European Community (UNICE) in Brussels in November 1985.<sup>10</sup>

These are the facts. Their ramifications will be far-reaching, for two reasons.

Because they bear witness to an absolute confidence in openness rather than restraint and Malthusianism on the part of organizations who have no illusions about the difficulty of building Europe.

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<sup>10</sup> Joint declaration issued at Val Duchesse, Brussels, on 20 November 1985.

And because this opening up will bear fruit only if the dialogue between the two sides of industry is renewed at Community level and in each Member State. Completion of the large internal market will entail enormous upheaval for men and their businesses. Like any other revival creating large numbers of jobs, it will render some professions obsolete, necessitate modernization of production plant, call for further harmonization of social legislation and require greater effort on training, information and job motivation everywhere. These are the stakes for the national or European negotiations. The detailed timetable for completing the internal market offers a degree of predictability.

After Europessimism will we now have Europhoria? The main difficulties to be expected before 1992 are just as clear as the new opportunities for a quantum leap in European integration. They are of two very different natures.

First, there is no disguising that it will be very difficult to hoist the flag of the large internal market, i.e. effectively to break down customs frontiers within the Community. The Luxembourg text has fashioned new keys to the separate compartments of the internal market, apart from indirect taxation, where the Member States will still have to decide by unanimous vote. However, approximation of VAT rates - the sine qua non for abolition of frontier customs checks - is not just a question of raising or reducing the existing rates step by step.

It also implies sustained convergence of economic policies throughout the Community. Any country far adrift from the average inflation rate would soon be robbed of any scope for adjusting its VAT rates. The room for manoeuvre in budgetary policy is squeezed at times of enforced reorganization.

Although approximation of VAT in itself should not affect the budget, it will commit each country concerned to modest, yet regular, increasing restructuring of its statutory taxes for years ahead. To move towards the Community average, countries with heavy indirect taxation (e.g. Ireland and Denmark) will have to accept higher direct taxation or social welfare contributions. The opposite will apply in countries with relatively low indirect taxation (e.g. Germany and Belgium). For all of them, approximation of VAT rates will imply grafting a Community approach onto the very heart of their budgetary and fiscal policies for years to come and forgoing manipulating VAT rates outside very narrow margins. This is by no means impossible. After all, the adoption of the VAT system by every Member State was a move in the same spirit. But the ultimate step - harmonization of the rates - would be a highly significant symbol of Europeans' political will to follow the path of no return towards coordination of economic policies.

Another very different problem raised centres on the compatibility of increasingly opening up industrial markets in Europe with the other instruments for maintaining the competitiveness of European industry in relation to its non-Community rivals.

Some of the general macroeconomic factors which improved the competitive position in the course of the 1980s were described earlier. But these will not be enough, or will take too long, to make up some of the lost ground in the high-technology sectors where world demand is still heaviest. Other means, also calling for a renewal of European policy, will be needed. More will have to be done to concentrate the research scattered between different countries and to tailor the sources of financing and legal structures to new forms of technological cooperation between businesses in different Member States. Whether run by an intergovernmental organization, as in the case of the Eureka programme, or fitting into a Community framework, like Esprit or the telecommunications programme, technological cooperation in Europe can no longer be divorced from the internal market.

Businesses' relationship to their home market, the one on which they are culturally preprogrammed to develop, is like the relationship between plants and their seed-bed. Their strength and vitality depend on their ability to spread their roots and draw sustenance.

Enlargement of Europe's internal market is like transplanting each bloom so that it can have more space. It strengthens the plant for fresh growth. But it cannot succeed in just any conditions. Anyone who has tried knows the risks and the host of precautions that have to be taken.

The latest bright spell in Europe is an invitation to try some more transplanting - quickly! All that remains is to put our faith in Europe's gardeners.

## ANNEX

### The four main aims of the internal market

The Luxembourg summit on 2-3 December 1985 adopted "measures intended progressively to establish the internal market in the course of a period expiring on 31 December 1992... the internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaty," (conclusions of the European Council).

From the point of view of businesses, there are four fundamental aspects to the measures mapped out in the White Paper:

#### Abolition of inspections at the Community's internal frontiers (removal of physical barriers)

The aim is to ensure that taxes and inspections (especially health inspections) are the same for goods sent to another Community country as for goods traded on the home market.

Approximation of VAT rates is the principal precondition in order to achieve this. But complete harmonization of the rules on veterinary and plant health inspections will also be needed, as well as steps to simplify the Community transit system.

Timetable: in phases, from 1986 to 1992.

#### Harmonization of quality and safety standards (removal of technical barriers)

The aim is gradually to establish a standardization system covering every sector of industry, laying down reference standards so that producers anywhere in the Community can comply with the standards in force in any other Member State.

This system will be built up either around specific Community standards or on the basis of mutual recognition of the standards set by the national standardization institutes (such as AFNOR in France). Preference will be

given to Community standards in cases where not only harmonization but also compatibility is sought (e.g. telecommunications).

Timetable: continuous from 1986 to 1992, with particular emphasis on motor vehicles, tractors and agricultural machinery, food, pharmaceuticals and chemicals. In each of these sectors, the first stage (1986-87) will concentrate on the more advanced products and the second (1988-92) on products already covered by standards.

#### Definition of new legal structures to encourage cooperation between European businesses

The long-term objective is to instate "European company" as an optional alternative to national company status. This will be of great benefit to companies with research, production and marketing centres spread between different European countries.

Timetable: harmonization of direct taxation regulations relating to mergers and transfers of business assets and to taxation of the profits of subsidiaries (1986); introduction of the European Economic Interest Grouping (EEIG) system (1989).

#### Liberalization of public contracts

Purchases by public-sector undertakings and authorities account for around 20% of GDP in the EEC. But a host of restrictions mean that only a tiny fraction of this amount - around 7% or 0.5% of GDP - is put out to tender amongst producers from other European countries. There is a great deal to be gained from progressive liberalization of sectors such as telecommunications, energy and medicine, where economies of scale play an important part. However, these industries are also the centre-piece of the national industrial strategies. What is more, since 1981 the Community has been a contracting party to the GATT agreement on government purchases. Consequently, under certain conditions, liberalization measures could benefit non-Community producers.

As a result, the timetable follows an extremely cautious approach, built around progressive strengthening of supply within the Community (measures to encourage the establishment of European consortia and to harmonize standards) by extending the liberalization Directives to a number of areas excluded at present: telecommunications and energy (1987-88), services (1987-89) and water supply (1989-90).









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THE WALL STREET  
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# Firms' Optimism Contrasts With Lags in EC Reforms

By SCOT J. PALTROW

Staff Reporter of THE WALL STREET JOURNAL

BRUSSELS—European corporate executives seem confident that, when it comes to market fragmentation, the worst is over in Europe.

In a survey conducted jointly by The Wall Street Journal/Europe and the management consulting firm of Booz-Allen & Hamilton Inc., 70% of top executives who responded said they expect marketing and distribution costs in Europe to decrease or stay the same during the next five years.

Moreover, 32% believe manufacturing for the European market will get easier, against only 16% who expect it to become more difficult.

The European Panel's optimism, however, comes at a time when a massive new drive by the European Community to unify its internal market may be faltering.

The EC Commission's White Paper on Completing the Internal Market by 1992 was ratified in principle at the EC's Milan summit conference last June. But according to one analysis by EC officials, the member states subsequently approved only 24 of the 61 proposals that should have been endorsed by the end of 1985 to keep up with the paper's detailed timetable. And Hans van den Broek, the Dutch minister of foreign affairs who currently holds the presidency of the decision-making EC Council, has raised doubts about catching up in 1986.

## Continuation of Trade Barriers

The commission's study was drawn up in response to a renewed conviction among community leaders in the early 1980s that it was at last time to do something towards eliminating barriers to the free movement of goods, services and capital across Europe's borders. If long-overdue progress wasn't made soon, they reasoned, the community and all of Western Europe risked a permanent loss of economic competitiveness with the U.S. and Japan.

In a recent interview, Lord Cockfield, the EC's internal market commissioner and author of the white paper, predicted that the 1992 goal will be reached. But he acknowledged, "We are as of now a bit behind schedule." And he added: "This is going to be a testing year."

The ministerial council will have to adopt about 90 decisions in 1986 if it is to get back on schedule. These range from eliminating unnecessary duplication of border formalities to coming up with a common standard for electric-powered toys.

## High Standard

Mr. van den Broek said in January that the only hope for making these decisions on schedule would be for the EC governments, on a de facto basis, immediately to begin following the new decision-making rules outlined at last December's Luxembourg summit. These rules would allow more matters to be decided by majority voting in the council of ministers. But the reforms still haven't been formally approved by three countries, and it is unclear whether all of the member states will abide by them before formal ratification.

Some of the steps envisioned in the white paper, such as standardizing value-added-tax rates by 1990, may be difficult for member countries to accept at all. This is because alterations to tax rates would have a major impact on national budgets. But Lord Cockfield and the commission maintain that roughly equal rates throughout the community are necessary to eliminate market distortions.

In principle, a truly common market among EC countries should have been completed long ago. The Treaty of Rome, drawn up in 1957, provided for the elimination of tariff barriers and other obstacles to the movement of goods, people and capital.

But the EC's history in this regard has been one of a promising start followed by a long period of torpor. The treaty provided for a 12-year transition period, but most internal tariff barriers were eliminated and a common external tariff put into effect 18 months ahead of schedule. Attention then turned to adopting a more or less common system of indirect taxation in the form of a value added tax.

## Slowing Down

In the mid-1970s, however, the drive to complete the internal market ran out of steam. While tariffs had been the most important obstacle to trade, new, non-tariff barriers had sprung up or become increasingly important.

Europe, following the first oil shock in 1973, was hit by a tenacious recession. National governments rushed to protect endangered domestic industries by granting subsidies that undercut competition from outside.

