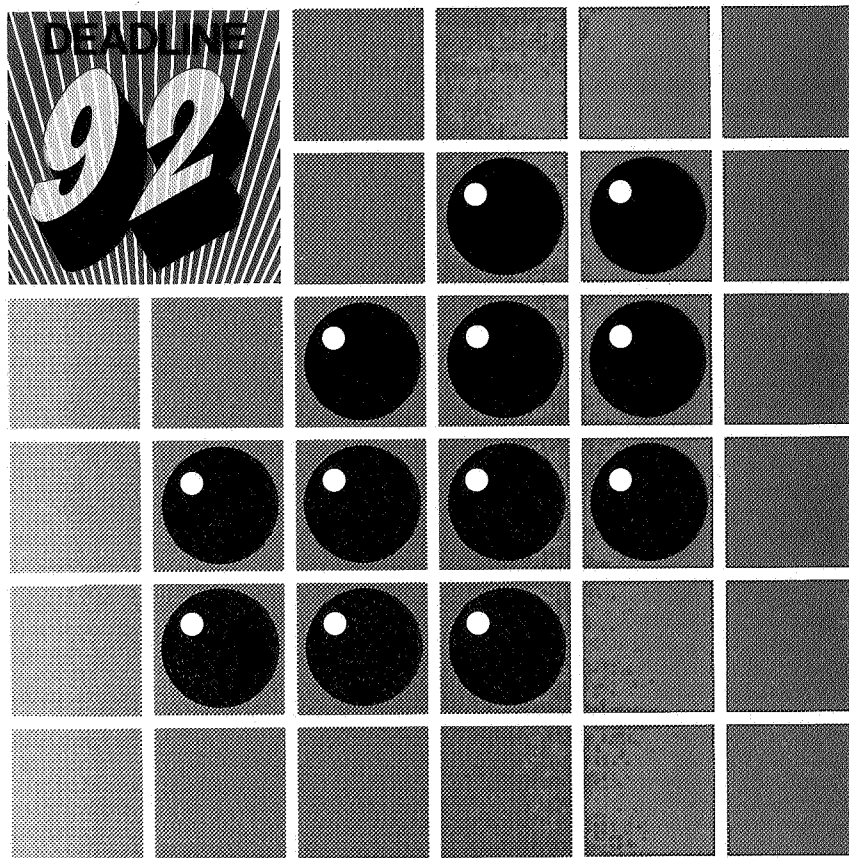


EUROPE WITHOUT FRONTIERS — COMPLETING THE INTERNAL MARKET



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EUROPEAN DOCUMENTATION



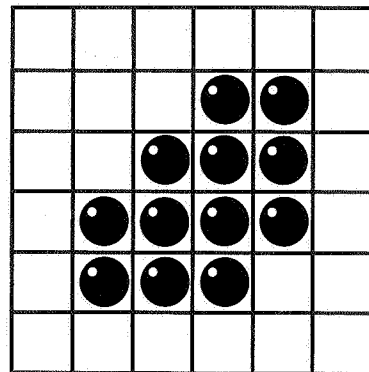
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The Treaty of Rome establishing the European Economic Community assumes that economic and political unification of the Member States of the Community must be founded on a large, integrated single market. But 30 years after the Treaty of Rome was signed,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

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

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

This brochure gives an idea of the nature and magnitude of the task and the progress already achieved towards its overall completion.



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Completing the internal market**

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A common objective

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

Jacques Delors
President
Commission of the European Communities

Preface

Over the last four years the Community has been engaged in a process of economic integration designed to form the basis for a fundamental modernization of its economy and social relations. It is the most ambitious and imaginative project that Europe's politicians have undertaken since 1958 when the European Community was established. I am proud to have been asked to complete the project, aware as I am of the difficulties awaiting us along the way but strengthened by the support given by Europe's economic operators and its people who see in the 1992 objective the promise of a new freedom.

We must remember that the project is not the brainchild of the Commission alone. It also belongs to all the Member States which endorsed it by ratifying the Single European Act and are monitoring progress in the European Council itself. They all know how important the programme is for the expansion of our economies.

This leaflet sets out to explain the main aspects of the Community's programme and show what progress has been made. Thanks to the Single European Act and its new decision-making procedures, nearly half the programme has now been completed. Similarly, the structural Funds have been reformed to promote economic cohesion in Europe.

It is the responsibility of the European Institutions to pursue the elimination of barriers to the free movement of people, goods, capital and services, in particular by creating conditions in which frontier controls can be eliminated on 31 December 1992. But they are also responsible for endowing this new European area with the instruments it needs to gain the greatest benefit from the size of the market. I am thinking particularly of instruments that will enable industrial cooperation, those that will promote social cohesion and those that will make for a dynamic, open commercial policy.

31 December 1992 is not simply a deadline. It is the gateway to Europe's economic, cultural and political future. The objective of creating an area unhampered by internal frontiers therefore affects every one of us and will affect future generations, which is why we need everyone's support, although we are aware of the difficulties the current programme may entail for some. We are nevertheless convinced that our future role in the world economy is at stake.

Martin Bangemann
Vice-President of the
Commission of the European Communities

I. The challenge: Creating a single European economy

The vision of the Treaty

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

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

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

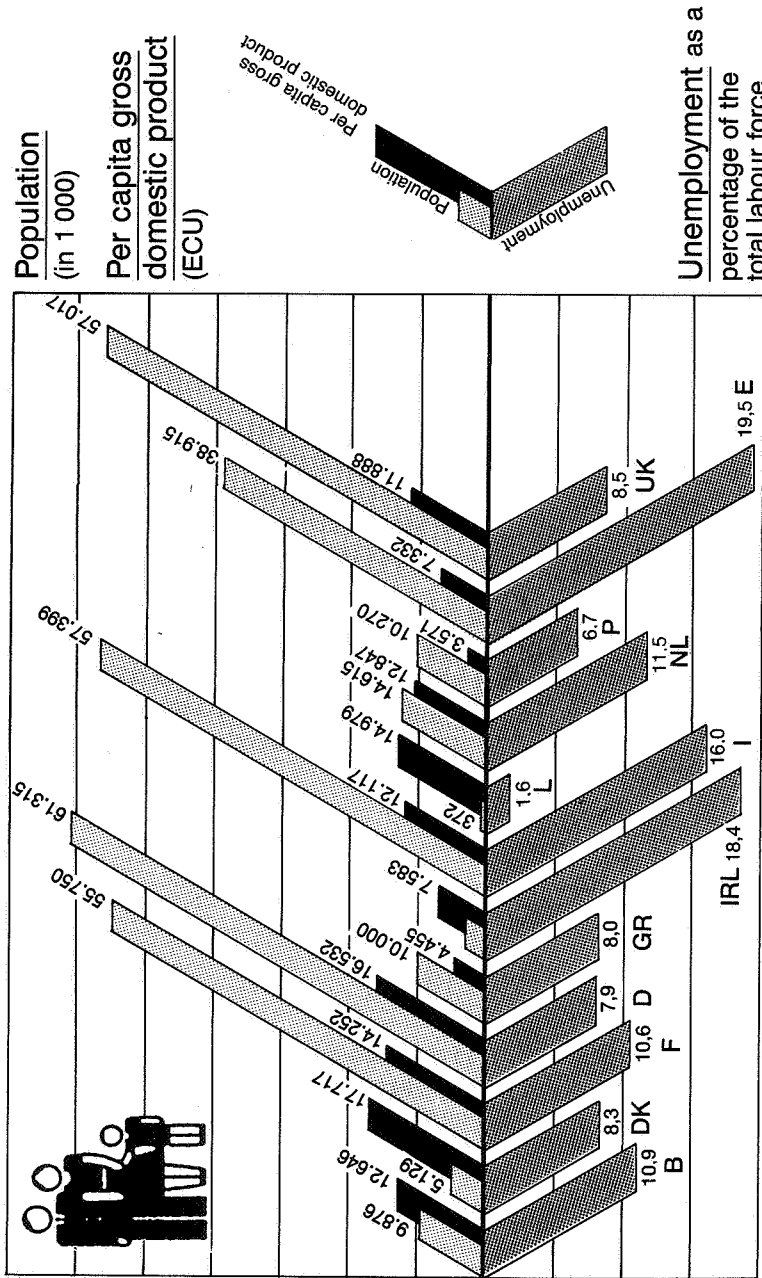
Non-Europe

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

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

European Community Member States

Basic statistics (1988)



The job of removing these so-called 'non-tariff' barriers began to be tackled many years ago; unfortunately in many cases discussion simply got bogged down in technical details, as the Member States failed to agree on a common overall approach to overcome national differences in standards. Moreover, the economic recession of the 1970s tended to reinforce Member States' preoccupations with the protection of their national markets — not only against non-member States but also against one another. As a consequence, progress was for some time only made at the margins, with many fundamental issues left untackled. In the early 1980s however, the mood began to change and there emerged a growing realization that a fresh concerted attempt had to be made to create a single economic framework.

