THE IMPORTANCE OF TAX APPROXIMATION FOR INTEGRATION IN EUROPE

An Address

given by

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Introduction

In the first ten years of its existence the European Economic Community has put down firm roots. It can still spread more widely throughout Europe, but it can no longer be torn up. Customs union is nearing completion. Rather than being the final stage of a development, however, this union form the basis of a Community which can and will come to full stature only in the future. The possibilities inherent in the European Economic Community, though very remote when the Treaty of Rome was signed, are today drawing steadily closer.

Article 2 of the Treaty sets out as aims of the Community: harmonious development of economic activities throughout the Community, continuous and balanced expansion, increased stability, speedier improvement in the standard of living and promotion of closer relations between the Member States. The targets set out in this Article of the Treaty are, then, in part political. They constitute more than a non-committal political programme. They have legally binding force. To make sure that these objectives are achieved, the Treaty has provided an impressive legal and organizational framework such as had never been seen in the history of international treaties: the European Economic Community was endowed with legal personality and with sovereign rights previously reserved exclusively to States.

The Community creates law, administers justice, makes administrative decisions and can take political action. Nevertheless, the Community is not a State, not even a federal State. Its powers are limited to what is needed if the objectives of the Treaty are to be attained. The dynamic nature of the task put to the Community by Article 2 requires continuous growth and internal expansion. The functional restrictions on its powers indicate its legal limits. These are the two poles between which its institutions operate.

Bases for the approximation of taxes

The Treaty of Rome and the Community structure it provides constitute the legal framework into which the approximation of taxes must fit. Which are the bases of our policy in this field? In what way is this work of importance for European integration? By integration I understand, to use the terminology of the Treaty of Rome, "establishing a common market and progressively approximating the economic policies of Member States" (Article 2). According to Article 3, approximation of economic policies means having a common commercial policy, a common agricultural policy and a common transport policy and co-ordination of the remaining aspects of economic policy in the Member States, particularly short-term economic policy and monetary policy. Article 3 of the Treaty shows that the common market means a common external customs tariff, the free movement of goods, persons, services and capital and undistorted competition within the Community.

These are the practical criteria provided by the Treaty of Rome for determining what importance a given type of tax and the differences in that tax from one member country to another will have for integration, whether and to what extent approximation is necessary and in what direction any changes should be made.

Approximation of taxes must therefore be carried out with the twofold aim of ensuring freedom of movement within the economy and equal conditions of competition. It must for the rest be guided by the Community objectives already mentioned, namely economic expansion, stability and improvement of the standard of living. Some of these objectives are laid down in detail in special provisions of the Treaty which concern short-term economic policy and the balance of payments.

The harmonization of taxes is not an end in itself. It is not included among the special aims of the Treaty, but is one of the ways and means by which the Community is enabled to carry through its tasks.

Under the heading "Policy of the Community", Article 100 of the Treaty provides for the approximation of those legislative and administrative provisions which have a direct incidence on the establishment or functioning of the common market. This is a general provision on the approximation of laws which extends beyond the scope of the measures already foreseen under special provisions in this field. Article 100 becomes operative if a special provision on the approximation of laws does not exist or is insufficient, i.e. covers one aspect only or does not enable the Community to issue directives.

Article 100 therefore supplements Article 99 of the Treaty, which provides for the approximation of turnover taxes and excise duties. Article 99 does not contain exhaustive rules on the approximation of tax law and therefore expressly applies without prejudice to Articles 100 and 101. It is thus acknowledged in the Treaty itself that tax laws and in particular direct taxes are to be approximated on the basis of the general provisions to the extent this is required for the establishment or the functioning of the common market.

As has been shown, the Treaty provides a fairly clear definition of what is to be understood by the common market. What legal provisions have direct incidence on it and to what extent they do so depends in part on the stage of development reached at any given moment and consequently special provisions can define these points only incompletely if at all. A general clause was therefore needed conferring the power and the duty to approximate any legal provisions that affect the establishment or the functioning of the common market. The Community institutions have to determine, in accordance with Articles 100 and 101, what measures are needed at each particular stage of development to create within the Community conditions similar to those obtaining on a domestic market.