On top of that, for more than six years a raging controversy over Britain's share of the EC budget preoccupied EC ministers, drawing their attention away from steps necessary to build the internal market.

As this period of inertia dragged on, the European Court of Justice—the EC's

## PANELISTS RANK EUROPEAN COUNTRIES

(BASED ON COSTS OF MATERIALS AND SERVICES)

MOST EXPENSIVE:		LEAST EXPENSIVE:	
SWITZERLAND	28%	ITALY	26%
WEST GERMANY	25%	PORTUGAL	21%
SWEDEN	25%	WEST GERMANY	17%
FRANCE	13%	SPAIN	15%

Note: West Germany appears at both ends of the spectrum because some types of materials and services are costly there, while others are relatively cheap because of efficiency and economies of scale, according to an analysis of the survey.

court—delivered a decision which should have dramatically reduced one of the major obstacles to free movement of goods: the different national standards countries maintain for products. In 1979, in a case known as "Cassis de Dijon," the court held that except when essential to protect such vital interests as public health, a product that met one country's standards should be admitted to all EC countries.

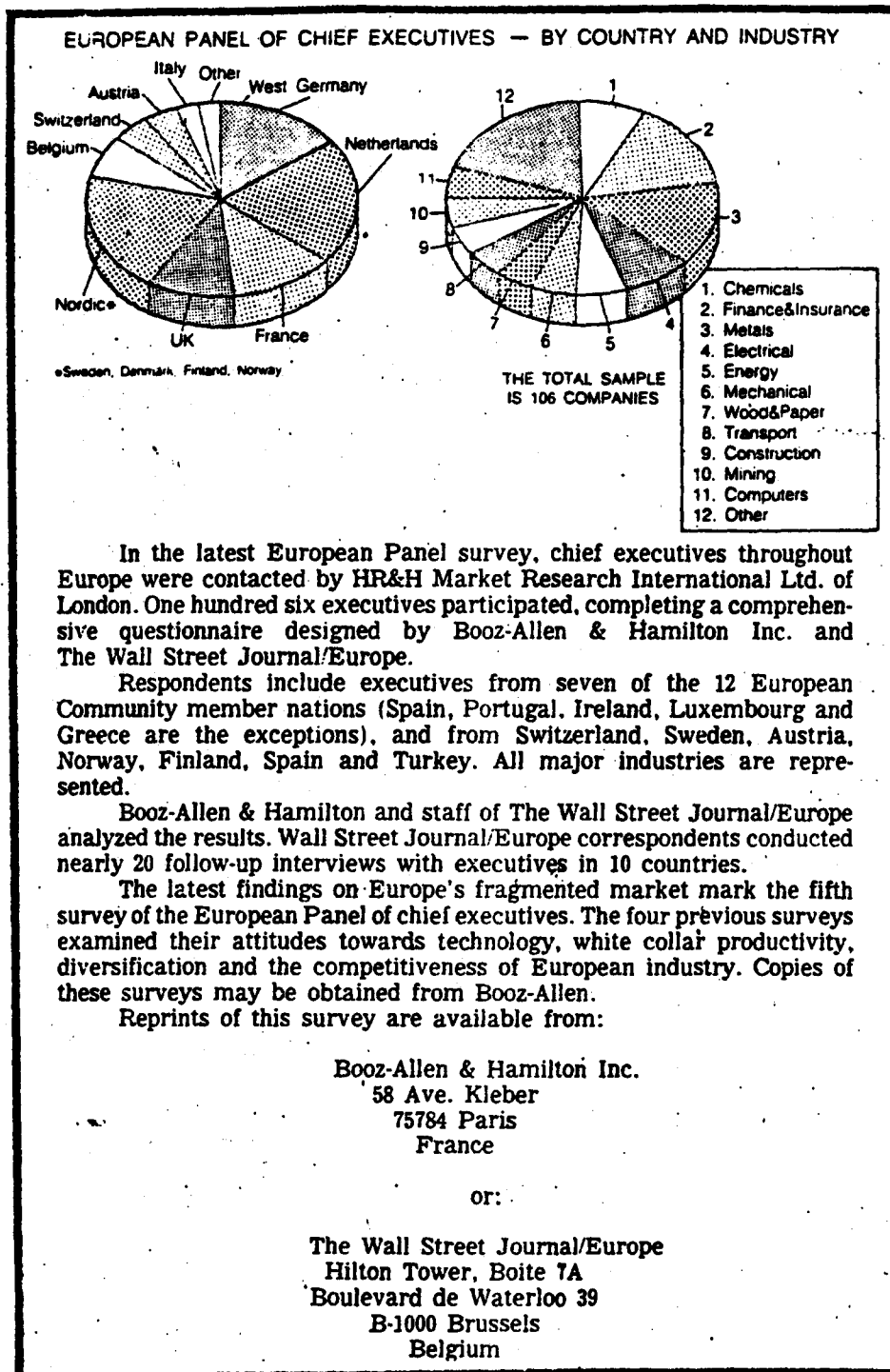
Lawyers such as Stanley Crossick, who specialize in community law, say the decision should have largely eliminated the need to manufacture products to a different set of specifications for each country. But, he said, national governments continue to get around the decision by more cleverly disguising protectionist standards as health or safety regulations.

## Litigation-Shy

European companies, more hesitant than their American counterparts to use litigation to solve business problems, haven't gone to court in large numbers to get the precedent enforced.

And, Mr. Crossick says, the court itself currently seems to be exercising caution "not to usurp the political and legislative functions of the council of ministers."

The court this spring, however, is expected to deliver a landmark decision on the right of insurance companies to operate freely throughout the community. If the right is upheld, EC officials say, it would provide a precedent that could be used by European service industries in general to eliminate national regulations that keep out foreign companies.



restrictive national banking regulations. "A united Europe would relieve all of this," he says.

In the manufacturing sector, 38% of the executives polled said that if trade within Europe were completely free, they would change their production strategy.

For example, the survey results showed that companies would eliminate duplication of research and development efforts currently needed to meet different countries' standards. Producing to a single standard also would permit longer runs on assembly lines.

In the survey, panel members were asked to list the non-tariff barriers that give them the most trouble. Not surprisingly, they enumerated many of the governmental problems that have received much attention from the EC and in newspaper articles for preventing a unified market. These include red tape and delays at borders and different health and safety specifications for products.

But factors generated by industry, itself also ranked high. For example, the lack of competition among suppliers, the result of de facto industry cartels and monopolies, were considered as more important sources of increased costs than troubles at borders. Thus industry's own efforts to evade EC and other competition laws appear to contribute significantly to the divided market.

Among those who replied, 42% said that different specifications established by national law or regulation are among the most important sources of extra costs in operat-

ions across European borders. But 19% viewed that the biggest problem results from different standards set by national industries themselves.

Companies also acknowledged that they charge significantly different prices in different countries, thus helping to maintain different national markets. Price variations frequently exceed 20%, even after considering different rates of value added tax and transport costs.

In follow-up interviews, companies in general favored new measures proposed by the European Community Commission to create a single market. Foremost among these is the commission's white paper of last June, which fixes a detailed timetable of steps that must be completed by 1992. But many executives say some businesses are reluctant to give up national markets for unfettered competition.

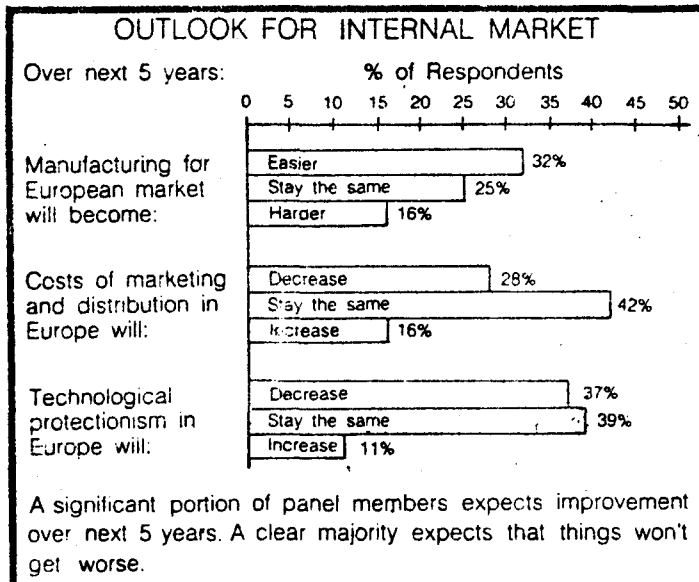
One indication of that, says Mr. Miles of Steetley, are the different specifications for steel mill refractories. "It's a problem of industry standards, not government standards," he says.

Mr. Miles maintains that Steetley can produce refractories at lower cost than other European manufacturers, and there-

fore in the long run would benefit from free competition. But for the moment, different specifications "benefit Steetley in the U.K. and German producers in Germany and French producers in France," he says. Some clearly would go out of business if the different standards were scrapped, he adds.

Monique Lefebvre, of the European Federation of Refractory Manufacturers, says that a few years ago the organization backed an unsuccessful drive to set common product standards. It failed because refractory makers, hit hard by the steel industry recession, feared that drawing up uniform standards would require them to divulge secrets, thus aiding competitors. The best the industry was able to do, she says, was to set uniform guidelines for testing.

In fact, in response to one survey question, the largest number of executives (16%) ranked national industry purchasing practices as the chief single obstacle to achieving their ideal manufacturing structure. In interviews, a number of executives explained that they were referring to companies' entrenched habits



of buying only from certain, often local, suppliers. In the survey response, this practice was viewed as even more nettlesome than other non-tariff barriers.

Yet even the varying health and safety standards set by governments themselves often have a lot to do with the protectionist sentiments of their domestic manufacturers. Sibille Torber of BEUC, the association of European consumers' organizations, points out that advisory boards set up by governments to help them draw up new standards commonly include many industry representatives. These representatives, she says, often help ensure that the standards not only protect the public but also protect the companies from outside competition.