Fragmentation

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

The Member States, as 12 separate markets, ranging in size from 360 000 people in Luxembourg to over 60 million in Germany simply cannot compete effectively with the giant resources of Japan and the United States of America. Even the German market, the largest European national market for industrial goods, is less than half the size of the Japanese market or a quarter of that of the USA. Only a single European market of 320 million people, which allows economies of scale in manufacturing, research and innovation and which enables all operators, large and small, to be freed of unnecessary duplicatory regulations, can provide the environment in which today's challenges can be met.

The development of new processes and products offers an example of the damaging effect of this fragmentation. Taken as a whole the countries of the Community have tended to spend as much on research as Japan. But because this effort has been fragmented it has not been used effectively. By spending on a national basis, a lot of research has been unnecessarily duplicated and valuable resources have been lost as the wheel was re-invented several times over. The splitting up of research budgets has also meant that many large projects simply could not be undertaken by any single Member State. Then, the launch of a new product has been complicated by the requirements of a host of different national standards. This has added further to the cost that the consumer has had to pay for the final product.

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

The structure of European industry today still largely reflects the market divisions and national attitudes. Although many companies, both big and small, operate in several Community countries, it remains difficult for them to rationalize their production activities. This has perpetuated the manufacture of separate products for separate markets, despite the advantages of the collective scientific, technical and industrial capacity of the Community. It has reduced the benefits of efficient commercial operations and has restricted the availability of good products. Even in situations where rationalization on a European scale has been possible, psychological attitudes seem often to have got in the way. This has been at least partly due to the tendency of governments to protect their individual national markets at the price of jeopardizing their competitive potential.

In short Europe simply has not made effective use of its collective resources. This has led to all manner of costs being imposed on all forms of economic activity: costs ultimately borne by the consumer and the taxpayer.

The cost of non-Europe

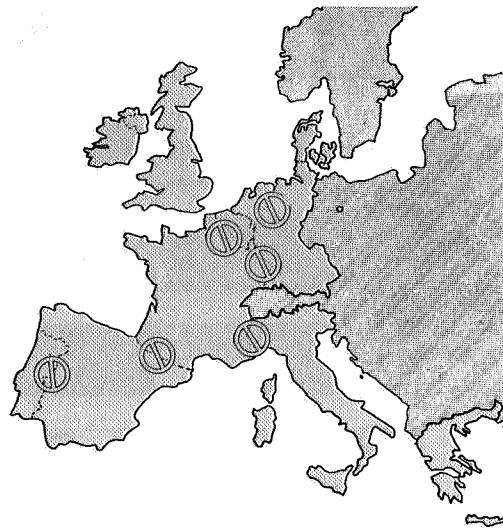
A study has been carried out recently at the request of the Commission by a large number of independent economic experts, consultants and research institutes under the leadership of Paolo Cecchini.

The study has produced the following conclusions:

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

The cost of non-Europe

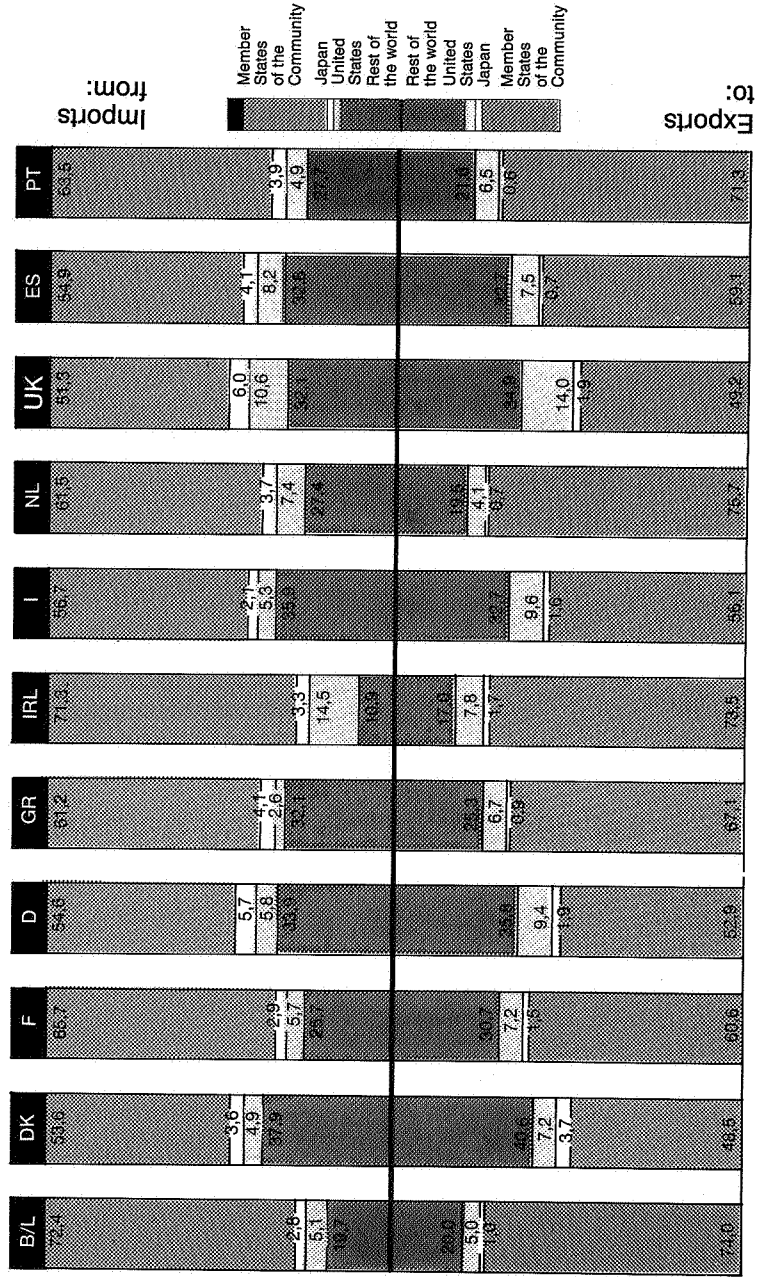
Although it is difficult to obtain exact figures for the costs to governments, consumers and industry of all these barriers, the best available and most recent findings indicate that the lack of a single market in Europe has been costing industry billions. These findings confirm that the removal, finally,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



Potential gains from removing barriers

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

Share of Community imports and exports (%)



- (a) deflate consumer prices by an average of 6% while also boosting output, employment and living standards,
 - (b) produce economies in public sector costs equivalent to 2.2% of GDP and boost the EC's trade with other countries by around 1% of GDP.
- (iii) The direct costs of frontier formalities, including associated administrative costs for both the private and public sectors are estimated to be of the order of 1.8% of the value of goods traded within the Community. To this must be added the costs to industry of other identifiable barriers to a complete internal market, such as differing national technical regulations governing the manufacture and marketing of products, which are estimated to average a little under 2% of companies' total costs. The combined total of all these savings then represents about 3.5% of industrial value-added.
- (iv) There are substantial unexploited potential economies of scale in European industry. It is estimated that about one-third of European industry could profit from cost reductions ranging from 1% to 7%, depending on the sector concerned. Aggregate cost savings from improved economies of scale would thus amount to something in the order of 2% of GDP.