The most important instrument made available by the Treaty of Rome for the attainment of this objective is the directive. Under Article 99 - that is in connection with indirect taxes - it is also possible to use regulations and decisions. Like the other, the directive is an instrument of Community law. However, it is binding only on the Member States, and its binding force is confined to the objects or results to be achieved. The choice of ways and means is left to the authorities in the Member States. Under Article 100 the Community is therefore not able to enact, by way of regulation, Community law which binds the private individual. Directives can, in addition, be issued only if the Member States agree on them unanimously.

There is an internal connection between the idea of the functional relationship to the various stages and the method of approximation by directive made available by the Treaty. Integra- is regarded as a process in which it may at a certain stage be necessary for certain powers of the individual Member States to be exercised only in close co-ordination without, however, the sovereign rights of the Member States being limited more than is needed if the common market is to work. The instrument of the directive has proved to be both necessary and, as a rule, sufficient where tax provisions have to be approximated. In saying this I have consciously ignored matters which do not relate to the approximation of law on the national taxes themselves but to conflict of laws (avoidance of double taxation) or to the creation of new European law (European company).

In principle the contracting parties have therefore made allowance for the fact that the States are accustomed to considering their financial sovereignty as an essential part of their sovereign powers and are known to be particularly sensitive about any restriction of this sphere. What changes will have to be made when the integration process advances further, and whether they will have to include changes in the instruments available, is a matter into which we need not go at this stage.

Tasks of tax approximation

In the first ten years of the Common Market, the main tasks were to establish the customs union and to abolish discrimination against non-nationals in connection with the movement of persons, the supply of services, the right of establishment and movements of capital. The main task in connection with goods was to remove specific obstacles to trade and eliminate distortions of competition.

Consequently, the first thing to be done in the tax field was to remove restrictions on the movement of goods and to abolish distortions of competition and measures of discrimination. Numerous individual procedures were instituted in accordance with Articles 95-97 of the Treaty. The introduction of a system of tax on value added throughout the Community was proposed and accepted.

While, then, the European Economic Community has in the past concentrated on introducing free movement of goods and removing distortions of competition and measures of discrimination, it will in the years ahead have to turn its attention to developing the customs union, with its system of equal treatment for all Community nationals, into one common market with complete freedom of movement for the factors of production and with one system of competition based on the law, in other words the creation of conditions similar to those obtaining on a domestic market. Freedom of movement for the factors of production will be illusory unless we manage, among other things, to go beyond simply abolishing discriminatory action in the field of capital movements and gradually build up a European capital market with free access to the sources of capital and harmonized investment possibilities. This calls for a number of fiscal measures to which I will return later.

Conditions similar to those obtaining on a domestic market - that is, complete freedom of movement for the factors of production - can, however, be created only if in addition steps are taken to remove the impediments which company and tax law places on mergers and acquisition of holdings across the internal frontiers of the common market. Here, too, action must be taken to set up the system stipulated by the Treaty for safeguarding competition within the

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common market against distortion. Today we refer to these and other measures as industrial policy or, preferably, policy on the structure of industry.

In this connection it is becoming more and more necessary to supervise the subsidies which Member States grant for structural development and as part of their regional policy. Member States must not entice firms away from other Member States, nor must they try to outbid each other in the attempt to attract firms from non-member countries. This is one of the spheres in which tax concessions play a special role. The European Commission realizes that in this matter it will not be possible to issue detailed provisions. The Member States will have to be induced to confront their programmes and agree on a reasonable way of applying the outline provisions adopted for regional and structural policy.

Today, moreover, it is more or less generally recognized in the Member States that the free market economy must be supplemented by overall measures to steer demand. This means that in the years ahead we shall have to make steady advances in the co-ordination of financial policy and monetary policy. There will have to be a European monetary system. The fact that financial policy often uses fiscal means - as for instance in the German stability law - will also call for close co-ordination among the Member States, if the measures needed for financial reasons are not to distort competition within the common market and, perhaps, to undo or render nugatory what has already been achieved in the way of harmonization. This applies in particular to rules allowing faster or slower depreciation.

This, then, is the framework in which the Community's policy of tax harmonization will have to operate during the next stage of integration, when economic union is being established. We must in this context realize that the possibilities of isolating individual tax problems are limited, and that on the contrary measures in individual fields - particularly harmonization of certain types of tax - cannot fail to influence total tax revenue, the composition of the budget and spending policy. An obvious case in point is the approximation of the rates of turnover tax.