There are many examples of companies that fear their very existence will be threatened by elimination of national protectionism. In West Germany, officials of the Bundespost, the state-run telephone and telecommunications monopoly, say that some small telecommunications companies that supply the German PTT simply would go out of business if the market were opened up.

In a recent interview, Lord Cockfield, the EC internal market commissioner and

author of the commission's White Paper, says industry's response to the document has been overwhelmingly favorable. But, he acknowledges, "There are many things that industry is responsible for which create problems."

Aside from helping to promote the diversity of national standards, Lord Cockfield says, some segments of European industry simply seem to lack entrepreneurial drive. He criticized them for not recognizing that "there is a much better opportunity to a company if it can operate in an integrated market of 320 million people."

In addition, some manufacturers say that while they strongly favor a more unified market, over time they have developed expertise at producing and selling products built simultaneously to different specifications. This expertise gives them a competitive advantage, they say, that would be lost if the daunting variations in national standards are scrapped.

Lorne R. Waxlax, former chairman of Braun AG of West Germany, says the company, a maker of small electrical appliances, has developed techniques for building up to 17 versions of each model of coffee makers and shavers to meet different national electrical specifications. Mr. Waxlax, now an executive with the Braun's parent company, Gillette Co., says "For Braun, the lack of standardization is less of a problem than for some large competitors that haven't gone to the trouble of learning how to produce for all of these markets."

Executives emphasized some market divisions are culturally determined and have nothing to do with either government or industry. Such factors appear to be most important in the consumer products and food sectors.

For example, German consumers prefer to buy frozen chickens, while the French favor fresh ones, according to Rene Gouin, head of a subsidiary of Ets. Guyomarc'h S.A., a French poultry dealer and maker of pet food and cattle feed. "We have to adapt the product to each market," he says.

The same is true in cosmetics. Paul Hudson, an executive in charge of a consumer products unit of Croda International PLC, a U.K. company, says that when it comes to lipsticks and nail polish, "the Germans don't like the colors the French like and the French don't like the colors the British like, and the Italians" have their own preferences.

Aside from cultural factors affecting consumers, however, Mr. Gouin agrees that a large part of the problem is the outlook of industry executives themselves. "The largest obstacle is each country has its habits, and a producer's first reflex isn't to export - he starts at home," Mr. Gouin says. "He doesn't yet think of Europe as a market."

When asked about such sentiments among industry leaders, Lord Cockfield acknowledges the problem, and then recites what has become one of his favorite maxims: "In the end, a free-enterprise system works effectively only if it is both free and enterprising. We (the EC) are trying to put the 'free' into the phrase. It's up to them (Europe's companies) to put the 'enterprising.'"



Herald Tribune

Neue Zürcher Zeitung

TIME

THE WALL STREET JOURNAL

# Wide Price Fluctuations Indicate Firms Charge What They Can Get

By SCOT J. PALTROW

Staff Reporter of THE WALL STREET JOURNAL

BRUSSELS - Something other than costs is influencing prices in Europe.

In a survey of top European corporate executives, 53% of the respondents said their companies sell products at materially different prices in different European countries, even disregarding different value-added tax rates and transport costs.

Only 25% said they don't sell at different prices, according to the poll conducted by The Wall Street Journal/Europe and the management consulting firm of Booz-Allen & Hamilton Inc. And a large group - 22% - declined to answer the question, suggesting that it may be a sensitive subject.

Asked to explain why their prices vary, some executives did cite cost factors. These included different production costs for products manufactured simultaneously in different countries, different wage levels and government price controls.

But most responded with answers indicating that the European market is still divided enough to enable companies to charge what they can get away with in each country. The largest number - 32% - said they adjust their prices to keep pace with the local competition. Another 29% simply cited the fact that prevailing price levels are different from one country to another.

And 14% said prices vary according to demand in each country.

Asked to say by how much their prices change from one European country to another, 43% said variations average between 5% and 10%. But one-fifth of the executives who answered said divergences of more than 20% are common.

Studies carried out by BEUC, the association of European consumers' organizations, appear to confirm that wide price fluctuations are common. A BEUC report earlier this month on home computers showed that prices vary by as much as 50% among European Community countries. For example, the average price in Denmark is 26% higher than in Holland, after subtracting differences in value added tax. (The difference is wider if the tax is included.)

There is an even larger gap between relatively low-priced countries such as Holland, West Germany and Belgium, and high-priced home-computer countries such as Greece and Spain.

Other BEUC reports have found similar price differences for consumer goods such as cameras, electric razors and compact disc players.

According to the BEUC computers report, the results show "that price differences in the EEC can't be attributed to

differences in (value added tax), but rather to the desire of manufacturers to insulate national markets."

Backing up this contention, Sibille Torber of BEUC notes that many companies won't honor guarantees in a consumer's home country for products bought across the border. She also cited instances of threats by manufacturers or distributors against retailers who attempt to sell below standard price levels.

In the EC, selling at different prices in different countries isn't illegal. But deliberate price-fixing and establishment of de facto cartels are violations of EC competition rules. Ms. Torber asserts that such violations are common and have a large influence on national price variations.

The few executives who agreed to talk about the subject in interviews, however, disagreed. An executive at Ford Espana S.A. in Spain said car prices differ from country to country because different national regulations require different safety equipment. According to Ford, consumer preferences also vary for standard equipment.

Peter Vogtlander, president of Belgian Shell S.A., a unit of the Royal Dutch/Shell Group, said prices generally are determined by "local market circumstances." He said these include such factors as storage costs, distance from the source of supply and the tendency of people in some countries to pay with credit rather than cash, which raises costs.

In an interview, Lord Cockfield, the EC's internal market commissioner and author of the EC's plan for eliminating trade barriers by 1992, said there's no need for prices to be uniform throughout Europe. He notes that within the U.S., prices vary from region to region. The same is true within individual EC countries.

What is necessary, he said, is simply that prices fall "roughly" into line. Once other trade barriers are eliminated, large price differences - those of more than about 5% - would cause significant distortions of the market. That's why the commission, for example, is pressing for EC countries' value-added-tax rates to be brought approximately into line.

In the meantime, Lord Cockfield said, obstacles to free trade allow companies to charge artificially high prices in many EC states. "At the moment, there is no doubt whatsoever that the fragmentation of the market allows the process of differential pricing to flourish," he said.

## Sources of Extra Costs in Doing Business Across European Borders

Different Specifications set by National Laws	42%	Cost of Complying with "Country of Origin" rules	18%
Sheer Cost of Paperwork	25%	Extra Warehousing & Inventory Costs due to Distance and Logistical Factors	18%
Extra Warehousing & Inventory Costs due to Different Product Standards	20%	Distance and lack of Adequate International Transport System	14%
Different Specifications set by National Industry Groups	19%	Different Consumer Preferences or Habits	13%

% of Panel Citing Factor as One of Top Two Sources of Extra Costs.



75% of panel believe lack of a unified European market leads to higher R&D costs. The chief reasons cited included:

Unnecessary duplication of R&D laboratories

Insufficient public funds made available for R&D

Extra costs of R&D to meet different national technical specifications

Costs incurred because of delays in getting products to the market because of need for extra R&D.

## Fragmentation Adds to Cost Of Research

By PAUL HEMP

Staff Reporter of THE WALL STREET JOURNAL

BRUSSELS—Chemists at British-based Cromano Consumer Products Ltd. spend months formulating a new shampoo for dry hair. At a trade fair in Birmingham the shampoo, designed for the British market, gets an enthusiastic reception and a big order from a German cosmetics company.

The price has been negotiated and the deal nearly closed when the German buyer checks the ingredients. He says that a certain emulsifier used in the shampoo, while legal for use in Germany, is allowed to constitute no more than 1% of the product.

To save the 50,000-bottle order, Cromano must do a costly and time-consuming reformulation of the shampoo, a 3% solution. In the end, "the tech guys may throw up their hands and say, 'It won't work the other way. It doesn't leave the hair feeling clean,'" says Paul Hudson, group managing director of the company, a unit of Croda International PLC.

This kind of scenario is all too familiar to Mr. Hudson, and he is not alone. More than 75% of the panelists in a survey conducted by The Wall Street Journal/Europe and the management-consulting firm of Booz-Allen & Hamilton Inc. said the absence of a unified European market makes research and product development more expensive for their companies.

### Duplication of Efforts

The added cost of designing products to meet different technical specifications in

different countries was the most frequently cited problem confronting businesses in their research and development efforts. But many panelists also complained about the inefficient duplication of research and development efforts in Europe.

Numerous research teams at national companies around Europe often simultaneously tackle the same problem in different laboratories. This means money is spent several times on the same research.

More important, the money spent is often not enough. Increasingly, small national markets do not generate the revenues necessary to support massive research and development efforts for high-technology products.

For example, the cost to develop a modern telephone exchange can run as high as \$1 billion. European telecommunications companies—such as Siemens AG in Germany, Alcatel-Thomson S.A. in France, Plessey PLC in Britain, and Italtel S.p.A. in Italy—have traditionally catered to the government telephone standards in their home markets. While those markets are now too small to finance major development work, neighboring telecommunications markets—guarded by national governments protective of their own companies—are still usually off-limits to outsiders.

Financial constraints are not the only way a fragmented European market hinders research and development. An executive is likely to be bolder in taking chances with an untested product if the potential payback is high. "A home market of 240 million people is an important element in the risk-reward equation," says Gijs Bresser, chairman of Gist-brocades N.V., a Dutch biotechnology company.

### Cautious Optimism

The panel expressed a cautious optimism about the future, though. Nearly 40% think technological protectionism will decrease in the next five years, while only about 10% believe it will increase.

European Community efforts—like the Esprit and RACE programs to finance research in the information technology and telecommunications fields—have at least highlighted the need for more cooperative research, even if some are dubious about their ultimate results.