Summary: The uncommon market

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

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

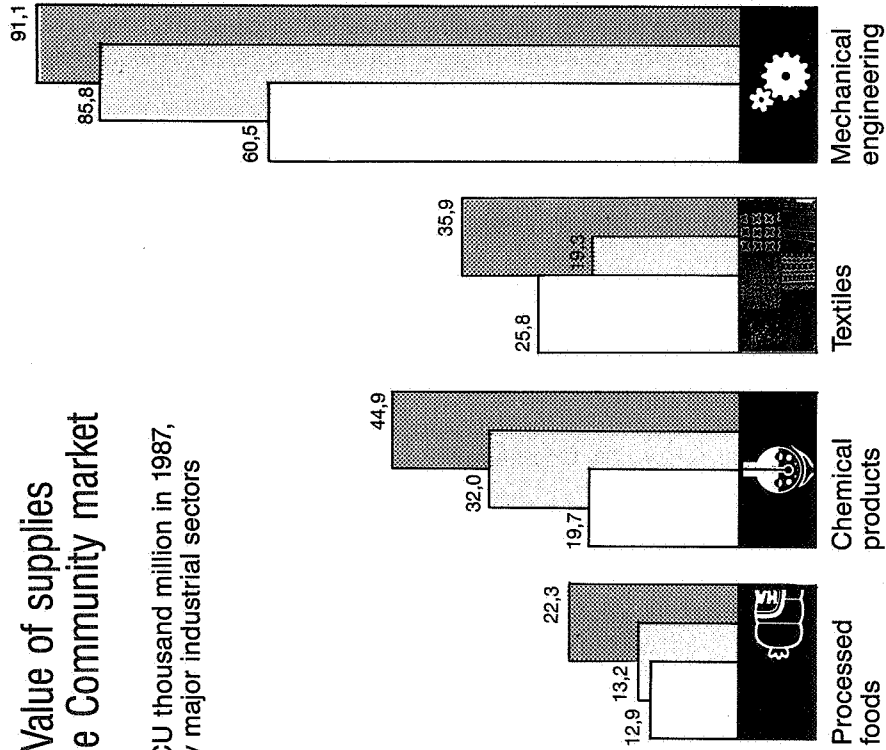
The net result is that this uncommon market, this 'non-Europe', is burdened with heavy costs, in both qualitative and quantitative terms. This is one of the major factors making European business less competitive than its Japanese and American counterparts. Nor can individuals yet move freely to the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

Value of supplies in the Community market

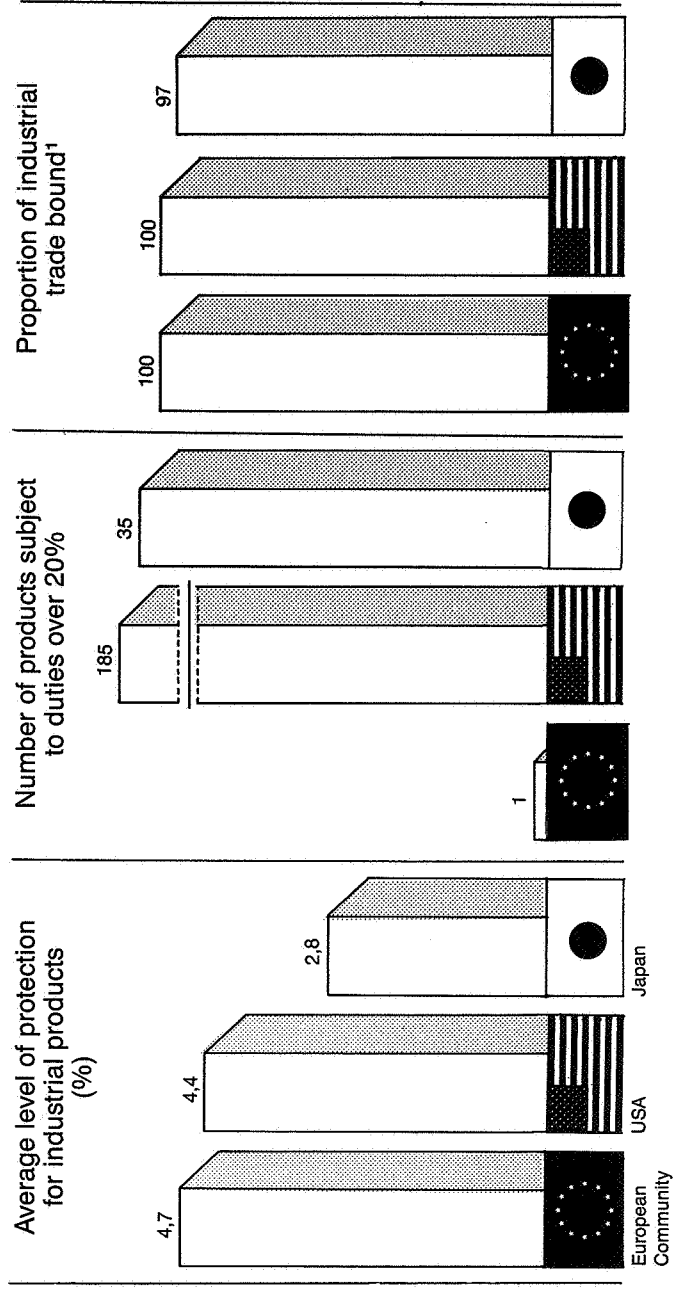
in ECU thousand million in 1987,
by major industrial sectors

Source: Eurostat (rounded figures).

Intra-Community
trade
Exports to
non-Community
countries
Imports from
non-Community
countries



Tariff protection on the major markets under GATT rules



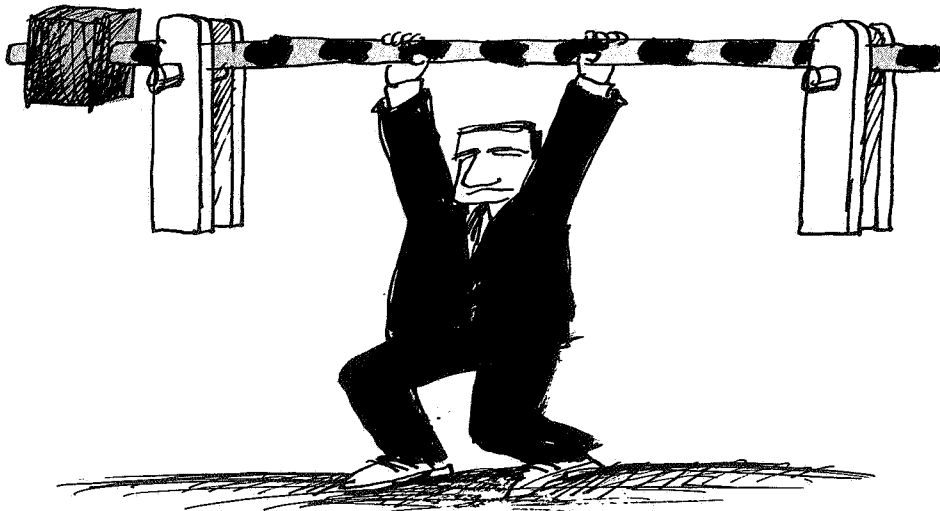
¹ 'Bound' products are subject to a protective tariff which has been notified to GATT and, therefore, cannot be changed until negotiations have been held and, if necessary, compensation arranged.

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

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

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

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



Europe without frontiers

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

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

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

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

The White Paper recognizes that some of the remaining barriers are more important than others. Thus, whilst some proposals seek to eliminate essentially technical differences, such as those created by national standards, others are more far-reaching and tackle whole sectors of economic activity. It also covers the complementary action that will need to be taken in other Community policy areas if the programme is not to be jeopardized by barriers elsewhere — such as in differing environmental standards — nor to be disrupted by the lack of an effective competition policy at the Community level or differing degrees of social protection throughout the Community, increasing disparities in regional development or an incoherent external relations policy.

Removing the barriers: the philosophy

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

Let us look at how the different barriers interact.

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

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

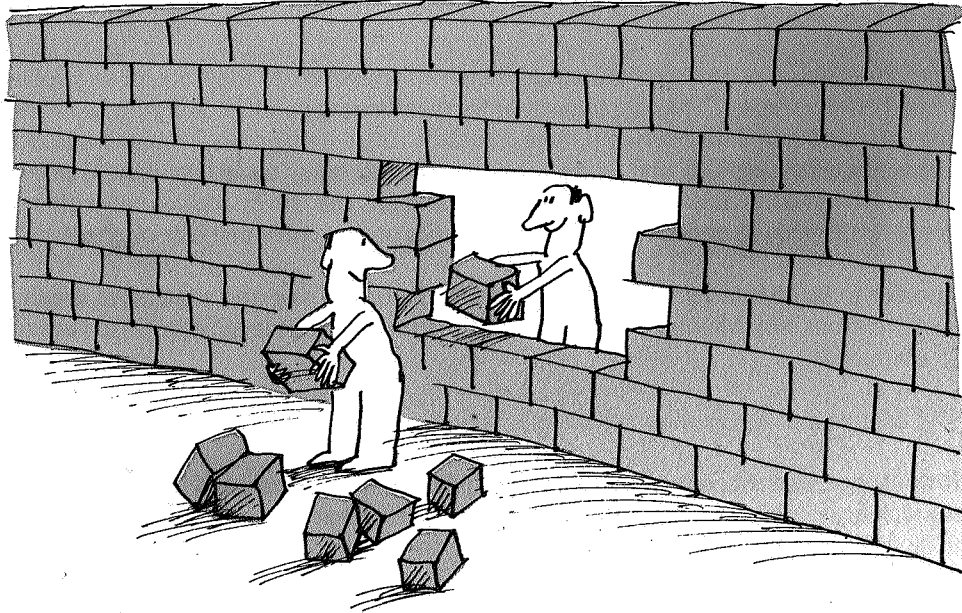
The approach to the abolition of frontier controls is discussed in detail in Chapter III.

