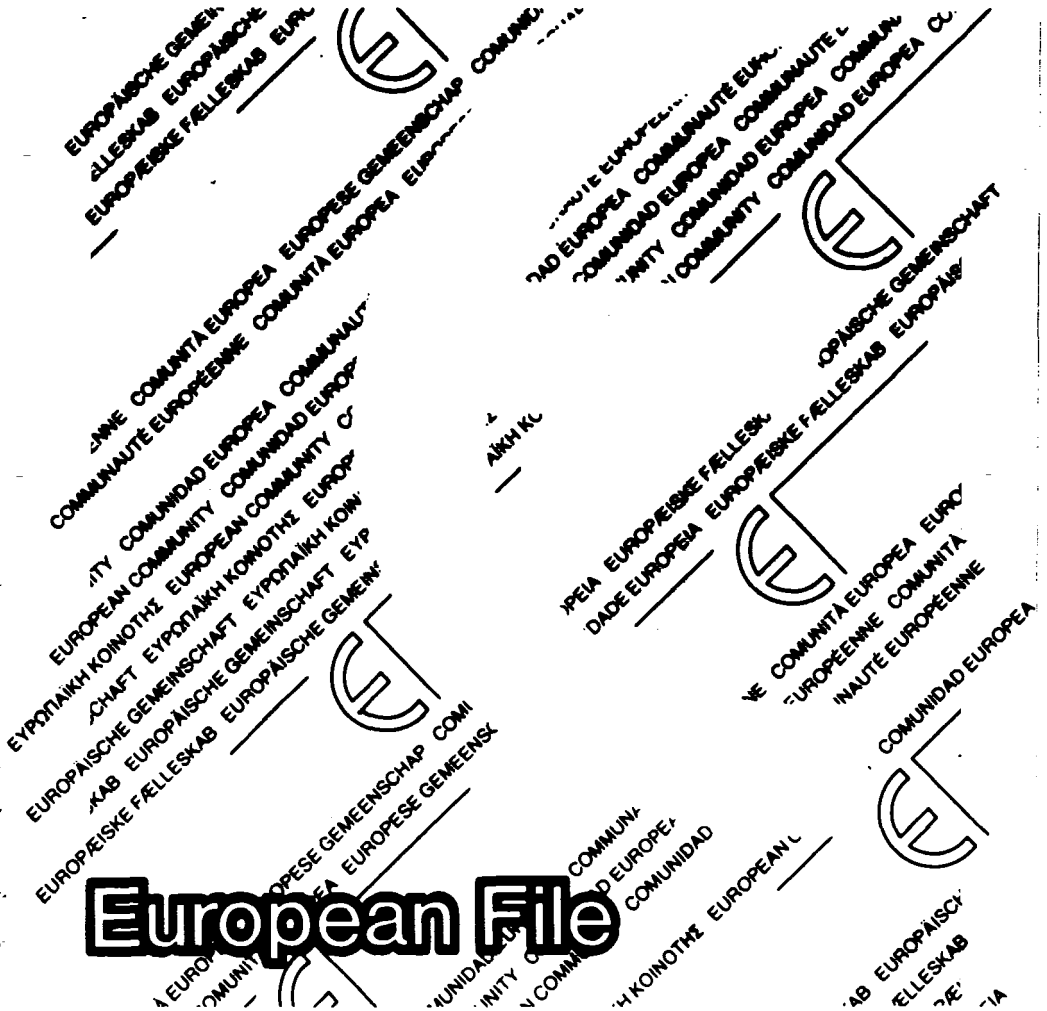


TARGET 1992

Europe without frontiers: towards a large internal market



European File

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1992 is the deadline set by the Community Heads of State or Government in 1985 for completion of the European internal market. The basis for the work is a European Commission White Paper, which sets out a timetable for all the measures needed to ensure completely free circulation of persons, goods, services and capital among the 12 Member States, in accordance with the Community Treaties.¹

A vital step along this road was taken in 1957 when the founders of the Community decided gradually to eliminate customs duties between Member States. Elimination of these duties was not, however, enough to create a single market. The queues, red tape and fiscal procedures at frontiers illustrate the problem very clearly – and there are many other obstacles to free trade. The relative stagnation since 1973 of the share of intra-Community trade in Member States' total exports (see diagram) shows how recession has helped to reinforce such obstacles, as each Member State tried to protect its own market and industries with 'technical' or 'non-tariff' barriers. To do so was completely wrong-headed: there is a growing recognition that European businesses must have the benefit of a market of continental proportions if they are to make headway in the face of world competition.