More effective may be research partnerships between European companies, often competitors, that span Europe's splintered markets. For example, Italtel, Alcatel-Thomson, Plessey and Siemens began working last year on a new generation of telecommunications switching system. The so-called pre-competitive research is done before work begins on particular applications, enabling participating companies to remain competitors while using the research to design their own products.

For many European companies, such cooperation in research—and possibly even outright mergers—will be necessary for survival. Analysts predict that the world market for digital-switching systems can support only six or seven companies; there are nine companies making digital switches in Europe alone.

But joint ventures do not guarantee success. For one thing, national jealousies and other differences can make living together difficult. A partnership between German steelmaker Hoesch Werke AG and Dutch steelmaker Hoogovens B.V., aimed in part at improving research capabilities, floundered because of different national steel policies. Says a cautious Jan D. Hooglandt, chairman of Hoogovens, "You only have to look at those who tried and were unsuccessful."











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Brussels, February 1986

**IMPROVING THE COMPETITIVENESS OF INDUSTRIAL STRUCTURES IN  
THE COMMUNITY (1)**

As announced in its 1985 work programme, the Commission has decided, in response to the wish expressed by the European Council of 28 March 1984 in Brussels, to consider ways of providing the Community with better industrial structures in order to improve its economic performance and offer a more effective response to social and employment concerns.

This Communication therefore forms part of a general process of reflection on the Community's economic and social strategy, which began with the work on completing the internal market (2), the strengthening of the technological base (3) and the implementation of a concerted strategy for growth and employment (4), and which will go on to include a detailed analysis of a social and job creation strategy for the Community.

Industrial competitiveness is a complex concept, but it is normally taken to cover the ability of firms to stand up to their competitors on domestic and world markets. At world market level this ability does not only depend on the capacity to produce at costs which enable the products in question to be sold at a profit; there is also a dynamic aspect to it, namely the ability to keep abreast of, and even to influence, the processes of adaptation so as to supply the range of products for which demand is most dynamic. Any worsening of the competitive situation of European industry will, by definition, have adverse effects on growth and employment.

In this document the Commission has endeavoured to identify the key elements which determine the Community's competitiveness and the factors likely to assist its improvement, namely

- (1) COM(86) 40
- (2) COM(85) 310 final: Completing the internal market
- (3) COM(85) 84 and COM(85) 530 final: Towards a European Technology Community
- (4) COM(85) 570 final: Annual Economic Report 1985-86

- on the one hand, the position and the specific characteristics of the Community industries in an international context both in terms of general economic factors and in terms of technology and business performance, with particular attention being paid to SMEs; and

- on the other hand the strategies employed by its main trading partners. Clearly, what is said here about those strategies is not meant to imply that they are an example to be followed, firstly because they are not transferable and also, more importantly, because they do not necessarily correspond to the Community's own objectives and in particular to its concern to reconcile the striving for economic efficiency with maintaining and developing social progress.

Naturally, a number of the factors that determine industrial competitiveness have major social implications. That is why the Commission is at pains to emphasize the benefit to the Community of a cooperation strategy based on a concerted approach to the problems by the two sides of industry, trade unions and firms' representatives, the Member States and the Community institutions.

The Commission believes that this is the approach that must be adopted towards making European firms more competitive if growth and employment are to be improved.

Its purpose in this communication is to provide all the parties concerned with a basis for discussion from which operational proposals can emerge. The ideas set out in this document must not therefore be construed as either recommendations or as representing the definitive position of the Commission, but simply as arguments designed to provide substance for a dialogue and which are susceptible to improvement in the process.

The conclusions of this Communication can be summarized as follows:

1. After going through a difficult decade and suffering a loss in momentum on the fastest growing markets, European industry has begun, since the beginning of the 1980's, a new period of growth and dynamism.

This revival has been marked by the re-establishment of profitability, the acceleration of the diffusion of new technologies, the progressive improvement in the situation of certain sectors in difficulty and recent growth in investment, which, however, must be confirmed. It has been facilitated by efforts to promote a more favourable environment for enterprises in the Community, and by the convergence of political priorities towards industrial development. So far, however, this revival has not been reflected by any significant reversal of the trends in jobs and unemployment.

2. This industrial revival should not, nevertheless, mask the threats posed by stronger international competition and the growth strategies of competitors major industries (USA, Japan, "Pacific" areas) for European firms.

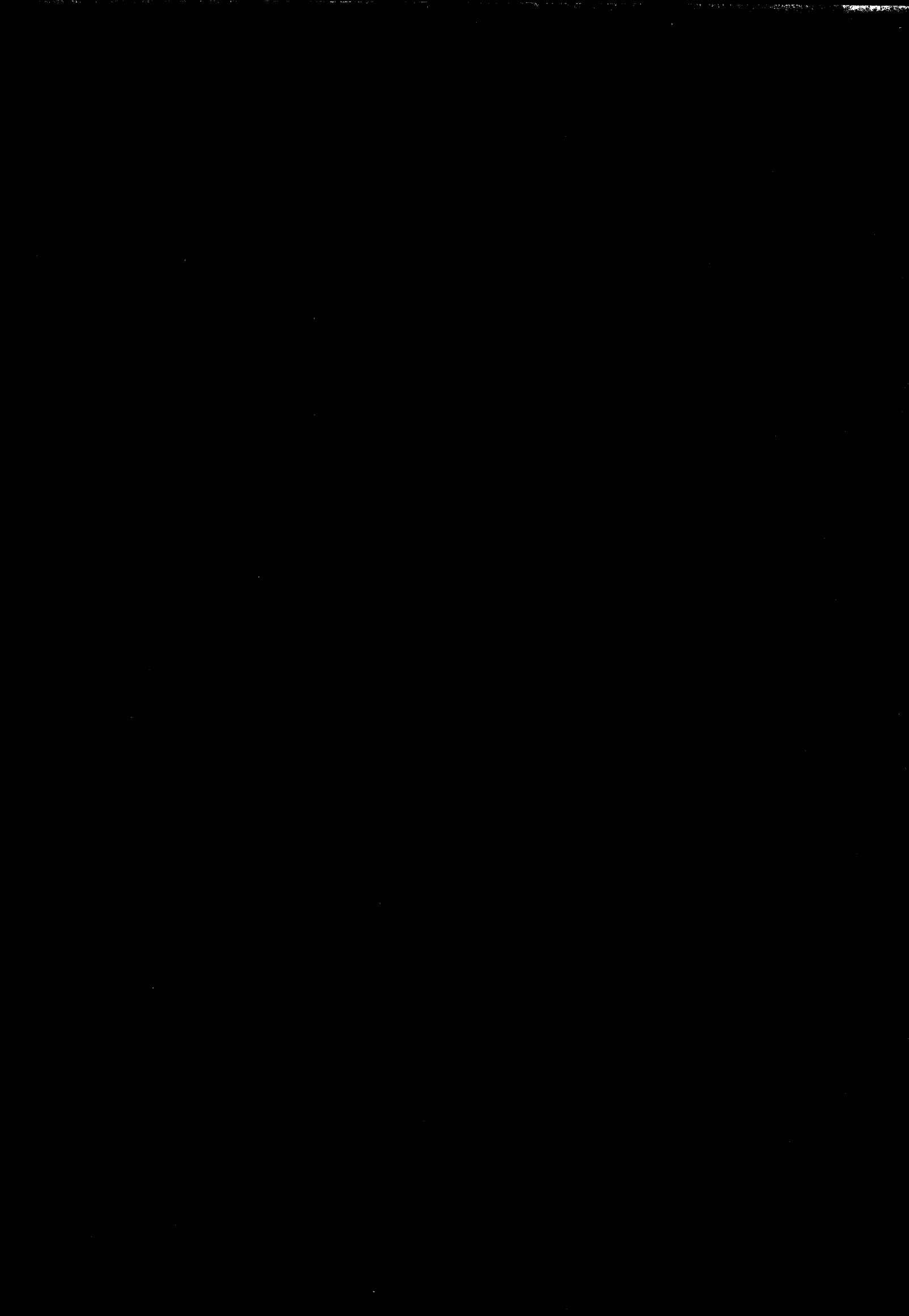
The Commission considers that the only way for the Community to meet these challenges and to set an example of dynamic development of its industry, mindful of social constraints and respectful of international balances, is by making better use of its industrial, technological and commercial assets.

Based on these findings, the areas to be examined with a view to improving the Community's industrial competitiveness are:

- completing the internal market of the Community
- reaffirming the Community's commitment to free international trade, which is embodied in the GATT system
- strengthening the industrial base of the Community
- promoting the adjustment of production structures
- encouraging the revitalization of European industry
- making a firm commitment to achieving the objective of economic and social cohesion in the Community
- making it easier to adapt the Community's human resources
- stimulating dialogue and concertation on economic and social matters in the Community.

These operational aspects will be described in detail in subsequent presentations.









Part Four

The development of concentration,  
competition and competitiveness

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## Introduction

264. This part of the Report is devoted to two topics: the recent trend of merger and joint venture activity in the Community and the results of the Commission's 1985 programme of economic studies.

Section 1 analyses empirical data on mergers, acquisitions and joint ventures in 1984-85 and examines the main motives behind such operations. The scope of the survey is limited to cases involving at least one firm operating on a Community scale and focuses on the (mainly manufacturing) industrial sector; however, for the first time the survey covers three service sectors as well.

Section 2 describes the 1985 programme of studies. This was the first to use the new thematic (as opposed to sectoral) approach, which it is hoped will increase the programme's impact on competition policy and broaden the economic frame of reference on which the policy is based.

In Section 3, a closer look is taken at the results of the 1985 studies in three areas: R&D collaboration, acquisitions of minority stakes in companies and their implications for competition policy, and the relative competitive situation of private and public-sector enterprises in certain industries in the Community.