It would not, however, be enough to deal with the physical barriers and leave in place all the technical and fiscal obstacles. In the case of technical barriers, specific measures have to be devised which allow products to circulate freely while at the same time providing acceptable minimum levels of protection for the consumer and the environment. Similarly, in the case of fiscal barriers, steps have to be taken so that travellers and goods are not subjected to time-consuming checks at frontiers. The approaches to be followed for technical and fiscal barriers are discussed in Chapters IV and V.

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

The timetable

The White Paper envisages that the various proposals which are required to complete the internal market should be discussed, adopted and implemented according to a timetable between 1985 and 1992. The programme was deliberately front-loaded with most of the legislation to be proposed in the early years, leaving at least two years for the Member States to enact the necessary implementing legislation. This was to enable progress in the crucial latter stages of the Community's legislative process to be closely monitored and to avoid decisions simply being deferred *sine die*.



The Commission, which carries the responsibility for making the proposals, is determined to meet its commitments and produce all the required draft proposals within the timescale it has laid down. With this objective in mind, the Commission accelerated its work in 1987 so that, by the end of 1988, nearly 90% of the programme had already been presented to the Council. Since then, the Commission has decided that the remainder will all have been put to the Council by the end of 1989. The other main institutions — the European Parliament and the Council of Ministers — also carry a heavy responsibility for adopting the proposals and taking the necessary decisions. The European Parliament has been urged to give its opinions on the proposals sent to it without delay. Similarly, the Commission has pressed the Council, albeit with only limited success, to respect its timetable for the adoption of the proposals.

The Single European Act

In this respect the Commission's task should in future be made easier by the entry into force on 1 July 1987 of the Single European Act which contains the first major amendments to the Treaty of Rome since its adoption in 1957. This Act has replaced the original

Treaty requirement for decisions to be taken by unanimity with a qualified majority requirement as regards certain measures which have as their object the establishment and functioning of the internal market. The unanimity requirement has, in the past, made any decision-making a complex and lengthy process and meant that progress was often slowed to the pace of the most reluctant Member State.

Another major aspect of the Single Act is the new 'cooperation procedure' which allows the European Parliament a greater input to the Community legislative process, in relation to those areas where the procedure applies. The procedure demands closer liaison between both the Commission and the Council with the European Parliament, through the first and second reading of proposals, as they pass from the stage of Commission initiative to Council adoption.

The new majority voting rules in the Council and the timetables set down for the operation of the cooperation procedure appear already to have stimulated quicker decision-making by all of the institutions involved. However, the cooperation procedure does not guarantee the adoption of a legislative act at the end of it all and much continues to depend on the political will of the institutions.

The Single Act also sets out a number of amendments to the original Treaties covering such diverse subjects as economic and social cohesion, environment, cooperation between the institutions and political cooperation between the Member States.

The importance of the Act for the achievement of the internal market lies in the fact that it provides the necessary political impetus and legal framework to achieve a truly unified market by 1992. Above all, the adoption of the Single Act reflects the renewed political will of the Community to halt the economic fragmentation of the Community and to complete, within a given timeframe, the aims of the original Treaties.

The internal market and other policies

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

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

Cohesion: working for rich and poor regions

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

The completion of the internal market may make certain regions more attractive than others. As a result, resources — whether human, material or financial — may and, in pure economic terms, should move to the areas of greatest economic advantage. Existing differences in levels of prosperity between regions could therefore be exacerbated as the transition takes place. Benelux, northern France, the southeast of Great Britain and the Ruhr may well be better placed, for example, to benefit from economic expansion through their central position, good infrastructure and their existing strength in industry and services.

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

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

Competition

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

The Commission believes that a strong competition policy will be necessary to ensure that the freedom for trade promised by the creation of an internal market is not thwarted

by anti-competitive practices, whether by government or by enterprises. To this end the Commission will continue to apply the competition rules rigorously and to take action against those who break them. It has also proposed new rules to ensure adequate control over the development of new concentrations of economic power in the Community through company mergers.

Member States and Community law

Correct application of legislation and respect for Community law is crucial to the success of the White Paper programme. It is not enough to devise clever blueprints for a single internal market. For the plan to be implemented Member States must be seriously committed at all stages of its development.

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

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

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

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

The Commission can not alone ensure respect for Community law. The physical capacity, both of the Commission and, increasingly, of the European Court, to process infringement proceedings is already overstretched (although the new Court of First Instance will undoubtedly ease the position for the Court). It is therefore vital that individuals, firms,

lawyers and national courts should play their part in securing the enforcement of directly applicable Community rules at national level. This was, in any event, very much the system envisaged in the Treaties, with the Community's Court playing a residual yet guiding role under Article 177 of the Treaty of Rome.

Above all, the essentially deregulatory approach adopted in the White Paper makes it more important than ever that firms and their advisers be aware of their rights under Community law and of the means which are available for enforcing them. The means of so doing should become more readily available, particularly to small and medium-sized enterprises, through the new range of Euro-information Offices being set up throughout the Community. Too often firms become resigned to finding pragmatic ways of coming to terms with existing barriers in potential export markets. Sometimes firms have simply been forced to take their business elsewhere, reluctantly resigning themselves to the permanent nature of some obstacles, unaware even that they are illegal or that the means exist to combat them.

An important part of the White Paper concerns technical standards. In a long line of cases dating back to the famous *Cassis de Dijon* ruling in 1978, the European Court of Justice has firmly established the rule that products made and marketed according to the legal requirements in any one Member State must be allowed to circulate freely in the rest of the Community. Up to now the Community's legislative aim has been to establish common standards in all areas and thus to bring to an end the need for the mutual recognition by the Member States of their differing national standards. However, as we shall see further in Chapter IV below, the Community's new approach to technical harmonization places the emphasis back on the general mutual recognition of national standards subject only to the harmonization of essential requirements concerning such matters as health and safety.

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

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

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

The external aspect

The Commission agreed in October 1988 that 1992 Europe will be a 'Europe world partner'; following the statement of the European Council of Ministers at Hanover in June that 'the internal market should not close in on itself'.

The external policy principles of the 1992 programme are therefore that:

- (i) the abolition of internal barriers to trade will bring benefits to companies from abroad as well as those from the Member States;
- (ii) The Community, being dependent on international trade for much of its industrial needs and for the sale of much of its produce, has a fundamental interest in the promotion of free and open international trade;
- (iii) the Community is committed to its existing international commitments in GATT, the OECD, with the EFTA and LOMÉ countries, etc.

Summary: Implementing the plan

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

As things stood at the end of 1988, however, nearly 90% of the programme had already been proposed by the Commission. Since then, all the remaining proposals have been scheduled for presentation before the end of 1989. By the end of 1988 some 45% of the

programme had also been adopted by the Council; and some of the measures involved had already entered into force. Others have done so since and will do so over the coming months. Much remains to be done, but the programme is already well on its way and, as the European Council in Rhodes in December 1988 stated, has achieved irreversibility.