The failure to complete the European Community has been a costly one. According to the European Parliament's estimates, all the barriers that prevent the formation of a grand European area without internal frontiers cost the citizens of the Community tens of billions of ECUs² every year:

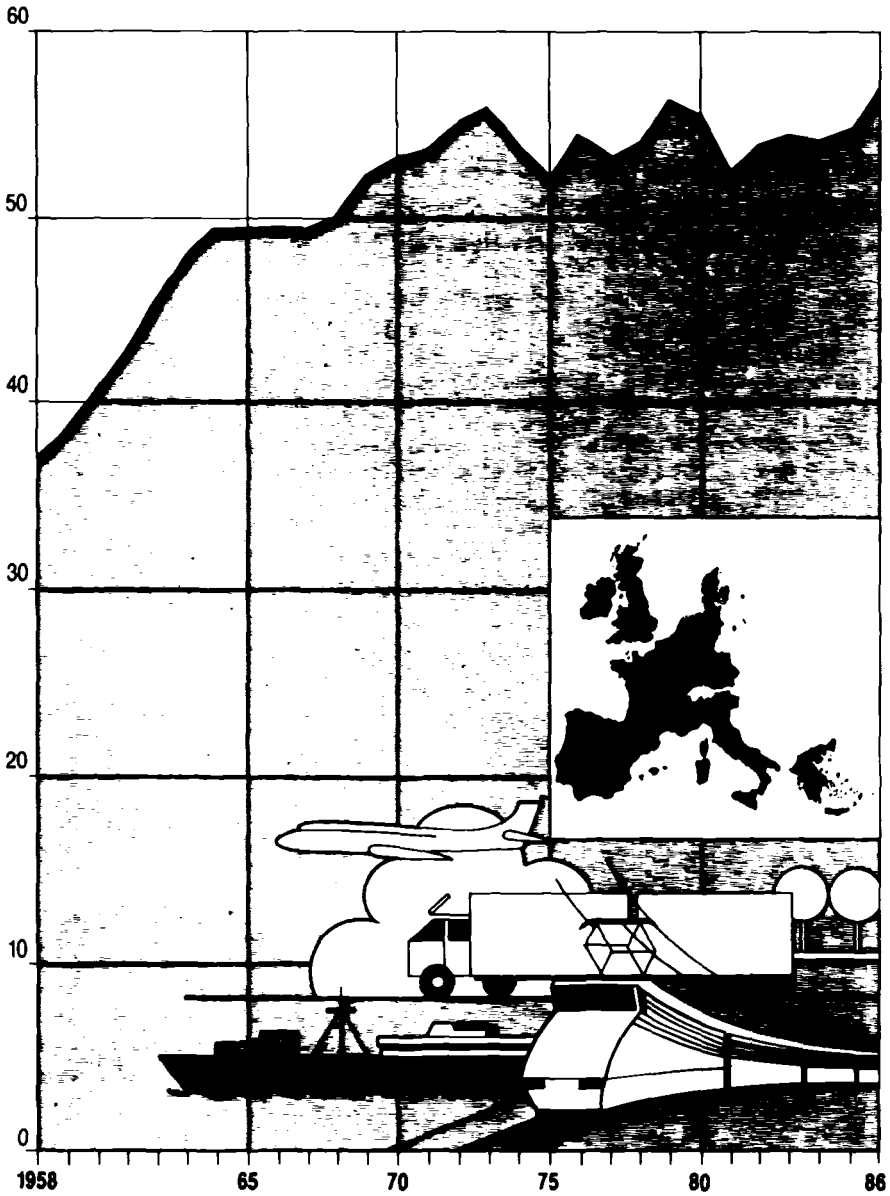
- Frontier formalities cause a loss of 12 000 million ECU a year.
- Non-harmonization of a range of national standards and technical regulations on numerous products cost firms and consumers between 40 000 million and 50 000 million ECU a year, not including the losses due to duplication of control and surveillance measures.
- Discriminatory practices by national public authorities, whose orders and tenders frequently favour national firms, cost the taxpayer about 40 000 million ECU a year.
- Firms' production costs are also increased by more than 10 000 million ECU a year by the limited size of national markets.