**§ 1 — Mergers, acquisitions and joint ventures involving  
Community-scale firms in 1984/85**

265. This section analyses data gathered from the specialist press on three types of operation involving at least one Community-scale firm:<sup>1</sup>

- (i) mergers (including both takeovers and voluntary amalgamations) and acquisitions of majority holdings in companies,
- (ii) acquisitions of minority holdings,
- (iii) industrial and commercial joint ventures.

Compared with previous years when only the industrial sector was covered, the scope of the survey has this year been widened to include three service sectors, the distributive trades, banking and insurance.

The reference period is June 1984 to May 1985. The results in the industrial sector are compared with those for 1982/83 and 1983/84.

The data are analysed to show the number of operations in different categories and industries and an attempt is made to interpret these findings and to investigate the motives behind the operations.

*General picture (Table 1)*

266. A total of 480 cases were recorded in the three categories. The largest proportion (57%) were mergers, about 22% were acquisitions of minority holdings and about 21% joint ventures.

By sector, three quarters of the cases were in the industrial sector. Banking and distribution each accounted for about 10%, with the smallest number of operations, 5%, taking place in the insurance sector.

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<sup>1</sup> See definition given in Thirteenth Competition Report, point 293.

TABLE 1

National, Community and international mergers (a), acquisitions of minority holdings (b) and joint ventures (c) in the Community in 1984/85

Sector	National			Community			International			Total			Grand total
	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)	(a)	(b)	(c)	
Industry	146	45	40	44	10	15	18	12	27	208	67	82	357
Distribution	30	7	3	3	2	1	1	0	0	34	9	4	47
Banking	10	10	9	6	6	2	2	5	2	18	22	13	52
Insurance	7	5	1	7	3	0	1	0	0	15	8	1	24
Total	193	67	53	60	21	18	22	17	29	275	106	100	480

The majority of cases involved firms from the same country. These outnumbered cases involving other Community firms by over three to one. The predominance of national operations was especially marked in the distributive trades, suggesting a trend towards increasing concentration of national markets in this sector.

International operations, i.e. those involving a firm from outside the Community, differed from national and Community operations in showing a larger proportion of joint ventures than of mergers and acquisitions. Joint ventures accounted for 43% of international operations as against only 17% of national and 18% of Community operations.

#### *Mergers, acquisitions and joint ventures in industry*

#### **Mergers (including acquisitions of majority holdings) (Table 2)**

267. Mergers (including acquisitions of majority holdings in companies) represented around 60% of all operations in the industrial sector, with 208 cases recorded. This total was again considerably up (34%) on last year's figure of 155, slightly more even than last year's increase of 32% over 1982/83. This increase in merger activity suggests that the trend towards increasing concentration of industry in the Community is continuing.

TABLE 2

National, Community and international mergers  
(including acquisitions of majority holdings)  
in the Community in 1982/83, 1983/84 and 1984/85 (by sector)

## Industry

Sector <sup>1</sup>	National			Community			International			Total		
	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85
1. Food	1	7	20	2	2	1	0	2	1	3	11	22
2. Chem.	10	21	25	13	13	23	3	11	5	26	45	53
3. Elec.	5	9	13	3	2	5	7	2	4	15	13	22
4. Mech.	12	16	24	5	3	4	2	4	3	19	23	31
5. Meta.	7	9	13	1	0	3	2	0	1	10	9	17
6. Trans.	2	5	8	0	3	2	1	2	0	3	10	10
7. Pap.	7	11	10	1	1	5	1	1	3	9	13	18
8. Extra.	4	4	7	3	2	0	2	2	0	9	8	7
9. Text.	4	5	7	3	0	0	2	0	0	9	5	7
10. Cons.	6	13	14	4	3	1	0	1	0	10	17	15
11. Other	1	1	3	3	0	0	0	0	0	4	1	3
12. Comp. <sup>2</sup>			2			0			1			3
Total	59	101	146	38	29	44	20	25	18	117	155	208

<sup>1</sup> Key:

Food: Food and drink

Chem.: Chemicals, fibres, glass, ceramic ware, rubber

Elec.: Electrical and electronic engineering, office machinery

Mech.: Mechanical and instrument engineering, machine tools

Meta.: Production and preliminary processing of metals, metal goods

Trans.: Vehicles and transport equipment

Pap.: Wood, furniture and paper

Extra.: Extractive industries

Text.: Textiles, clothing, leather and footwear

Cons.: Construction

Other: Other manufacturing industry

Comp.: Computers and data processing equipment.

<sup>2</sup> In 1982/83 and 1983/84 included under mechanical engineering (Mech.).

There is no automatic correlation between the degree of concentration of an industry and the intensity of competition. In a declining industry, for example, takeovers of small ailing firms by others may help to maintain workable competition.

On the other hand, where the market is highly oligopolistic and closed to international competition, an increase in concentration may spell a potential reduction in competition.

The increase in merger activity was accounted for entirely by national (up 45%) and Community (up 51%) operations. Mergers involving a non-Community firm were down and represented under 10% of the total. This was different from the picture found in 1983/84, when Community operations had fallen and international ones increased. In two years the proportion of purely national mergers has risen from 50% (in 1982/83) to 70%.

As in 1982/83 and 1983/84, the highest number of cases was found in the chemicals industry, largely reflecting the extensive restructuring taking place in the sector. The next highest totals were in mechanical and electrical engineering and in the food and drink industries, where the increase was particularly marked. In the chemicals industry, a very high proportion of the mergers were with firms from another Community country.

A breakdown of the mergers by the size of the firms involved (Table 3) shows a further decrease in the proportion involving very large firms (having a combined turnover of over 1 000 million ECU). These accounted for only 49% of the total in 1984/85, down from 75% in 1982/83. The sharpest increase was

TABLE 3

Breakdown of mergers (including acquisitions of majority holdings)  
by combined turnover of firms involved

Industry

Sector <sup>1</sup>	< 500 m ECU			500 to 1 000 m ECU			> 1 000 m ECU			Turnover n.a.		Total		
	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85
Food	—	—	7	—	1	2	3	10	13	—	0	3	11	22
Chem.	4	7	15	2	2	11	20	28	23	8	4	26	45	53
Elec.	1	3	6	—	1	5	14	8	8	1	3	15	13	22
Mech.	2	6	6	5	5	5	12	9	17	3	3	19	23	31
Meta.	1	1	7	—	1	1	9	5	7	2	2	10	9	17
Trans.	—	2	4	1	2	1	2	5	2	1	3	3	10	10
Pap.	1	4	8	1	2	2	7	3	4	4	4	9	13	18
Extra.	—	3	0	—	—	0	9	4	7	1	0	9	8	7
Text.	4	1	3	—	1	2	5	2	0	1	2	9	5	7
Cons.	2	2	3	2	3	2	6	10	8	2	2	10	17	15
Other	1	—	3	2	—	0	1	1	0	—	0	4	1	3
Comp. <sup>2</sup>	—	—	0	—	—	0	—	—	3	—	0	—	—	3
Total	16	29	62	13	18	31	88	85	92	23	23	117	155	208

<sup>1</sup> For key, see Table 2.

<sup>2</sup> In 1982/83 and 1983/84 included under mechanical engineering (Mech.).

found among firms with a combined turnover under 500 million ECU. This pattern was generally repeated in individual industries, except for mechanical engineering and the extractive industries.

The higher level of merger activity among smaller firms could be a positive development, in that the resulting groups may compete more aggressively with the industry leaders.

Of the 92 large mergers involving firms with an aggregate turnover of over 1 000 million ECU, the largest number were centred in the United Kingdom (42%), France (25%) and Germany (16%). The majority continued to be purely national affairs. The 92 cases involve 86 'acquiring' firms, six of which were involved in two operations and 80 only in one.

#### Acquisitions of minority holdings (Table 4)

268. In 1984/85, 67 cases of acquisitions of minority holdings in the Community by or in Community-scale firms were recorded. While this was 25%

TABLE 4  
National, Community and international acquisitions of minority holdings in the Community  
in 1982/83, 1983/84 and 1984/85 (by sector)

Sector <sup>1</sup>	National			Community			International			Total		
	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85	1982/ 83	1983/ 84	1984/ 85
Food	3	3	9	0	1	1	0	0	2	3	4	12
Chem.	0	4	4	3	1	4	1	2	0	4	7	8
Elec.	0	6	3	0	0	3	1	1	2	1	7	8
Mech.	2	6	13	0	2	0	1	1	4	3	9	17
Meta.	4	2	2	1	3	0	0	2	0	5	7	2
Trans.	1	3	2	0	0	1	1	0	2	2	3	5
Pap.	4	5	5	0	0	0	0	1	1	4	6	6
Extra.	2	2	3	0	1	0	0	1	0	2	4	3
Text.	3	3	2	1	0	1	0	1	0	4	4	3
Const.	1	3	0	2	0	0	0	0	0	3	3	0
Other	0	0	1	2	0	0	0	0	1	2	0	2
Comp. <sup>2</sup>	—	—	1	—	—	0	—	—	0	—	—	1
Total	20	37	45	9	8	10	4	9	12	33	54	67

<sup>1</sup> For key, see Table 2.

<sup>2</sup> In 1982/83 and 1983/84 included under mechanical engineering (Mech.).



up on 1983/84, the increase was less than the increase seen in 1983/84 over 1982/83 (63%) and than the increase in mergers (34%).

Other firms from the same country continued to be the preferred targets for such acquisitions, accounting for about two thirds of cases.

By sector, the largest number of acquisitions of minority holdings was found in the food and drink and mechanical engineering industries, which showed a sharp increase in such operations, as they had for mergers (see above). The sectoral distribution of mergers and minority acquisitions was nevertheless still somewhat different: there were proportionately fewer minority acquisitions in the chemicals industry.

#### Joint ventures (Table 5)

269. The number of joint ventures, at 82, was again up on the previous year, but by a smaller margin (19%) than in 1983/84.