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

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

Authors's note:

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

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

III. The removal of physical barriers

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

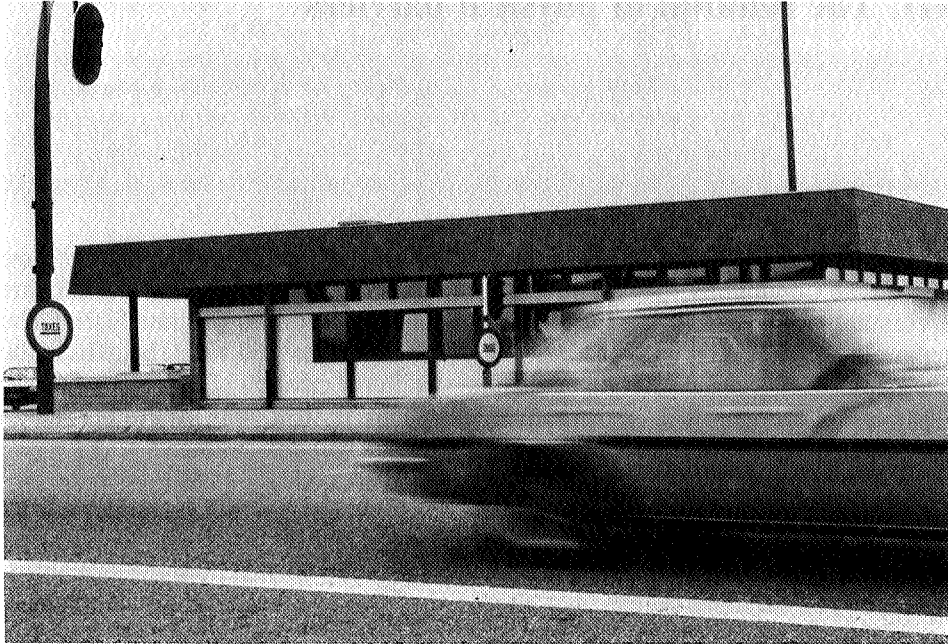
Frontier controls are not merely a physical constraint but also a significant economic constraint and their maintenance perpetuates the costs and disadvantages of a divided market. They impose an unnecessary burden on industry flowing from the formalities, transport and handling charges that goods are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

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

People

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

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



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

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

There are two reasons why travellers who are Community nationals are stopped at frontiers: immigration and tax. Police or immigration officials screen travellers to check that their passports or ID cards are in order for immigration and security purposes. The so-called customs staff are there to check whether travellers owe money to the taxman for the goods they are carrying with them. (The description 'customs controls' is actually a misnomer. Since the abolition of national customs duties in 1967, there are no such duties to be collected at internal frontiers. The Member States have, indeed, decided to remove the misleading 'customs' signs from their mutual borders by 1 January 1988.)

Police controls

At the moment the checks made on individual travellers at internal crossing points vary considerably from place to place and also depend on how they are travelling. A German traveller, for example, who arrives at the Belgian border by road from France or Luxem-

bourg will seldom find that his identity is checked at all; indeed, he will rarely even be stopped. If the same traveller takes the train at Strasbourg for Brussels his identity and personal effects may be checked by as many as three sets of customs and police officials, from each of the three countries crossed — France, Luxembourg and Belgium. Were he to arrive at Brussels airport, he would find that not only are all passengers systematically checked on arrival, but that their personal details are entered into a computer.

Removal of controls for travellers by 1992

The objective is the removal of all controls at the internal frontiers of the Community by 1992. This is to be achieved through the progressive relaxation of existing controls.

The complete removal of all controls at the internal frontiers of the Community will require the implementation of measures to deal with such matters as drug trafficking, crime prevention and the movement within the Community of nationals of non-member States. Community legislation may be necessary to deal with some of these matters but others are either already satisfactorily regulated by current international agreements or may more appropriately be the subject of cooperation between the relevant national authorities. In addition, the Commission has already tabled its proposals to bring to an end the controls applied to individuals to ensure that the relevant national VAT or excise duty has been paid on any goods being moved from one Member State to another, as is discussed further in Chapter V below.

Goods

Just as travellers going from one Member State to another are subjected to checks and controls at frontiers, so too are goods. Again, if frontier controls are to be abolished, we need not find alternative ways of meeting the administrative, fiscal, health and other needs which they are designed to serve.

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

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



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

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

As mentioned above removing the barriers to the free movement of goods means finding new ways of doing the job which the frontier controls do now. The Commission sees this happening in two stages. From January 1988 the administrative checks have been simplified. Wherever possible they have been moved away from the internal frontiers. The second stage involves the coordination of policies and the development of common legislation so that internal frontiers and controls are completely eliminated by 1992.

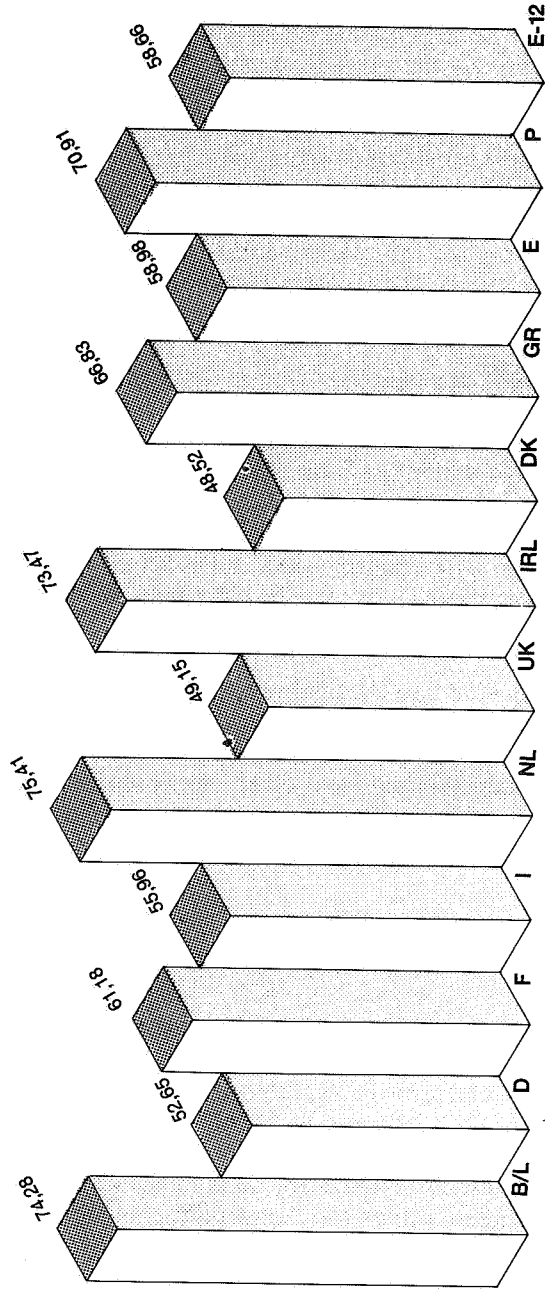
One significant improvement to procedures at frontiers has already been adopted and implemented. Up to 1 January 1988 each Member State required separate data to be provided on its own separate forms for goods that cross its frontiers. This meant that as many as 70 different forms were in use in the Community. Since 1 January 1988 the majority of these separate forms have been replaced by a single form called the Single Administrative Document. The new form marked a great step forward in rationalizing the paperwork involved in transporting goods. It has helped save time and money for companies and transporters and has made the procedures easier to understand. It should in the future make computerized statistics easy to collect.

Substantial progress has also already been made towards the unification of essentially duplicate checks applied on the export of goods from one Member State and their importation to another. Other important checks result from different national and Community policies on steel production and trade, other international trade controls, taxation (dealt with in Chapter V), agriculture, health and transport, and in each case the basic underlying reasons will have to be tackled.

Commercial policy

Yet other frontier controls relate to the application of quotas under international trade agreements, for example in relation to textiles under the international Multifibre Agreement or under bilateral agreements such as have applied in the steel sector. The removal of these frontier controls between the Member States will require a new Community orientation for these areas of commercial policy and some means to deal with the potentially serious economic disturbances and trade imbalances which could result from completely free circulation within the Community. Similar developments will also be necessary to bring to an end the system of controls and countervailing duties affecting trade in commodities which are not yet subject to a system of common organization. Proposals are in the course of being prepared on these matters.

Intra-Community trade as a percentage of the Member States' foreign trade (1987)



Source: Eurostat.
E-12: The 12 Member States of the European Community.

Statistics

Frontier customs posts are also used at present for the collection of a wide variety of important statistics relating to the trading performance of each Member State in the various industrial, agricultural and commercial sectors. Statistics on economic performance and trade in goods and services play an important part in the understanding of current economic performance and the effects of national and Community policies. It is clearly important for the necessary statistical needs of industry and commerce, national administrations and the Community institutions to be met. An alternative system for the collection of trade statistics was proposed by the Commission to the Council in December 1988.

Agriculture and health checks

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

Barriers to free trade also result from enforcing the different health standards for animals and plants in force in the Member States. These controls are difficult to abandon as long



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

as health standards very significantly. The long-term objective is to raise the health standards of all Member States to the highest levels so there is no need for any restriction on trade. This must be done by developing common policies to combat disease. In the shorter term, ways of controlling animal and plant movement which do not require controls at the frontiers have to be found. The Commission's new approach in this area envisages procedures based mainly on the mutual recognition by Member States of each others' checks, controls and inspections prior to certification at points of departure and occasional spot-checks on certification at the points of destination within the Community.