The reasons for this waste are easy to understand. Frontier formalities cause loss of time and cost money in salaries and administration. Divergence of national standards and technical regulations prevents the products involved from being sold without costly modifications, which reduce the size of production runs and increase

¹ This file replaces our Nos 8/85 and 12/79.

² 1 ECU (European currency unit) = about £0.7, Ir £0.8 or US \$1.1 (at exchange rates current on 2 October 1987).

Intra-Community exports of the 12 member countries of the European Community as a percentage of their total exports



Source: Eurostat.

manufacturing costs, thus pushing up prices. The privileges granted to national suppliers in public procurement policies reduce competition and are another cause of higher prices.

These obstacles are not only costly for the taxpayer and the consumer: they also hinder the development of businesses and therefore restrict economic growth and employment. They reduce the competitiveness of European firms *vis-à-vis* their American and Japanese rivals, which are able to grow or specialize on their own internal market of continental dimensions. In addition they prevent certain forms of cooperation among firms from various Community countries and discourage many businessmen from developing new products for which the research and development costs can be redeemed only by marketing them on a European scale.

The present fragmentation of the European market is all the more unacceptable when one bears in mind that the Community must exploit all its reserves of efficiency, all its possibilities for creativity and investment and all its sources of confidence and competitiveness, in order to confront international competition and reduce the unemployment that has spread to 16 million members of its workforce.

The programme being implemented by the European Commission and set out in its White Paper provides for the gradual dismantling, by 1992, of all the physical, technical and fiscal barriers that still obstruct the free circulation of persons, goods, services and capital between the countries of the Community. This programme is already being put into effect and should be helped by the entry into force of the Single European Act, which was adopted in 1986 to amend the European Community Treaties. The Act contains a number of provisions which extend the range of decisions that the Community's Council of Ministers can take by qualified majority in cooperation with the European Parliament, rather than by unanimous agreement. The particularly sensitive area of indirect taxation is regrettably not subject to this new procedure.

Abolishing physical frontiers

For the ordinary citizen, the barriers and checks at intra-Community frontiers are the perfect embodiment of the continuing fragmentation of the Community. Various steps have already been taken to improve the situation. Border crossing has been speeded up between Germany, France, the Netherlands, Belgium and Luxembourg, for motorists who have nothing to declare and display a green disc. The checking procedures for road hauliers have been made less onerous: from 1988 there will be a single document to replace the 70 national forms previously used for bringing goods across frontiers. Among the other changes are new rules in regard to equipment and trade samples transported for professional purposes. Simplifying frontier formalities and checks is not enough, however: eventually they must be done away with altogether.

- As far as movement of persons is concerned, frontier police checks, which are often part of the fight against terrorism, drugs or crime, ought to be eliminated.

This would have to be accompanied by greater cooperation between police authorities, closer approximation of national laws on arms and narcotics, tighter controls on the Community's external frontiers and harmonization of rules for persons from third countries and for visa policy.

- Checks and formalities for the transportation of goods must also be abolished. Harmonization of rules for transport safety and for lorry axle weights and dimensions should enable a number of frontier checks to be eliminated. In the same way free circulation of animal and vegetable products will have to be achieved by the harmonization and mutual recognition of national standards, which will make frontier health controls superfluous.

Other frontier controls have been introduced for fiscal reasons and they too must be dismantled. That is the subject of a special chapter of the White Paper, which will be outlined further on in this file.

Abolishing technical frontiers

The elimination of frontier controls would not make much sense if, even within Community countries, individuals and firms continued to come up against a whole range of obstacles created by the disparity of national laws. That is why the European Commission has listed the measures needed in order gradually to dismantle the so-called technical barriers that still inhibit the free circulation of persons, goods, services and capital.