Cases were broadly classified into industrial and commercial.<sup>1</sup> There were significant differences between the two categories:

- (i) a high proportion of commercial joint ventures involved partners from different Community countries, a trend not observed before. Industrial joint ventures continued to be mainly with domestic or non-EEC partners;
- (ii) the number of industrial joint ventures rose, that of commercial joint ventures fell slightly.

The chemical and engineering (electrical and mechanical) industries continued to show the high incidence of joint venture activity.

<sup>1</sup> On the basis of the joint venture's function relative to the activities of the parents: i.e. industrial joint ventures = those at least partially production-related; commercial joint ventures = those mainly concerned with distribution of the parents' products.

TABLE 5

Joint ventures in the Community in 1982/83, 1983/84 and 1984/85 (by sector)

Industry

Sector <sup>1</sup>	Commercial												Industrial												Total											
	National			Community			Inter-national			Total			National			Community			Inter-national			Total			National			Community			Inter-national			Total		
	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85	82/83	83/84	84/85
Food	1	1	0	—	—	0	—	—	0	1	1	0	—	1	1	—	1	0	—	—	1	—	2	2	1	2	1	—	1	0	—	—	1	1	3	2
Chem.	3	3	1	1	1	0	1	1	0	5	5	1	1	1	4	—	1	0	2	4	7	3	6	11	4	4	5	1	2	0	3	5	7	8	11	12
Elec.	2	1	—	—	—	2	1	—	1	3	1	3	2	7	3	1	1	1	4	10	6	7	18	10	4	8	3	1	1	3	5	10	7	10	19	13
Mech.	1	2	3	—	—	2	1	—	1	2	2	6	2	3	5	1	1	1	—	3	4	3	7	10	3	5	8	1	1	3	1	3	5	5	9	16
Meta.	—	2	0	2	1	0	—	—	0	2	3	0	2	4	8	1	2	1	2	1	1	5	7	10	2	6	8	3	3	1	2	1	1	7	10	10
Trans.	—	1	1	—	—	0	—	—	0	—	1	1	2	2	2	—	1	1	—	3	2	2	6	5	2	3	3	—	1	1	—	3	2	2	7	6
Pap.	—	—	0	—	—	2	—	2	0	—	2	2	2	—	4	2	1	2	—	1	2	4	2	8	2	—	4	2	1	4	—	3	2	4	4	10
Extra.	—	—	0	—	—	1	—	—	0	—	—	1	2	2	3	—	0	1	—	1	3	2	4	2	2	3	—	—	1	1	—	1	3	2	5	
Texr.	—	—	0	—	—	0	—	—	0	—	—	0	—	—	0	—	1	1	—	0	1	—	1	—	—	—	0	—	—	1	1	—	0	1	—	1
Const.	—	1	0	—	1	0	—	—	0	—	2	0	1	1	2	—	1	1	—	1	1	2	1	4	1	2	2	—	1	1	1	—	1	2	3	4
Other	2	—	0	—	—	0	1	1	0	3	1	0	—	—	0	—	—	0	—	—	0	—	—	0	2	—	0	—	—	0	1	1	0	3	1	0
Comp. <sup>2</sup>	—	—	1	—	—	0	—	—	0	—	—	1	—	—	2	—	—	0	—	—	0	—	—	2	—	—	3	—	—	0	—	—	0	—	—	3
Total	9	11	6	3	3	7	4	4	2	16	18	15	14	21	34	5	8	8	11	22	25	30	51	67	23	32	40	8	11	15	15	26	27	46	69	82

<sup>1</sup> For key, see Table 2.

<sup>2</sup> In 1982/83 and 1983/84 included under mechanical engineering (Mech.).

**Main motives for the mergers and joint ventures (Table 6)**

270. The mergers and joint ventures recorded were classified by main motive, whenever this was clear from the press reports.

TABLE 6

**Main motives for mergers and industrial joint ventures in 1984/85**

Mergers (including acquisitions of majority holdings)		Industrial joint ventures	
Expansion	32	Production	8
Diversification	9	Production and marketing	5
Specialization	12	R&D	10
Strengthening of market position	15	R&D and production	3
Profitability	4	Rationalization	14
Integration	2	Specialization	7
Complementarity	19	Expansion	4
Rationalization	61	Other	4
R&D	3	Not specified	12
Other	4		
Not specified	47		

***Mergers (including acquisitions of majority holdings)***

Rationalization remained the commonest motive for mergers in the industrial sector overall. This was generally the case also in individual industries, with the exception of the food and drink and extractive industries. The relative importance of rationalization as a reason for mergers had indeed slightly increased since 1983/84.

Expansion was again the second commonest motive, and was frequently reported for mergers in the food and drink and construction industries.

Strengthening of market position was also a relatively frequent motive.

Research and development, integration and profitability were least often cited as the main reason for mergers.

*Joint ventures*

The distribution of motives for industrial joint ventures differed from that found for mergers.

Whilst rationalization was also the motive most commonly reported for industrial joint ventures and was more frequent than in the past, it was less important proportionately than for mergers.

Research and development remained an extremely important motive for industrial joint ventures, indicating that in some cases joint ventures may stimulate innovation and also have a beneficial effect on competition. Commercial joint ventures were formed mainly for reasons of marketing, rationalization and expansion.

*Mergers, acquisitions and joint ventures in services*

271. The mergers, acquisitions and joint ventures found in the three service sectors studied in 1984/85, distribution, banking and insurance, are now analysed. The data, from the specialist press, cover only operations within the same sector.

*Mergers (including acquisitions of majority shareholdings) (Table 7)*

272. Mergers and acquisitions of majority holdings represented about 63% of all acquisitions (i.e. these plus acquisitions of minority holdings) reported in the three sectors.

TABLE 7

National, Community and international mergers (including acquisitions of majority holdings) in the Community in 1984/85

*Services*

Sector	National	Community	International	Total
Distribution	30	3	1	34
Banking	10	6	2	18
Insurance	7	7	1	15
Total	47	16	4	67

A striking feature was the high proportion of domestic mergers in the distributive trades: almost nine cases out of ten involved firms from the same country. This suggests that national markets are growing increasingly concentrated and may reflect a trend towards the acquisition of increased buying power by large retailers. If this process went so far as to reduce the intensity of competition, it could eventually affect price levels and the competitiveness of goods and services.

The mergers were also analysed by the size of the firms involved, using the criteria adopted in the proposed merger control regulation, namely:

- (i) in the distributive trades, the parties' combined turnover,
- (ii) in banking, one tenth of the parties' assets, and
- (iii) in insurance, the parties' combined premium income (Table 8).

TABLE 8  
Breakdown of mergers (including acquisitions of majority holdings)  
by combined turnover<sup>1</sup> of firms involved

*Services*

Sector	< 500 m ECU	500 to 1 000 m ECU	> 1 000 m ECU	Total
Distribution	11	2	21	34
Banking	3	5	10	18
Insurance	5	1	9	15
Total	19	8	40	67

<sup>1</sup> One tenth of assets in the case of banks and premium income in the case of insurance companies.

In all three sectors, the majority of mergers involved firms at the larger end of the size scale.

#### Acquisitions of minority holdings

273. A total of 38 cases of acquisitions of minority holdings in the Community by or in Community-scale firms were recorded over the period (Table 9). Two main features stand out:

- (i) The predominance of national operations was not so marked as with mergers; here, 42% of cases involved firms from another EEC or a third country.
- (ii) The largest number of minority acquisitions was found in banking, and under half involved other domestic institutions, reflecting the increasing international scale of financial services.

TABLE 9  
National, Community and international acquisitions  
of minority holdings in the Community in 1984/85

*Services*

Sector	National	Community	International	Total
Distribution	7	2		9
Banking	10	6	5	21
Insurance	5	3		8
Total	22	11	5	38

Joint ventures

274. Banking also accounted for the majority of joint ventures (Table 10). However, joint ventures were proportionately much less common than in the industrial sector. This is probably due to the fact that the main motives for setting up joint ventures in industry, namely restructuring and R&D, do not exist to the same degree in the three service sectors considered.

TABLE 10  
Joint ventures in the Community in 1984/85

*Services*

Sector	National	Community	International	Total
Distribution	3	1		4
Banking	9	2	2	13
Insurance	1			1
Total	13	3	2	18

### *Results*

275. The main findings emerging from the analysis of mergers, acquisitions and joint ventures reported in the specialist press in 1984/85 which involved Community-scale firms were as follows:

- (i) there was a further sharp increase in merger activity in industry, most of the growth being accounted for by acquisitions of other domestic companies and by firms at the lower end of the size scale by turnover. While this suggests a continuation of the growth of concentration, it cannot necessarily be taken as evidence of a general diminution of competition in Community industry;
- (ii) joint ventures were increasingly being used as a vehicle for rationalization. Nevertheless, the frequent association of industrial joint ventures with R&D was a feature which continued to set them apart from acquisitions;
- (iii) of the three service sectors studied, banking and insurance showed higher incidences of acquisitions of minority holdings and of operations involving companies in other EEC countries than were found in industry;
- (iv) the distributive trades showed a much higher level of domestic merger activity than either industry or banking and insurance.

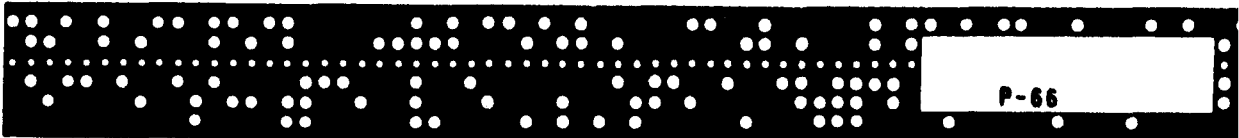
This could indicate a push by large retail chains to increase their share of the domestic market. Most of the mergers were large in turnover terms. Other motives often associated with industrial link-ups, such as the pooling of technology with foreign firms, are mostly lacking in the distribution sector.