Transport

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

Most intra-Community transport is subject to 'quotas' in that most countries limit the number of journeys that foreign — and often national — hauliers can undertake. This means that authorizations for such journeys are stringently checked at frontiers. In June 1988 the final measure to replace national quotas by a Community quota was adopted by the Council. This will, in principle, allow hauliers to operate freely throughout all the Member States and so remove the need for any controls at frontiers. The Commission has also tabled its proposal on common standards for lorry safety and consistent enforcement methods, which will do away altogether with the need for controls at the internal frontiers of the Community.

IV. The removal of technical barriers

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

Free movement of goods

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

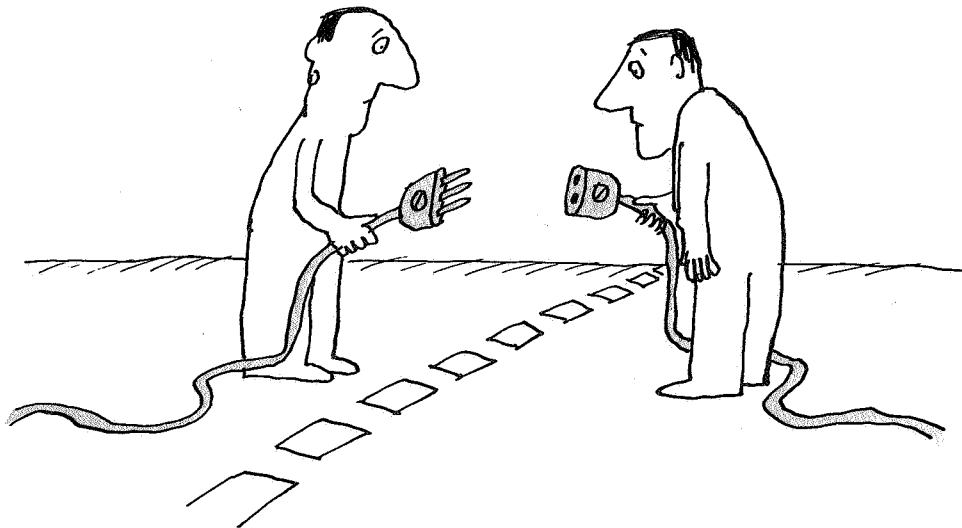
Different national production standards and regulations mean that many products are separately manufactured to separate standards for each separate country. In itself the development of national standards and regulations has been constructive and helpful in guaranteeing that products provide a minimum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

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

Harmonization: good or bad?

For many years the Community has attempted to eliminate these barriers through harmonization — the adjustment of national regulations to conform to an agreed Community standard. Unfortunately the proposals drawn up by the Commission were often unnecessarily over-ambitious and correspondingly slow. The process of elaborating and adopting harmonization directives proved difficult and complex and years were spent trying to reach agreement on the technical minutiae of a single product or group of products. In the interim, traders were unsure what standards they ought to comply with and, all too often, by the time agreement was reached, either the product or the standard had become obsolete, a monument to bygone technology or, worse still, a barrier to innovation. Administrative difficulties were exacerbated by the misunderstandings which have plagued harmonization efforts since their inception. Nothing has had a more adverse effect on harmonization than the notorious 'Euroscandal'. The public see efforts at harmonization as bureaucratic interference from Brussels and the myth has developed that the Community is trying willy-nilly to create 'Europroducts' — identical products with identical ingredients required to be sold throughout the Community. Nothing could be further from the truth.

Fortunately, successive judgments of the European Court of Justice have done much to facilitate the removal of technical obstacles to trade which harmonization seemed in-



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

The new approach to technical harmonization

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

On the one hand, consumers must have the widest possible choice from the whole range of products in the Community. On the other hand, products have to meet acceptable standards in terms of consumer health and safety (e.g. cosmetics and motor car brakes). In addition there is the need for manufacturers and other producers of goods to be able to market their products throughout the large European market. This will produce the advantages of greater economies of scale, freer competition and decreased product development costs, leading in turn to lower prices and more product variety and innovation. The new approach seeks to meet these requirements in the following ways.

First, national regulations applicable to production and marketing which concern such essential requirements as the protection of human health and safety will still be the subject of Community harmonizing legislation. This legislation will, however, only lay down mandatory requirements in the form of general levels or standards of protection, leaving the detailed rules of their practical application to be drawn up by the European standardization bodies.

Secondly, those national rules which do not concern such essential requirements will no longer be the subject of Community legislation but will be automatically subject to national mutual recognition, enforceable before the European Court.

In this way, not only will unnecessary harmonization be avoided altogether but the Community's decision-making processes will be freed from the elaborate and time-consuming work of agreeing detailed instruments covering a wide range of very technical material.

There are two qualifications which must, however, be added. First, in telecommunications and other high technology areas where the inter-operability of equipment is necessary for the rational development of new products and the maintenance of both free

competition and any significant freedom of consumer choice, fairly comprehensive mandatory Community harmonization may still be appropriate, although only through the method of the new approach. Secondly, in areas subject to mutual recognition, non-mandatory standardization may still take place in order to rationalize the differing national requirements, even though these cannot be applied to keep out foreign products meeting their own national standards.

Proposals on construction products, on pressure vessels and toys have already been adopted under this new approach and agreement has been reached in the Council on a very important and wide-ranging proposal on machinery; while other proposals on such matters as electrical appliances, mobile machines and electro-medical implantables are under discussion.

Overall, the new approach will leave much greater scope for flexibility in individual production and marketing methods. It also provides a better balance between Community harmonization and national mutual recognition, between the roles of the legislator and the standards bodies, and between consumer/environmental protection and consumer choice.

Food law

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

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

The Commission is not therefore seeking to harmonize all the different national requirements relating to food and drinks. The Commission programme is limited to the establishment of common Community-wide rules concerning basic consumer protection and safety. Thus the Commission's legislative programme includes measures dealing with additives and preservatives, packaging and labelling.

The Member States will remain free to maintain their national rules on other matters, not essential to health, safety and such-like requirements, but will have to allow products

from other Member States prepared differently according to the different national requirements of the other State, to be marketed in their territory. The consumer in each Member State will thus be free to choose the product he prefers: yoghurt with or without fruit added, pasta made from durum or soft wheat or beer made from entirely natural ingredients or including artificial additives, to mention just a few of the better known examples which have arisen before the European Court. As now, it will be for the European Court to enforce mutual recognition by the Member States of each other's produce.

Free movement of people

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

Professional and vocational qualifications

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

In the field of rights of establishment for the self-employed until recently little progress had been made and professional people who want to practise in a Member State other than the one in which they qualified, can find obstacles in their path. Each Member State has specific requirements for the training, qualifications and experience of most professionals and these are all too often not recognized outside the Member State where they were obtained.

Since the 1960s the Community has been working at removing these obstacles by establishing harmonized national qualifications for a number of specific professions. The greatest progress has been achieved in the health sector. Doctors, nurses, dentists, veterinarians and midwives have had their basic training harmonized and have thus got real access to the 'right of establishment', the right to practise in all Community countries. Freedom of movement has also been made easier in the agricultural, forestry and horticultural sectors and in the mining, electricity, gas, oil and water industries. These oppor-

tunities are helping to increase the exchange of ideas and experience and to raise the standards of professionalism throughout Europe.

For many professions, however, common requirements have still not been agreed, often despite long years of negotiation. Even where progress has been made it has been slow and difficult. A natural pride in national traditions and institutions can often make acceptance of equally meritorious but different systems difficult.

For each profession long and laborious negotiations on the exact qualifications and training necessary have had to be agreed in minute detail. Community directives enabling architects to practise throughout the Community, for instance, took 17 years; for pharmacists it took 16.

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

With this principle in mind, the Commission — with the full support of the Heads of Government — launched the idea of a single system of mutual recognition applying to all higher education qualifications leading to an entitlement to practise a vocation or profession. This will enable individuals holding the equivalent qualification from one Member State to practise in the field of their expertise in another Member State under the same conditions as individuals holding the relevant qualification of that other State (called the 'home State'). This general rule would apply subject only to possible limited additional requirements (for example, a period of supervised practice in the 'home State' where there are material differences between the qualifications concerned). The proposal on the mutual recognition of higher education diplomas was adopted by the Council in December 1988. In addition, the Commission is working on the mutual acceptance of vocational training qualifications for apprentices. This would involve the introduction of a European 'vocational training card', providing proof that the holder had reached a generally accepted standard.

