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EUROPE WITHOUT FRONTIERS BY 1992

The European Community of 1992 will be a "Europe without frontiers," a truly common market where goods, people, services and capital move freely. Customs posts will be abolished; Community citizens will share a common passport; manufacturers will be able to market their products easily throughout the Community; and banking, insurance and other services will be available across national borders.

That is the ambitious goal of the E.C. Commission, which has outlined a plan for creating the fully unified internal market that was envisioned by the Community's founding treaties.

"Europe stands at the crossroads," a new Commission white paper states. "We either go ahead--with resolution and determination--or we drop back into mediocrity."

The white paper, which was presented to the E.C. Heads of State or Government at a June summit meeting, proposes a timetable for adopting some 300 measures to remove physical, technical and fiscal barriers between the Community's 10 (soon to be 12) members.

Since its inception in 1958, the European Community has abolished all customs duties on trade between member states and adopted hundreds of directives designed to facilitate free movement of people and goods. The momentum slowed during the 1970's, however, partly because the economic recession led member states to focus more on protecting their own economies than on building a united Europe.

Today, the most visible symbol of the Community's continued division is the presence of customs posts at national borders, where European travelers encounter police checks and truck drivers face long delays as they account for goods that are still subject to national taxation rules.

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In recent years, E.C. leaders have emphasized the need to "relaunch" the Community, with a unified market the key to building its economic and technological strength. Europe has fallen behind "in a world where large entities dominate," E.C. Commission President Jacques Delors told the European Parliament in January.

"In the final analysis, it is not manpower and capital that we lack. These are comparable to those of the United States and Japan. What we lack is a genuine common market where all economic and scientific operators can engage more easily in exchanges and cooperation."

Lord Cockfield, E.C. Commissioner for the Internal Market, said the removal of internal frontiers, which he compared to the formation of the United Kingdom and the United States, will enhance the Community's credibility in the eyes of its citizens.

The Commission's white paper proposes action in the following areas to complete the internal market by 1992:

PHYSICAL BARRIERS

Customs posts--which, according to President Delors, contribute to the image of Europe as a "feudal state"--should be abolished. Since the primary role of the posts is to enforce the tax controls of individual member states, the Commission has proposed measures for shifting that function away from national borders. (See Fiscal Barriers.)

Frontier posts are also used for veterinary and plant health checks. The white paper proposes a major effort to achieve common policies in this area so that national restrictions would be needed only for disease emergencies.

Until the frontier posts are abolished, the Commission is pushing for more flexibility. It has proposed a roadway border-crossing system under which member states would conduct no more than spot checks on Community travelers who display a green disc with the letter 'E'--a system already practiced by some member states. A European passport was introduced this year, to be adopted progressively throughout the Community.

Member states are legitimately concerned about controlling drugs and terrorism, the white paper notes. But those problems can be attacked in other ways--improving controls at the Community's external borders, using spot checks at intra-E.C. borders or inland locations and improving cooperation between national authorities.

As a way to control immigration, the Commission will also propose that member states coordinate their rules on residence, entry, access to employment, the right of asylum and refugees.

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TECHNICAL BARRIERS

The Community should follow the general principle that if a product is legally manufactured and marketed in one member state, it may be sold freely throughout the Community. In particular, sales bans cannot be based solely on the argument that an imported product has been manufactured according to different specifications.

The Community has already adopted a variety of directives to implement this principle. Where divergences remain, the Commission proposes mutual recognition of national legislation in some areas, and harmonization of standards in others (particularly information technology, telecommunications, construction and foodstuffs). It plans to launch a major initiative for mutual recognition of tests and certifications, with common codes of practice for laboratories and certification bodies. Other proposals would open up the public procurement process, which now heavily favors domestic suppliers.

The Commission also proposes the following:

Labor and Professions. Free movement of salaried workers was achieved in the Community in 1968. Community directives also allow freedom of establishment to members of many professions, including doctors, dentists, veterinarians and nurses. To promote further progress in this area, E.C. summit leaders have proposed a system of mutual recognition of university diplomas. The Commission also favors mutual recognition of apprenticeship courses and a "vocational training card" that would be recognized throughout the Community as proof that the holder has specific qualifications.