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**INFORMATION · INFORMATORISCHE AUFZEICHNUNG · INFORMATION MEMO · NOTE D'INFORMATION  
ΠΑΡΡΟΟΠΙΑΚΟ ΣΗΜΕΙΩΜΑ · NOTA D'INFORMAZIONE · TER DOCUMENTATIE**

Brussels, July 1986

**COMMISSION ACTION PROGRAMME  
FOR SMALL AND MEDIUM-SIZED ENTERPRISES**

The Commission has adopted an action programme for small and medium-sized enterprises (1) which it wishes the Council to approve. This initiative by the Commission is in keeping with the approach adopted by the European Council which recently placed emphasis on the promotion of small businesses as part of a growth and employment strategy.

This programme - which has been drawn up on the basis of a detailed analysis of the requirements of small businesses and consultations with the European organizations representing small businesses, the trade unions, independent research centres and the Member States - identifies two main objectives for Community action :

(a) To contribute to the creation of a favourable environment for small businesses within the Community's internal market. This objective is reflected in seven projects: the promotion of a spirit of enterprise and recognition for the social role of the private businessman, the improvement of the administrative environment, the completion of the internal market, company law, a healthy competition structure, the fiscal situation and improvement of the social environment.

(b) To make a positive contribution to the need for flexibility in the case of small businesses. This objective addresses both the problem of the creation of firms and the development of existing small businesses. It will be translated into practice in six major projects : training, information, exports, the creation of firms and innovation, cooperation between businesses, and the provision of capital.

**Community action with regard to small businesses**

The Community institutions have for a long time recognized the important contribution which small businesses can make to growth and especially the sort of growth which creates more jobs. They have therefore already undertaken a series of initiatives designed to help small businesses (European Small Business Year, Commission communication of 22 May 1984, European Parliament Resolution of 24 May 1984).

(1) COM (86) 445

At the beginning of 1986, on the basis of instructions given by the European Council, the Commission decided to step up its endeavours in this area. It gave one of its members, Mr Matutes, specific responsibility for small businesses, set up a working party of Commissioners to define a strategy for future work concerning small businesses and established a small administrative unit known as the Small Business Task Force to coordinate activities concerning small businesses, to promote the convergence of national and Community policies, to establish a framework for contact and dialogue with the organizations representing small businesses and to help establish at European level machinery capable of providing solutions to the practical problems of small businesses.

#### Problems and needs of small businesses

The many studies carried out brought to light, despite the diversity of national situations, three chief needs:

- (a) the need for an administrative environment which is sufficiently simple and open so as not to handicap firms in terms of costs and profitability ;
- (b) improved availability of capital for small businesses to enable rapid introduction of new technologies into production processes; and
- (c) preservation of flexibility as a basic factor in adapting to demand and to the competitive challenges of the market; in particular, this requires information for firms to be quick and effective and the training of businessmen to be tailored to the special needs of small businesses.

#### The action programme proposed by the Commission

An analysis of these requirements has guided the Commission in the formulation of the objectives for the proposed action by the Community which is designed to :

- a) contribute to the creation of a favourable environment for small businesses within the Community's internal market ; this concerns both the administrative and regulatory, as well as the cultural and social, climate ; and
- b) make a positive contribution to the needs of small businesses in terms of flexibility and the provision of capital. This second major objective addresses both the problem of the creation of firms and the development of existing small businesses.

Mr Matutes stated that the Commission wishes to pursue a small business policy which does not seek to confer privileges but to overcome discrimination against small businesses as a result of their size. The Commission wishes to develop this policy in close cooperation with business associations and all the organizations directly or indirectly connected with small business to ensure constant and constructive feedback between the Community institutions and the small business world. The consultations held in conjunction with the preparation of the small business action

programme are evidence of the Commission's commitment to this principle.

"Healthy, innovative small firms capable of expanding and competing are essential in Europe in order to provide a solution to the problems of young people, to strengthen the social fabric and to improve our quality of life. Their success will add a new Community dimension to industry and the services sector in the form of millions of European businessmen putting their faith in the future, day after day".

Over the next few months, the Commission will be focusing on a few specific measures among which Mr Matutes mentioned, by way of example :

a) Community information centres : the idea is to make available in one place information concerning the Community which is likely to be of interest to small businesses (legislative provisions concerning the internal market, EEC grants, loans and research programmes, etc.). Offices of this kind could rapidly be set up in the form of pilot information centres (three in the larger countries, two in the smaller ones) with the help of the Commission's information offices.

b) Programme of transnational cooperation between training centres for small businessmen : the aim is to set up a transnational network of business management training institutes and work out ad hoc programmes with these institutes.

c) Promotion of the spirit of enterprise in Europe : the intention is to work out European training programmes for use in secondary schools and vocational training schools in each country.

d) Mobility of heads of businesses within the Community : the Commission will compile a practical handbook on the setting up of businesses in Europe indicating in nine languages the formalities involved in each country.

Mr Matutes also stated that the Commission would endeavour to get the Council to adopt rapidly the proposal concerning a special tranche of the New Community Instrument for small businesses (NCI IV) and that the Commission intended to submit to the Council proposals designed to improve the fiscal environment of small businesses.

## ANNEX

The action programme which the Commission wishes the Council to adopt falls into two parts, each serving one of the two major objectives of action by the Community :

### A. Providing a favourable environment for small businesses:

Community action to provide a favourable environment for small businesses will cover all factors - institutional, administrative, legal and social - which determine how firms operate. It will consist of positive measures to promote the spirit of enterprise and steps to adapt the general provisions so as to render the regulatory framework in which business operates less of a burden, and to compensate for the handicaps inherent in small size. This part of the action programme is in seven sections :

A.1 Promoting the spirit of enterprise : the Commission should help to bring about a change in attitude by means of specific measures and by explicitly bringing the concerns of small businesses into its general measures. The Commission is proposing in particular a project to promote the spirit of enterprise among young people and promote self-employment, possibly via European training programmes in schools.

A.2. Improving the administrative environment : the Commission has already made a first positive move by adopting the principle that every Commission proposal for legislation sent to the Council must be accompanied by the results of an assessment of its impact on businesses, especially small businesses. The Commission is also engaged in ascertaining the obligations imposed upon small businesses by the Community legislation in force, analysing the costs and benefits for firms. The Commission will draw conclusions from this appraisal and make proposals, where necessary, for more flexible solutions.

A.3. Completion of the internal market with a view to helping small businesses : just as the removal of red tape and of regulatory barriers is of special importance to small businesses, so too is completing the internal market. Among the objectives, mention should be made of the removal of physical barriers, flexibility and transparency in the harmonization of technical standards - here the Commission will endeavour to be more systematic in issuing information - and real access to public procurement contracts for small businesses. In preparation for a specific programme on the last point, it is planned to make an inventory in the near future of national experience, including experience in Japan and North America.

A.4. Adapting Community law : the Community will continue to provide special treatment for small businesses in the context of

European company law. In particular, in 1988 there will be a further review of the criteria for derogations for small businesses in the accountancy directives. In addition, the Commission will run a publicity campaign concerning the Regulation on the European Economic Interest Grouping, a legal instrument aimed at encouraging cooperation between small businesses in different Member States.

A.5. A sound competitive structure : the Commission will take steps to ensure that the activities of small businesses are not hindered as a result of compliance with the Community rules on competition. The Commission communication on agreements of minor importance which are not subject to Article 85 was revised recently along lines even more favourable to small businesses. In addition, the Commission has made it clear since 1979, by means of a general communication directed at small businesses in particular, that subcontracting agreements do not normally fall within the scope of Article 85.

A.6. The tax environment : some of the proposals on tax matters already submitted by the Commission are of direct relevance to small businesses (e.g. the proposal for a Directive on setting up an arbitration procedure to eliminate double taxation affecting associated firms, the proposal for a Directive on the carrying-forward of losses for tax purposes, etc.). The Commission has also recently submitted a proposal concerning simplified procedures for levying VAT and a more realistic exemption arrangement (see Memo P-67) which was adopted at the same time as the small business action programme.

A.7. Improving the social environment of small businesses : the role of cooperatives : the Commission wants the European organizations representing small businesses to be involved in the necessary social dialogue. In addition, the Commission will endeavour to draw on their wealth of experience for the purpose of implementing policy with regard to small businesses. It will also examine possible ways of creating a more favourable framework for producer and service cooperatives.

B. Flexibility and the provision of capital as a basis for the creation and development of small businesses

This part of the programme is designed to respond directly to the specific needs of small businesses by giving priority to schemes concerning the provision of capital for small businesses and achievement of a high degree of adaptability. There is immense scope for such schemes, as experience in the Member States shows. The option proposed by the Commission is to develop a series of projects that can easily be integrated into existing Community and national programmes ; it is therefore mainly a question of projects which introduce a specific small business component to Community activities already in progress, to which certain specific aspects should be added :

**B.1. Training** : the intention is to take account of the inherent characteristics of small businesses in the national and Community training programmes, in particular through the resources of the European Social Fund, and with technical assistance from the European Centre for the Development of Vocational Training. With regard to management training, the Commission will organize a network of training institutes dealing with the specific problems of training managers of small businesses.

**B.2. Information** : the intention here is to provide information for small businesses as well as about small businesses. Given the vast range of information on Community activities concerning small businesses, the Commission wishes to develop the concept of "one-stop-offices", or information centres, liaising between small businesses and the Community authorities. The Commission also proposes to improve the statistical machinery for the collection of information on small businesses.

**B.3. Exports** : the Commission intends to organize a series of ad hoc measures to facilitate the access of small businesses to markets in non-member countries (pilot export-training projects for small businesses, courses and awards for small businessmen, group participation in trade fairs, cooperation between bodies concerned with the promotion of small businesses on external markets, etc.).