Free movement of capital

A considerable degree of liberalization has already been achieved in relation to the movement of capital Community-wide. The Commission's objective is the complete liberalization of all financial transactions: this means, in effect, complete freedom of movement for all financial instruments including cash, bank transfers and all other financial instruments. This objective is clearly linked to the liberalization of financial services and

ensuring fair conditions of competition and adequate saver and investor protection Community-wide. Complete freedom of movement for capital also has implications for each Member State's balance of payments and increased possibilities for tax evasion.

In this context the Council adopted, in June 1988, a directive to extend liberalization to investments in short-term securities, current and deposit account operations and financial loans and credits, subject to the possibility of the reintroduction of controls on short-term capital movements in emergency monetary or exchange rate conditions. This measure includes a uniform for the provision of medium-term financial support for individual Member States.

Pursuant to the wishes of the Hanover European Council, the Commission has also recently produced a proposal for a common minimum 15% withholding tax on the profits on savings of nationals of the Member States wherever invested in the Community.

Public procurement

Up to 15% of national economic activity in the Member States is taken up in the supply of public authorities' needs. These are the needs of national Government departments, regional and local authorities and other public bodies for works and supplies of all kinds.

Yet only about 2% of these needs are met by companies from a Member State other than that of the public authority concerned. The public sector has been a haven for national purchasing regardless of the potential price, quality and service advantages which foreign suppliers may offer. As a result, more efficient producers in the Community have suffered through not being able to compete for this large sector of the market and public authorities have suffered from potentially higher costs and lower quality supplies and services.

In the 1970s the Community introduced a scheme requiring Community-wide advertising, tendering and award criteria for larger public sector works and supplies contracts. Proposals to tighten up these procedures have recently been agreed by the Council.

Discussion has now begun in the Council on the further proposals to apply equivalent disciplines to the water supply, energy, transport and telecommunications sectors; and in 1989 the Commission will produce its proposals on the services sector.

With the addition of this final proposal by far the major part of the public procurement sector will be covered by common rules providing for open and fair conditions of competition.

It would, however, be unsatisfactory to create such a structure of rules without ensuring that they are respected by those concerned. As the conventional means for the enforce-

ment of Community law rights appear relatively onerous and time-consuming for this purpose, the Commission has suggested the introduction into national jurisdictions of quicker and more wieldly rights of recourse to guarantee that the rules of the game are respected in their day-to-day application.

A common market for services

The importance of ensuring freedom to provide services should not be overlooked: in 1982 services accounted for approximately 57% of the value-added to the Community economy in that year. Covering a great variety of economic activities ranging from management consultancy, banking and insurance to transport, information technology, bingo parlours or laundrettes, services are playing an increasingly important role in the economy and have become as important as manufacturing industry in their contribution to employment. Certainly, in the Commission's view, it is no exaggeration to see the establishment of a common market in services as one of the main pre-conditions for a return to economic prosperity. The White Paper treats goods and services equally and seeks to eliminate barriers to both. Yet much less progress has been made in liberalizing the provision of services. The Treaty explicitly provides that services operate throughout the Community without restriction. A renewed impetus is needed to ensure that this becomes a reality.

This, too, must be done on the basis of mutual recognition, underpinned where necessary by common rules. Where the service concerned is generally government-regulated, as banks or insurance companies are, for instance, the primary task of supervision will be carried out by the government where the service company is based, with the role of the authorities of the country where the service is being provided being limited to ensuring respect of certain basic rules of commercial behaviour.

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

Financial services

Financial services are a prime example of a sector which is both a vast potential market in its own right and a vital element in the efficient working of the whole of the manufacturing and other service sectors. The challenge for the Community is to reconcile the need for high standards of supervision and financial security with enabling the sector to respond to the ever-changing and increasingly sophisticated needs of its customers — both business and individual — throughout the European market.

A considerable amount of the legislation needed to open up the Community market in financial services is already in place, but more remains to be done. In what is inevitably a highly regulated sector, the approach has been to confine harmonization to the essential safeguarding of financial security and prudential practice, leaving as much as possible to be covered by the principle of mutual recognition, on much the same basis as is applied to trade on goods.

Thus, for instance, the standards of financial stability which banks and insurance companies must satisfy and the management principles which they must apply have been or are being thoroughly coordinated. The Commission's programme provides for the establishment of basic rules for the protection of investors, policy-holders and others to ensure guaranteed minimum safeguards throughout the Community. With that basic regime largely in place, the way is now being opened up for the providers of financial services established in one Member State to be able to offer their 'financial products' in any other Member State subject to a minimum of locally imposed conditions in some cases.

Turning to investment opportunities, the White Paper programme recognizes the need for industrial and commercial concerns operating in the large European market to be able to obtain finance Community-wide, and the advantages of investors being able to choose their investments from a Community-wide market.

Further measures deal with the information required to be contained in any prospectus for the public subscription or sale of securities, the conditions for the listing of transferable securities on any national stock exchange, the marketing of units in collective investment schemes (such as unit trusts), and the disclosure of changes in major shareholdings in public listed companies. All of these measures are directed to the wider marketing and availability of the financial instruments concerned while ensuring basic guarantees of investor protection.

In the insurance field, a major measure concerning large industrial risk cover was adopted by the Council in 1988. Further measures on motor liability insurance, non-life insurance for mass risks (those risks not covered by the abovementioned measure) and life insurance remain to be adopted.

As a result of these and other measures it will soon be possible to exercise a wide choice between loans, investments and different kinds of insurance cover — plus any related financial services — on the terms offered in any Member State and in the knowledge that certain minimum standards are being applied to ensure essential levels of protection Community-wide.

Transport

Transport represents more than 7% of the Community GDP and although it is by its nature a very widely traded service, it remains paradoxically one of the most highly

regulated and protected markets in the Community. Although the Treaty envisaged specific action to replace national transport policies with a common transport policy, this has not been implemented by the Council.

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

Such cartels work against the interests of the consumer and lead to inefficient use of resources. At the end of 1987 the Council adopted proposals, which take effect from 1 January 1988, to increase competition gradually and to allow greater flexibility in the setting of fares and the allocation of flights. The Member States have refused to accept those proposals in their entirety but have recently adopted a package of measures as a first step towards freer competition.

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

New technologies and services

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

The information market is undergoing far-reaching changes brought about by the possibilities offered by new technology. These changes have led to an exponential growth in the amount of information generally available. Information itself and information services are being more and more widely traded and are becoming primary resources for industry and commerce. The technological developments have been impressive but to safeguard future progress, it is important that there should be a coherent Community framework which helps and does not hinder expansion and variety. New research and development require considerable sums of money and, if they are to be affordable, often have to be done at a Community level. Similarly, successful exploitation of new developments requires a large unobstructed market; national markets are not in

themselves big enough to provide the potential for full success. This in turn means that agreement has to be reached on standards, otherwise different Member States end up using different standards, which complicates and inhibits further development and use.

Broadcasting

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

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

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

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

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

To create a Europe-wide audiovisual area means removing legal as well as technical barriers. To allow broadcasts to be available in all Community countries, the Commission has proposed that national laws on advertising, sponsorship and the protection of young people should be coordinated, though exclusively national broadcasting may remain subject to separate national rules. The proposal also includes common rules to ensure that individual copyright protection of broadcast material does not preclude the uninterrupted automatic re-transmission of broadcasts Community-wide; and to require minimum percentages of broadcast material of Community origin.

In order that manufacturers can take best advantage of the new opportunities presented by an open market, common European standards for transmission and reception are

essential, and the Commission has put forward a number of specific recommendations including the idea of a single package of standards for satellite broadcasting. The Commission believes that only the immediate and exclusive use of one standard — the 'MAC packet family' of standards — will meet the needs of the market.

Legal and administrative barriers

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

The functions of EEIGs are, however, limited and the Commission therefore attaches great importance to its proposal for an optional form of European company structure, capable of being set up in any Member State. At the same time the Commission is continuing to press for the adoption of its programme of harmonization of national company laws to facilitate cross-frontier cooperation between enterprises. Progress is also sought in the harmonization of national accounting laws with the major objective in mind of avoiding duplicate requirements in different Member States and, wherever possible, relieving private enterprise of administrative burdens. Further measures are also under consideration in relation to common Community-wide rules on company taxation and liquidation. Finally, the Commission is now pressing for the adoption of its proposal to establish common rules on cross-frontier company mergers, to fit in with the existing Community rules on mergers taking place within national boundaries.