- Free circulation of employees is generally already a reality in the Community. There are, however, some difficulties to be sorted out, particularly in regard to taxation and to family allowances. The right of establishment of professional people is impeded by numerous obstacles in various sectors; a general system of mutual recognition of university degrees is called for, one based on Member States' confidence in each other rather than in any detailed harmonization of education. At the same time the Erasmus programme should enable the European Commission to promote student mobility and cooperation among higher education establishments. In the Commission's opinion, the achievement of a true people's Europe entails allowing people to reside in the Member State of their choice (a right now guaranteed only to persons engaged in some economic activity) and granting them electoral rights, at least at municipal level.
- Free circulation of goods is impeded by many differing national standards and technical regulations. In principle these are aimed at protecting people's health and safety and safeguarding the environment, but in fact they are often designed to protect national producers. For a long time the Community has mounted an attack on these barriers, drawing up more than 200 directives to harmonize the various national measures. The legislative work required has often been too arduous and too slow to cope effectively with the proliferation of national standards, but a new approach has been made possible by an important judgment of the European Court of Justice, given in the 'Cassis de Dijon' liqueur case in

1979. Under this ruling any product legally manufactured and marketed in one Member State must, in principle, be admitted to the market of all the other members. On that basis the Commission can now develop a policy based on the prevention of new impediments to trade and on the mutual recognition at Community level of tests and certifications.

In cases where it is still necessary to fix a European standard, this can be limited to defining essential requirements for protection of health, safety and the environment: the task of establishing technical specifications for products can be left to European standardization bodies set up by industry, such as the European Committee for Standardization and Cenelec (which deals with electrical products). This new Community harmonization strategy affects a wide range of products, from machine tools to foodstuffs, from building materials to toys. The White Paper also provides for harmonization measures to ensure free circulation, by 1992 at the latest, of chemical and pharmaceutical products, cars, etc.

- Another technical impediment to trade is the national preference that operates too frequently in public procurement, an area that accounts for between 10 and 15% of the Community's gross product. Community directives have already been adopted to eliminate some of the discriminatory practices and ensure that tendering procedures are transparent, but they are not enough. These legal measures must be improved, there must be better surveillance to ensure they are being enforced and their scope must be extended to include four key sectors left out until now: energy, transport, water and telecommunications.
- Although barriers remain, there has been more progress in free circulation of goods than in that of services. Numerous national regulations, some of them very complex, still block the freedom to offer services from one Community country to another. This situation is all the more regrettable in that market and non-market services are acquiring more and more importance in the economy. This sector is a source of growth – it is the only one that is providing new jobs at the moment – and in 1984 it already accounted for 58% of value-added in the Community, while the share of manufacturing industry had fallen to about 26%. Enlargement of the market will further stimulate the development of this sector, which remains less developed in Europe than in the United States or Japan. It is typical in this regard that, between 1973 and 1982, the United States saw its employment in services rise by 13 million and Japan by nearly 7 million, while in the Community this growth was little over 5 million. The Commission's liberalization programme applies both to the 'traditional' services (particularly transport, banking and insurance) and to the 'new' ones (telecommunications, television, information services and data processing).
- The development of Community transport policy is the essential corollary of improving freedom of circulation for goods and persons. This particularly involves the gradual dismantling of the system of national quotas still operating for transport of goods by road, liberalizing coach services, bringing price-fixing systems more closely into line and stimulating competition in the field of civil aviation.

- Greater freedom to provide financial services (banking, insurance, etc.) is another necessary complement to the free movement of goods. This will give European citizens and firms the benefits of an open market, with a wider range of services (insurance, savings and credit facilities) available on better terms.
 - Another element of decisive importance is the liberalization of services related to new technology. There must be a joint strategy for the information market, which is undergoing profound change as advanced technology takes over. Likewise, in the television field, the Commission's proposals envisage a single broadcasting area regulated by common rules, so that television programmes may not only be received Europe-wide, but may be conceived, produced and relayed by cable or satellite on the same scale.
- Free circulation of capital must accompany that of goods, services and persons. The liberalization of financial services mentioned above would not make much sense if capital movements were not liberalized as well, enabling European firms to save and invest under the most effective conditions. To achieve this by 1992, the European Monetary System ought to be strengthened, a number of laws and regulations need to be harmonized and the use of the European Treaties' safeguard clauses must be limited. Such exchange-control measures as would remain necessary in case of economic and monetary difficulties should be such as not to require checks at frontiers.
- Finally, the Community must create a framework to facilitate industrial cooperation on a European scale. The first steps have already been taken, with the launching of European research programmes (Esprit, Eureka, etc.) involving firms from different Member States and with the decision to allow the formation of European economic interest groupings. Other measures are necessary, however, to enable firms to benefit from all the development possibilities offered by the creation of a large internal market. Small and medium-sized enterprises have the greatest need: their size makes them particularly sensitive to the barriers that are too often created by differences among national legislations in such areas as company law, industrial property and taxation.