**B.4. Establishment of firms : innovation** : the Commission is proposing to support efforts to establish new firms and to facilitate access to new technologies by means of initiatives such as :

- a) the organization of a European conference on the establishment of firms and the setting-up of a European association for promoting the establishment of firms in order to coordinate action in this area ;
- b) extension and integration of European business and innovation centres ; and
- c) the development of contacts between universities and firms.

**B.5. Business cooperation : regions** : the Commission is proposing to assist the creation of a regional and local framework favouring the development of small businesses and to facilitate their relations with large firms, in particular by :

- a) establishing the computerized European Business Cooperation Network (BC - Net) ; and
- b) generalizing projects to develop "endogenous" potential (joint services, reception areas, service centres, etc.).

**B.6. Provision of capital** : the objective of this aspect of Community endeavour is to facilitate the access of small businesses to finance. To this end, wider use should be made of "global" loans in the context of the Community institutions' lending activities, and venture capital operations



should be stepped up. The Commission has already submitted proposals concerning lending activities (NCI IV) and is in the process of consulting interested parties where "financial engineering" operations are concerned.



# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(87) 152 final

Brussels, 7 April 1987

CENTRES FOR EUROPEAN BUSINESS INFORMATION

( Commission working paper )

COM(87) 152 final



Com 1524

## CENTRES FOR EUROPEAN BUSINESS INFORMATION

### I. COMMUNICATION WITH SMALL FIRMS : A PRIORITY AREA

An important priority in the list of measures proposed in the Commission's Action Programme for SMEs was to set up channels of communication and information on Community activities and on the needs of small firms. The Centres for European Business Information will not only supply firms with information but also gather their suggestions or requests for specific services.

The Council resolution of 3 November 1986 (2) approved the broad lines and overall strategy proposed by the Commission. The Council has also acknowledged the flow of information as a priority; in its resolution of 22 December 1986 (3) the Council called for rapid implementation of the Action Programme for SMEs, and in particular for more information to be made available on Community programmes directed towards small firms.

General information on Community policies in the Member States, and that addressed to particular groups, has been developed by the Commission through its Information Offices in the different Member States.

In the framework of a policy to promote SMEs and to improve relations between the Commission and such enterprises, it has clearly become necessary to create better adapted channels, in both directions, between the Commission and SMEs. Moreover, such specialised information in no way calls into question the activities or wider purpose of the Information Offices.

Priority is thus to be given to SMEs from now on within the framework of the development of general information policy of the Community(4). The pilot scheme "Centres for European Business Information", which constitutes a priority area of policy towards SMEs, is to be seen in this context. Indeed, while becoming more and more aware of the importance of the European dimension, in particular with regard to the internal market, SMEs do not always have at their disposal the information and services they need to take advantage of it.

(1) COM(86)445 final, 7 August 1986.

(2) OJ C 287, 14.11.1986, P. 1

(3) Action Programme on Employment Growth, OJ C 340, 31.12.1986.

(4) SEC(86)1841 : The Commission's Information and Communication policy : priorities and coordination proposals.

## II. THE PILOT PROJECT ON CENTRES FOR EUROPEAN INFORMATION

To fulfil this commitment by the Community, the SME Task Force will be conducting a pilot scheme to test the feasibility and effectiveness of spreading information on Community activities of interest to small firms through the traditional channels afforded by institutions offering services to business.

### 2.1. There are two chief objectives :

- (i) to bring the Community closer to firms by making available - in the most readily accessible form possible - all the information on the Community that is likely to be of use in day-to-day business management: market intelligence and information relating to public contracts, legislation, technical standards and rules, research and development programmes, industrial cooperation, financing and training;
- (ii) to build the service around existing channels of information : the provision of information about the Community must be integrated within the services provided by the host institutions. Making the Centres an integral part of reliable decentralized offices and network already providing information for local SMEs will ensure that they can cater for firms' day-to-day concerns.

### 2.2. The basic tasks of the Centres will be :

- (i) To meet the demand for information on Community activities. Most enquiries from small entrepreneurs concern one of two main areas :
  - (a) the internal market, i.e. the legal, regulatory, social and technical aspects governing intra-Community trade today and the changes likely to be brought about by the completion of the internal market.

(b) the Community's operational policies, in particular Community grants and financial instruments, research and demonstration programmes, sectoral measures, training schemes, regional policy measures and trade relations with non-Community countries.

(ii) To help and advise firms in their contacts on Community matters. When the information obtained enables the firm to make a direct contact under a Community measure, the Centre can help and advise it at various levels.

In the pursuit of its information task the Centre will make available sets of replies and applications to take part in Community events or programmes. The Centre will help the firm complete the necessary formalities. Depending on the complexity of the question and the degree of specialization of its services, the Centre may direct the firm to other bodies able to supply appropriate advice and assistance.

(iii) Cooperation with the Community's Information Offices will be sought for information campaigns directed at a wider public, on trade and commercial events for example, and for occasional or regular newsletters to firms or their usual information sources such as the trade press, local and regional authorities, trade associations and trade unions etc.

2.3. The guiding principles of this Community activity are based on the objective of ensuring that the Centre is fully integrated into the activities of an organization which already has a secure place in the local industrial fabric :

(i) the host organisation will make available specific staff resources (equivalent to about two posts), equipment (ordinary office supplies and communications software), and premises. But the Centre will itself be responsible for managing the resources it needs.

- (ii) in return, through the intermediary of its Task Force for SMEs, the Community will provide the Centre with basic Community documentation, regularly updated and adapted as need be for present purposes; it will allow the Centre access to certain Community data bases; it will publicize and promote this new activity; it will be responsible for training the staff which the host body assigns to the Centres; and it will meet part of the marginal costs of opening the Centre, with a limited financial contribution in the first year.

2.4. The implementation schedule for the pilot operation and the procedural details are annexed hereto.

The procedures will serve the operating principles which the Centres must respect, in particular the general interest nature of their task and their accessibility to all types of firm.

The Centres will give priority to developing their services for firms employing fewer than 500 people. They will also make special efforts to inform potential new entrepreneurs, including job-seekers and young people.

### III. THE RESULTS EXPECTED AND POSSIBLE FURTHER DEVELOPMENTS

The operation has two aims :

- to improve the flow and quality of information on Community activities to Community firms, testing the capability of the bodies involved to act as decentralized channels of information;
- to bring firms into closer touch with the Community dimension by opening up a listening post for their enquiries, requests and proposals.



Once the pilot phase has been assessed the operation could lead to important developments :

- with a better understanding of firms' requirements Community action to assist them can be defined and targeted more accurately, which will enhance the impact of new measures;
- the tools developed in the pilot phase - documentation, training modules, promotional kits - could be made accessible to a wider range of bodies in response to demand emerging in the pilot phase;
- the promotion of Community activity by the Centres and the improved supply of information will stimulate demand from firms : more bodies will be encouraged to perform similar services, making for general progress towards better communication between the Community and the business world through the growing network of cooperation between business advisory and information bodies, or, in a second phase and in response to demand, through an increase in the number of Centres.

LAUNCHING THE PILOT STAGE  
OF THE  
"CENTRES FOR EUROPEAN BUSINESS INFORMATION"

- 17 March 1987 : Publication of the invitation to submit proposals in the supplement to the OJ (S.53)
- 20 March 1987 : Dispatch of the contract specifications to the Information Offices
- 17 March to 2 May 1987 : 42-day period for submission of proposals
- May : Assessment of proposals and selection of the 28 pilot Centres
- 27 May to 22 June 1987 : Appointment of staff to Centres by the selected host organizations
- 22 June to 10 July 1987 : Training of the staff for the Centres (3-week course in Brussels )
- July to September 1987 : Finalization of technical aspects between the host organizations and the Commission
- 29 September 1987 : Official opening of the first Centre

OPERATION OF CENTRES FOR EUROPEAN BUSINESS INFORMATION

I. RESOURCES REQUIRED BY EACH CENTRE AND ITS HOST ORGANIZATION

Documentation

The documentation function is essential and will entail :

- (i) storing the documentation supplied by the Commission;
- (ii) keeping the directory provided by the SME Task Force for this project;
- (iii) running a documentary reference service;
- (iv) preparing general information sheets;
- (v) preparing special packs in response to requests for assistance and advice;
- (vi) monitoring local publications and selecting information useful in a Community context.

Staff

Staff must be specially assigned to run the Centres within the context of the activities of the host organization. Staff may be reallocated by the host organization or new staff may be recruited.

Eventually the Centres will require the equivalent of two full-time posts, one specifically assigned to the project.

These staff members should have a basic knowledge of Community activities and of documentary reference and data retrieval methods. They will receive additional training in a programme organized by the SME Task Force.

### Premises and equipment

The host organization should provide the Centre with premises to house the documentation. It should also provide an MS-DOS microcomputer with TTY annulation software for operation on the X25 network, together with communications software, file management software, a printer, and telex and telefax facilities (and if they are not already available, a photocopier and a microfiche reader and copier).

## II. RESOURCES REQUIRED BY THE TASK FORCE TO SET UP AND OPERATE THESE CENTRES

A central unit in the SME Task Force will be responsible primarily for :

- (i) continuous compilation and analysis of information on Community activities for dissemination to the Centres (documents and computerized data);
- (ii) planning a campaign to publicize the Centres and coordinating its implementation, in particular by making available a promotional kit which Centres can use and adapt to suit their own strategies;
- (iii) sending Centres a guide to information sources, which will include a directory based on a set of likely typical inquiries from firms that should produce the Community information required; the central unit will develop the means of communication with and between the Centres so that inquiries from firms can be dealt with rapidly and satisfactorily through cooperation between the Centres and if necessary with the Commission;
- (iv) the training of Centre staff in the following areas :
  - . operation of a Centre
  - . fields covered by the Centres (Community activities which of interest to businesses)
  - . the content of Community databases and how to use them.

The SME Task Force will be responsible for general evaluation of the project. It will also help host organizations to set up the Centres.