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We shall therefore have to move with caution, making due allowance for the facts of the situation, the differences in historical development and the political situation in the individual Member States. They must not, however, serve as pretext for a restrictive attitude. Our endeavour should rather be to find solutions which take into account the current requirements of the common market and to avoid making demands on the Member States which at the time appear to be excessive.

Approximation of taxes and free movement of goods

Having now dealt with the foundations and the general aims to be pursued in the approximation of taxes, I can turn to the measures actually taken by the Community and their importance for integration. I will start with the taxes relating to the movement of goods, for a common market means in the first place unimpeded movement of goods across the internal frontiers, in uniform conditions of competition throughout the Community.

(a) Turnover tax

With customs duties and quotas abolished on 1 July 1968, the main impediment to the movement of goods across the frontiers will be the adjustment procedure for turnover tax and the other consumption taxes. As long as all Member States apply the principle of taxation in the country of destination, these taxes must be refunded on exports and levied on imports.

As with customs duties, the procedure for levying the equalization tax normally means checks at the frontier, bureaucracy and formalities to be complied with. It involves time, work and expense. Like customs frontiers, then, tax frontiers impede the movement of goods both physically and in terms of time and money, not to speak of the psychological effects. Consequently, the contribution made to integration by completion of the customs union may be at least partly offset by the retention of tax frontiers. In addition, the free play of supply and demand across frontiers is hampered by the adjustment procedure, and this means that the full benefits expected from the market economy are not attained. The movement of goods continues to be a matter of importing and exporting, and the political frontiers between the Member States are still doubled by economic frontiers. We are still left with a group of national markets.

Free movement of goods cannot therefore be ensured simply by removing the inadequacies of the adjustment procedure through approximation of the structure of turnover tax and consumption taxes. It is the tax frontiers themselves which should be eliminated. We should make it possible for a product to move as freely from Frankfurt to Lyons as Frankfurt to Kiel. The adjustment procedure will, however, be indispensable as long as the rates of turnover and consumption taxes vary. The rates must therefore be aligned. This alignment is also necessary because the difference in rates can contribute to differences in the price level from one member country to another, and so hampers both the merging of national markets into uniform common markets and the price mechanism involved in the movement of goods across frontiers. What is more, the price sluice-gates through which goods pass as a result of different tax rates, incorporated and perpetuated by the adjustment procedure, can restrict or

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dampen competition within the Community. In view of all this, the Commission intends to submit to the Council of Ministers a proposal for a directive on the elimination of the tax frontiers affecting trade within the Community.

Except in the matter of rates, the conditions of competition imposed by the State will, as far as turnover tax is concerned, be the same throughout the Community once all Member States have introduced the new Community system of tax on value added. In April 1967 the Council of Ministers of the Community, acting on a proposal from the European Commission, adopted two directives which require the changeover to be made by 1 January 1970 and which lay down the structure and methods of the common system. A proposed directive extending the system to agriculture has recently been submitted to the Council of Ministers by the Commission. The intention is to give turnover taxes a form which in respect of both trade across frontiers and domestic trade does not affect the conditions of competition and in particular rules out the influence exerted by the degree of vertical integration of enterprises.

These three directives represent a major step towards establishment of a system "ensuring that competition in the common market is not distorted" (Article 3(f)). The transition from customs union to common market will then include the turnover tax field. The most important regulation in the field of restraints of competition by enterprises dates back as far as 1962.

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(b) Consumption taxes

The adjustment procedure in respect of the particular consumption taxes also impedes free movement of the goods concerned at the frontier; differences from one Member State to another in the system, the structure and the rates of the relevant tax distort competition across the frontiers and leads to discrimination against imported goods.

As with turnover tax, then, alignment of these other consumption taxes must be done in three stages: system and structure, rates, elimination of tax frontiers. This applies at any rate to the taxes on tobacco, petroleum products and alcohol, with their great importance from the economic and revenue angle. The decisions taken in connection with these items will have to make due allowance for the special requirements of agricultural policy and energy and transport policy.

Approximation of taxes and freedom to supply services

The common market calls not only for free movement of goods but also for freedom to supply services; here again we shall have to have uniform conditions of competition. Among the factors which contribute to the existence of conditions similar to those prevailing on a domestic market are the structure and the rates of turnover tax. France, for example, has recently taken this fact into account when it generalized its system of tax on value added. The directives referred to will settle this matter, too.

The differences in indirect taxes on insurance contracts and transport services can also inhibit freedom to supply these services and hamper competition in these fields. The Commission has therefore taken the first steps to harmonize these taxes.