Services. A common market in services is "one of the main preconditions for a return to prosperity" because of the potential for job creation. Yet progress has been much slower in this area than on free movement of goods.

The Commission has recommended measures to liberalize both traditional services, such as banking, insurance and transport, and new-technology services, such as data processing and telecommunications.

Financial services (insurance, consumer credit, collective investment schemes) should be freely available at the Community level under the principle of "home country control": the member state of origin would have the primary task of supervising the financial institution, with other member states playing a complementary role.

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The Commission views increased competition and freedom of movement in the transportation sector, which represents more than 7 percent of the E.C.'s gross domestic product, as vital. Its proposals cover transport of both goods and passengers by road, air and water.

The increasing number of services provided by new technologies can develop their full potential only in a large, unobstructed market. For example, the Community needs telecommunications networks with common standards. It should also establish a single broadcasting area free of the obstacles arising from different national limitations on advertising, copyrights and cable retransmission rights. In the electronic banking area, the Commission plans to define common technical features for the machines that produce the new payment cards that operate with automatic bank tellers.

Capital Movements. These must be liberalized, accompanied by a strengthening of the European Monetary System, which will bring greater financial stability. Decentralization of financial markets should boost economic development by allowing optimum allocation of European savings.

Industrial Cooperation. In applying antitrust rules, the Commission will continue to authorize cooperation that promotes technical or economic progress. It also backs continued Community funding of cross-border technological research projects, such as the ESPRIT program in information technology that was launched this year.

The Community is setting the stage for a new type of association, the "European economic interest grouping," that will facilitate joint activities by businesses from different member states.

In addition to making it easier for businesses to establish subsidiaries or branches in other member states, the Community must allow them to engage in cross-border mergers, the white paper argues.

Intellectual and industrial property. Proposals in this area would establish a Community patent, a Community trademark and a Community framework for the legal protection of software.

FISCAL BARRIERS

When customs posts are abolished, E.C. member states will need a new system for enforcing their rules on the Value Added Tax (VAT) and excise taxes for goods crossing their borders. For the VAT, the Commission proposes that the accounting procedures be moved away from the borders, with payments made through a computerized Community clearinghouse system. For excise taxes on cigarettes, alcoholic beverages and refined petroleum products, the Commission proposes that national governments link their systems of bonded warehouses for export

products. The excise tax would not be charged until the goods were taken out of bond in the country of destination.

But the Commission's ultimate goal is "approximation" of VAT and excise taxes, which are applied at different rates and to different products throughout the Community. The existence of "low tax" and "high tax" countries provides an incentive for people to cross borders to shop. That, in turn, makes customs posts necessary as a way to enforce national limits on duty-free purchases for individuals. Tax differentials also provide an incentive for commercial fraud that would be harder to detect without customs posts.

The Commission plans to propose "common rate bands"--a target rate, with acceptable ranges of variation--for VAT and excise taxes. The E.C. has a common system for applying VAT, and it has taken steps to harmonize the types of goods and services that are covered throughout the Community. But where differences between member states remain--mostly in the food, second-hand goods, fuel and transport sectors--the Commission supports further efforts to develop a common VAT base.

CONCLUSION

Community leaders can either resolve to complete the integration of European economies, or they can allow Europe to develop into no more than a free trade area, the white paper concludes. The latter course would "fail to deploy Europe's immense economic resources to the maximum advantage; and it would fail to satisfy the aspirations of the people of Europe." The Community must act now to fulfill the goals of its founding Treaty of Rome, whose signatories declared that they were:

"Determined to lay the foundations of an ever closer union among the peoples of Europe, resolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe."

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A limited number of copies of the Commission's white paper, "Completing the Internal Market," are available at no charge from the European Community Information Service, 2100 M Street N.W., Suite 707, Washington, D.C. 20037.