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

The White Paper programme also tackles the partition of national markets by differing industrial and intellectual property laws. The main proposals in the field of trade marks provide for a Community trade mark system and make a start on harmonization of national trade mark laws. Trade marks give exclusive rights to their owners in relation to the originality of the presentation of their goods or services; the fact that the Member States currently operate separate national systems of trade mark laws clearly divides the

Community. Separate applications have to be made for each Member State, following the different procedures.

The Commission has therefore proposed the establishment of a Community-wide trade mark system, with a single registration requirement and unified appeals procedure to operate alongside continuing national systems. A Community trade mark will not be obtainable where it would conflict with a pre-existing national (or Community) trade mark right.

The Council has recently adopted the first measure to ensure that the degree of protection afforded by national trade marks are uniform throughout the Member States. Meanwhile, the proposal for a Community-wide trade mark, obtainable on a single registration, remains on the Council table.

More generally in the intellectual and industrial property area, recent technological developments have created a need for new laws which, if developed independently by the Member States, could further hinder the development of a Community-wide market. The Commission has therefore recently put forward a proposal on the legal protection of computer software. Another, on the legal protection of semiconductor chips, has already been adopted by the Council. That directive also enables the Community to take advantage of the reciprocal protection of European semiconductor products offered by the United States.

A further proposal provides for the legal protection of biotechnological inventions.

Finally, the Commission's Green Paper on copyright sets out the lines for future Community action in this area.

V. The removal of fiscal barriers

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

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

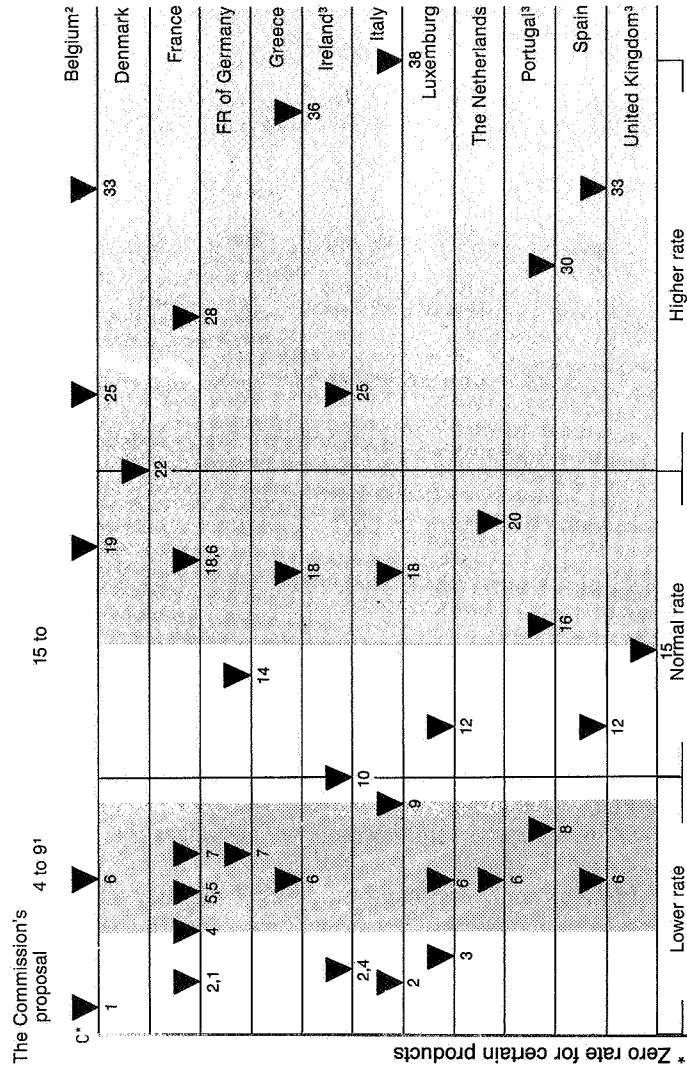
We are not starting from scratch. There have already been considerable achievements in the fiscal field — most notably the introduction of the VAT as the common turnover tax for the Community. But the rates and coverage of VAT, and even more the whole structure of the main excise duties, still differ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

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

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

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

VAT levels in Community Member States (%) (1 April 1989)



¹ Taking account of the division by products and services existing at the present time in the majority of Member States, the Commission proposes that the reduced rate should be applied to the following categories of goods or services:
 (i) foodstuffs (except alcoholic beverages);
 (ii) energy products for heating and lighting;
 (iii) water supplies;
 (iv) pharmaceutical products;
 (v) books, newspapers and periodicals;
 (vi) passenger transport.
 Altogether, these goods and services represent about one-third of the common tax base.

² An intermediate rate of 17% is also applied.

³ These countries also refund tax paid at the previous stage on certain domestic transactions (i.e. they apply a zero rate).
 (NB: All Member States' zero-rate exports and similar transactions).

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

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

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

The Commission's alternative

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

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

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

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

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

As far as the first problem is concerned — that of fraud and evasion — one important and significant area of fraud, namely the zero-rating of exports, 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.

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

The only way to avoid such artificial fiscal incentives to the 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. However, the objective of the elimination of factors distorting trade must be balanced with the need for national revenue authorities to retain the greatest possible discretion over the rates of tax appropriate to their circumstances.

The example of the United States of America demonstrates that you can have different tax rates from state to state without frontier controls between them. All that is necessary is for the differences between neighbouring taxes and the price differences they may cause to be narrow enough to make smuggling pointless. In the United States there are no fiscal frontiers as such, nor is there complete harmonization of retail taxation between individual states. American evidence suggests that some variations can be accommodated provided they are limited in scale. Differences of up to 6%, even between neighbouring states, do not appear to distort trade significantly. The Commission believes that a similar system could be applied without difficulty in the Community.

The Commission therefore put forward, in 1987, proposals for approximation of the indirect tax rates operating in the Community aimed at reducing tax-induced price differences to a point where they do not in themselves constitute an incentive to cross-border provisioning. For VAT, the Commission proposed a two-rate system — a standard rate for most goods and services, and a reduced rate for basic necessities — with the Member States free to fix their own rate within a band of 14-20% for the standard rate and 4-9% for the reduced rate. In the case of the main excise duties — on mineral oil products,

alcoholic drinks and tobacco products — the degree of harmonization proposed was designed to ensure that, even when added to VAT, the tax element in the price of the goods should not differ enough to be in itself an incentive to cross-border shopping.

To meet the problem of allocation of revenue the Commission proposed the use of a clearing mechanism. The notion of a clearing system is not a new or a mysterious one, and such systems already exist among, for instance, the banks, the railways and the airlines. The system which the Commission proposed for VAT provided for a central account through which Member States will draw or pay money periodically, depending on whether they are net importers or exporters in relation to the rest of the Community taken as a whole. The calculations involved would be based on information derived from traders' normal VAT returns. Under such a system traders would no longer need to treat trade with other Member States as export or import business for tax purposes. That would mean a considerable reduction in the bureaucratic burden on business.

Following the initial reactions of the Member States to these proposals, in May 1989 the Commission adopted a communication outlining a series of suggestions and modifications which are designed to introduce some further elements of flexibility. These include:

- (i) The creation of a transitional phase lasting until the end of 1992, during which the Member States would be expected to make a positive commitment to the alignment of their indirect taxes while current travellers' tax-free allowances would be progressively quadrupled for VAT and doubled for excise duty purposes.
- (ii) The search for pragmatic solutions to particular problems, including maintenance of the 4-9% lower rate band, but allowing zero-rating for a reduced number of products for those Member States which currently apply a system including zero rates and wish to retain it; provision for a minimum rate only — of 15, not 14% — for standard rate VAT (i.e.: no upper limit at all); plus the simplification of the VAT clearing procedure.
- (iii) Additional flexibility in excise duty rates, including differing minimum rates for different tobacco and alcohol products and single rates or rate bands for mineral oil products (without totally rejecting the possibility of minimum rates only).

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

Indeed the Commission recognized, in putting its proposals forward that the process of adjustment will be more difficult in some Member States than in others. That is why, in addition to the flexibility which will be built into the basic system itself and the considerable transitional time available for setting it up, it is acknowledged that there may be a need for derogations to meet particular cases of political and economic sensitivity. But derogations have a price. And that price is not only paid by the Community as a whole in terms of continued fragmentation; it is also paid by the Member State concerned, which to that extent would cut itself off from the development of a great market in Europe and from the full benefits of economic integration.

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