Approximation of taxes and free movement of persons and enterprises

I now should like to go into the incidence of taxes and of their approximation on the free movement of persons, enterprises and capital.

When the Treaty of Rome provides that persons, enterprises and capital shall also be allowed to move freely across the internal frontiers and that they shall enjoy freedom of establishment everywhere, the intention is to bring about mobility not only for products but also for the factors of production, with similar conditions of competition created everywhere by the State. What has to be established, then, is not just a common market for goods and services but also a common market for the factors of production. It is only the free mobility of all factors, playing their parts without let or hindrance, which will make it possible for a number of separate national economies to form one integrated economy. Not till this has been formed will it be possible to arrive at an optimum combination of the factors of production and so produce optimum effects on growth and prosperity. Only through a common market for all the factors of production, and the requisite harmonization and co-ordination of the economic policies pursued by the Member States, will the objectives laid down in the Treaty of Rome - economic expansion, stability and prosperity - be fully achieved.

We are faced with the same situation when we turn to the approximation of direct taxes. It is a sine qua non that the requisite mobility of production factors shall not be artificially impeded or diverted by fiscal measures. The greater the mobility of the other factors of production, the more importance will attach to any differences in the structure and the level of direct taxes. Persons, enterprises, manpower and capital can seek the haven of the lowest taxation. Location of headquarters, siting of enterprises and establishments, the form and the volume of investment and the financial return will depend in part on the direct taxes and the differences between them in the several Member States. The cost factor represented by direct taxes will therefore have to be aligned throughout the common market and a system of undistorted competition established in this field as in others.

(a) Corporation tax and the "tax on industry and trade"

Of direct taxes the most important for its effece on the free movement of persons and companies are corporation tax and the "tax on industry and trade". Account must, however, also be taken of the real estate and property taxes and, to a certain extent, income tax.

For technical reasons, no adjustment of direct taxation is possible on goods moving across frontiers. Where, however, these taxes are part of production costs, they have their full effect on competition in international trade. As long, then, as they have not been aligned, there will inevitably be in the common market competition between producers whose production costs contain differing amounts of direct tax. The producers point out that such differences in the tax costs constitute artificial competitive advantages or disadvantages, because the taxes, being a compulsory payment introduced and fixed by the State, can neither be equated with natural site costs nor be influenced, like other production costs, by the business acumen of the taxpayer, by rationalization or by technical innovation.

In this field as in others, the Community intends to proceed gradually and pragmatically rather than to strive for too perfectionist a solution. The first aim is to level out those differences in the tax burden which have a direct and particularly heavy incidence on production costs. The Commission has thus proposed that the Member States should rapidly adopt certain common rules on the starting point and calculation of depreciation and on the provisions requiring firms to effect depreciation, it has also proposed a procedure for consultation prior to the granting of special depreciation allowances.

Later on, common rules will have to be drawn up on the tax treatment of gains on fixed capital which accrue to enterprises in the course of normal business and on the valuation of stocks and the

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constitution of reserves. For the more distant future, then, the Commission is aiming at the introduction of a uniform and comprehensive tax applicable to company profits, with the same structure in all Member States and a large measure of similarity in rates and methods of assessment. If there is to be complete neutrality in respect of competition, the methods used for collection and control of this tax will also have to be approximated.

(b) Personal income tax

Income tax payable by natural persons may on the other hand be allowed to differ from country to country for some time to come, since change of residence for tax reasons alone is less common and in any case less detrimental than the transfer of enterprises of international stature, which within an economic community are free to choose where they will establish their offices. The Commission has proposed that the composite general tax levied on the income of natural persons should for a long time yet be allowed to vary from Member State to Member State, this would leave Member States some room for making adjustments in the light of changes in the volume of expenditure.

(c) Taxation of international mergers

One aspect of the free movement of enterprises is the possibility it offers to companies in one Member State to merge with or acquire a participation in the companies of another Member State. As long as such moves run into obstacles caused by the rules on taxation and the provisions of company law, conditions similar to those of a domestic market have not been established. The factors of production concerned lack mobility across the frontiers.

This situation has so far given an artificial advantage to internal or "national" mergers to the detriment of mergers at European level. This can impede the adjustment of enterprises and industries to the requirements of the large internal market that is being created and to the conditions of international competition. Extraneous disadvantages may thus be brought into being, and these can cause distortion in international competition with enterprises from non-member countries.