Eliminating fiscal frontiers

One of the main challenges involved in creating a large internal market is that of indirect taxation. All the member countries of the Community have now implemented the same system of value-added tax, but there are still differences from country to country in the number and level of VAT rates. The same is true of excise duties on oil products, alcoholic drinks, tobacco products, etc. The result: distortion of competition and frontier controls. As long as there are large differences between national indirect taxation regimes, each Member State means to ensure that the taxes and duties imposed by its own laws are paid on imported goods.

In the first stage VAT payment procedures must be transferred from the frontier to inside the country, along the lines of the system already operating between Belgium,

Luxembourg and the Netherlands. The total abolition of fiscal frontiers will, however, require more ambitious undertakings: the creation of mechanisms for compensation between Member States, as well as substantial measures to approximate indirect taxes, so that the remaining disparities are insufficient to divert traffic or distort trade. This aim has been achieved in the United States, where one finds that differences in tax rates between two neighbouring states do not cause problems as long as they are not greater than 5 or 6%.

The Commission is therefore asking Member States not to increase the existing disparities and to prepare for the gradual bringing of national systems more closely into line, based on the standardization of excise duties and on the definition of 'bands' or permissible margins of VAT levels. This approximation will no doubt give rise to difficulties, budgetary ones in particular, but limited and temporary exemptions should make it possible to resolve the problems.

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The realization of this ambitious programme to complete the European internal market requires the taking of some 300 decisions, spread out in time so as to facilitate the transitional arrangements that have to be made. By 30 September 1987, the European Commission had issued 184 proposals to this end. By the same date the Community's Council of Ministers had taken 64 decisions, a figure which is at once encouraging and disquieting. The number of decisions taken since 1985 is actually quite high compared to the usual slow pace of Community decision-making, which is subject to particularly complex procedures; at the same time the number is too low when measured against the timetable drawn up by the Commission. To overcome a number of obstacles, some of which arise out of the real difficulty of the problems involved and some out of the excess caution of national administrations, will require unflinching political will and determination to exploit all the possibilities offered by the Single Act revising the European Treaties. The Commission must also be able to count on support from European public opinion. As citizen, worker or consumer and in his or her everyday life, each inhabitant of the Community is directly concerned in various ways in the achievement of an internal market without frontiers.

It must be emphasized that the creation of the large market will have to take account of other important factors: environment and consumer policy, to ensure a certain quality of life; competition policy, to ensure equal opportunities for all firms and to prevent the market being re-partitioned; social policy, to improve and harmonize working conditions; monetary policy, to regulate the liberalized capital market; transport and infrastructure policy, to facilitate internal trade; etc.

The Community's research and development policy, which aims to avoid efforts being scattered at random and to encourage cooperation among firms, will also enable tangible benefit to be drawn from the internal market by improving the international competitiveness of European companies.

It is important that all the inhabitants of the Community be able to profit to the full from the advantages of the large market. That will require the Community's economic and social cohesion to be strengthened, with greater convergence of national policies for growth and employment, improved dialogue between employers and labour on a European scale and greater involvement by the Community in the struggle to reduce unemployment and develop the less-favoured regions. The Community cannot fully respond to these challenges unless the Member States first give it the means to break out of a number of impasses, by improving its institutional and budgetary arrangements, by continuing to adapt the common agricultural policy and by giving the Community the financial resources that are indispensable if it is to play a significant role in such areas as research, regional development and the fight against unemployment.

That is the purpose of the action undertaken by the European Commission to ensure the realization and effective working of a large internal market, drawing the full consequences from the provisions of the Single Act which reforms the European Treaties ■

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