The tax obstacle to these mergers is provided by the fact that at the time of take-over there is disclosure of untaxed gains in the assets of the company taken over. All Member States have taken measures to ensure that in the case of national mergers such capital gains are not taxed in the same way as they would be if the company were really being would up. These arrangements do not, however, apply to mergers between companies from different Member States, mergers which are to be made possible by the work at present being done in the field of company law. Under the present rules, companies which merge with a foreign company are regarded as liquidated and tax is levied in the normal way. This may make the merger impossible.

In the memorandum it submitted to the Council of Ministers in June 1967, the Commission had contemplated a solution which was based on the principle of normal taxation of capital gains but provided for the spreading of the tax burden over a period of ten years. Meanwhile, however, it has been found that this arrangement would still be too harsh if applied without modification. The range of possible cases would have called for a more flexible solution which could take into account the merits of almost each individual case, and the proposed system would have become pretty complicated.

At the moment the Commission's experts are inclined to choose for all capital gains disclosed in connection with mergers a uniform solution in the form of a general deferment of tax payment. This solution would offer the advantage of being simple. It consists in an arrangement under which the payment of tax on capital gains is postponed until such time as these gains are actually realized by the company that takes over. Consequently no tax would have to be paid on capital gains at the time of the merger.

(d) <u>Taxation of international holdings</u>

Where holdings in other companies are concerned, the first need is to ensure that profits earned through a subsidiary and paid to the holding company as dividend are not taxed a second time as profit made

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by the holding company if the latter has a major holding in the subsidiary. The problem has by and large been solved for cases where both companies are in the same Member State, and much progress has been made towards its solution in connection with holdings in foreign companies. Nevertheless there still are certain relation ships between companies from different member countries to which the domestic arrangements can be applied only in part, if at all.

Related to the above problem is the levying at source of tax on dividends paid out by a subsidiary to its parent company, which in certain cases leads to double taxation. This situation can and must be remedied rapidly if the establishment and development of subsidiaries in other member countries is not to be impeded.

Approximation of taxes and free movement of capital

This brings me to the importance of taxes for the creation of a common capital market. Free movement of capital is just as necessary for the establishment of the common market as free movement of goods. Capital, as the factor of production which by its nature enjoys the greatest mobility and which is of great importance for expansion, economic dynamism and competitive strength, is bound to play a decisive part in the process of integration.

What do we understand by a free capital market? Not only an end to discrimination against foreigners, but also free access to the sources of capital anywhere, freedom of investment and a situation where no distortion exists in those conditions for competition on the capital market which are established by the State. This is a comprehensive programme and requires a whole series of measures. I refer you here to the report on "The Development of a European Capital Market" (Brussels 1966) prepared by a group of experts appointed by the European Commission.

Approximation of the taxes that can really affect the free movement of capital must therefore increase its freedom to move and promote equality in the conditions of competition. A major contribution to these aims can be made by approximation of taxes on dividends and on interest from debentures. It is probably safe to say that the pace and ease with which a common market for securities and capital investment develops in the Community will depend on the extent to which the tax burden on securities is aligned.

(a) Taxation of bond interest and dividends

Taxation of bond interest at source varies from zero in Germany and the Netherlands to 31% in Italy. Capital seeking investment may thus be attracted into those countries which levy no tax at all. Moreover, taxes levied at source and the methods used to levy them often lead to double taxation, difficulties for the investor and consequently to a further obstruction or distortion of capital movements across the frontiers, and the merging of the capital markets of the various countries is hampered.

Similar considerations apply to the taxation of dividends at source. Here, the rates vary from nil in France for residents and for non-resident Germans to 25% in Germany and the Netherlands. For non-residents the rates range from 15 to 30%.

To avoid distortion or deflection of capital movements the Commission advocates common rates. Such a move would mean that throughout the Community the tax incentives for expansion of the various types of investment and the financing facilities available to companies would be comparable - and it would lead to a greater transparency of the capital market. Common rates would expose the terms and costs of new issues to the pressure of competition and would thus promote their approximation.

The Commission has suggested that dividends should be taxed at a rate of 25% and has mooted a rate of 10% on debenture interest. Studies are, however, being made to see whether taxation of interest at source cannot be abolished.

The argument advanced in support of taxation at source is that, for lack of an automatic check on the beneficiary, the levying of a minimum tax leads to a more equitable distribution of the tax burden. Seen from the economic angle, the appreciable encouragement at present given to saving in the form of investment in bonds, to the detriment of saving in the form of investment in shares, would be reduced to a point where balance could be restored in the methods of obtaining corporate finance. Even the supporters of this thesis, however, agree that the tax treatment accorded to the various types of investment need not be standardized.

The points speaking against taxation at source are the resultant higher financing costs for enterprises, the inducement to investors to prefer other types of investment and the danger of capital moving to non-member countries and the Eurodollar market where there is no taxation at source.

Much will, however, depend on the level of the common rate. While to the investor it is the net yield that matters, the decisive point for the borrower is gross cost. Some experts believe that for residents in Germany and the Netherlands 10% deducted at source would have only a slight effect on interest rates, since they are liable to income tax. These experts believe that the other member countries would then attract more foreign capital than previously, which could lead to a lowering of interest rates; as, in their opinion, a tax of 10% deducted at source would be modest and as the possibilities of evasion are fairly limited, no serious reduction in the supply of capital from non-member countries would have to be expected. (It is only in Scandinavia and Austria that no tax is deducted at source;

in addition there are various States in the USA and certain tax haven countries which allow non-residents to use the services of a holding company, so that the actual issuer avoids taxation at source.)

There are, however, powerful groups who consider that the simplest solution under fiscal law and the best one from the angle of capital market policy would lie in the general abolition of any special tax treatment of interest income from bonds. Only through freedom of movement, they contend, could an important and really attractive common capital market of the Six be created. A European system of taxation at source would have the opposite effect.

The final decision on this matter must make due allowance for all the many factors which affect the supply of and demand for capital.

So that double taxation can be avoided, the purpose of taxation at source must continue to be the collection of an advance payment that can be set against the income tax of the beneficiary. In addition, the numerous and cumbersome formalities that at present have to be complied with in order to escape double taxation must be eliminated.

In practice this means, firstly, that any tax withheld at source shall be allowable in full or be refunded where the beneficiary's tax liability is less than the amount withheld or where he is not liable to tax. The common solution means, secondly, that the refund is made by the tax authorities of the beneficiary's country of residence, even if the income was earned in some other Member State. The resultant problem of compensatory payments between the Member States should be solved on the lines of an overall clearing arrangement rather than by the current method of dealing with cases as they arise.

(b) Taxes on firms and corporation tax

Additional tax factors which influence the yield of shares are the various company taxes - some deductable for the purposes of calculating taxable profit, some not - and corporation tax. The

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shareholder, however, scarcely feels this influence directly. He is inclined to look only at the dividends and to examine critically only the final tax levied on the individual dividends. For this reason corporation tax is not of major interest to the private investor when he compares yields.

The practice of granting an "avoir fiscal" to French and a "crédit d'impôt" to Belgian residents to offset part of the corporation tax paid by French or Belgian companies, however, discriminates against shareholders who are not resident in these countries. What is more, the relief applies only to dividends from companies which have their registered offices in France or Belgium. These measures, being an incentive to Frenchmen to invest in French companies and to Belgians to invest in Belgian companies, contribute to the maintenance of national capital markets and distort the conditions of investment in the common market.

While the recent extension of this preferential treatment to shareholders of French companies residing in Germany is a step in the right direction, it does not go far enough: the advantage should be extended to cover shareholders in any Community country. Again, there should be similar treatment for dividends distributed by companies from other Member States and accruing to persons residing in France. It must, however, be recognized that the German system of a double rate of corporation tax produces similar results and gives preferential treatment to all buyers of German shares wherever they reside.

The Commission has not yet decided which solution to advocate, but has simply referred the whole complex of problems to the Council of Ministers. To find a solution has now become a matter of urgency. For this reason additional studies are now being made, on the basis of which the Commission should be able to put forward proposals.

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This brings me to the end of my talk. I hope I have succeeded in bringing home to you the great importance that attaches to the approximation of taxes if economic integration of Europe is to be a success. The approximation of taxes comes close to customs union as one of the most important elements in the common market. I have given you a rough outline of why we believe this approximation to be necessary and how we think it should be brought about. The situation contains factors which greatly favour this approximation, and it is our most powerful ally. Producers, dealers, consumers and the general public are urgently calling for action. The legal and institutional means are available, and the first major steps have been taken. I am convinced that further substantial progress towards harmonization can be made within the next few years.