



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

The Strategy for Europe's Internal Market

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This Consultative Communication sets out the Commission's thinking on a strategy for the Internal Market over the next five years. Its purpose is to encourage debate in the Council, Parliament and Economic and Social Committee and among interested parties. The Commission will then prepare a definitive version of that strategy which will draw on the consultation undertaken to adjust, where necessary, the strategic and operational objectives and to introduce specific target actions. This revised text will serve as the basis for discussion in the Internal Market Council of 7 December 1999, and the Helsinki European Council in December. The deadline is necessarily short – 7 November - to allow the Commission to take full account of comments in preparing the definitive document for the 7 December Council. Views on this Communication may be forwarded (by 7 November) to:

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THE INTERNAL MARKET TODAY

The Internal Market and the single currency are essential pillars of Economic and Monetary union. By opening up national markets to increased competition, the Internal Market stimulated job creation, broadened the choice of goods and services and promoted efficiency, productivity and innovation. The elimination of national barriers to trade also required additional measures to improve the quality of life of European citizens (such as food safety, public health and consumer rights). That potential for enhancing employment and the well being of citizens, triggering structural reform, improving competitiveness is immense and has still to be fully realised.

The 1997 Action Plan¹ aimed at improving the functioning of the Internal Market in the run-up to the launch of the euro. That objective was largely achieved². To monitor progress, the Commission developed a range of instruments –notably the Single Market Scoreboard, an annual business survey and the Dialogue with Citizens and Business. The report on the functioning of product and capital markets³ (which forms part of the process of economic reform triggered by the Cardiff European Council) was particularly valuable. The 1997 Action Plan has shown that fixing clearly-defined priorities, establishing an agreed time frame and rigorously monitoring progress are effective in generating the desired political momentum. But broader, agreed strategic objectives are now needed. In short, the Union needs an approach to the Internal Market which combines a shared vision of its longer-term (five-year) aims with agreed short-term operational targets.

As the Internal Market matures, the focus is shifting away from establishing a legal framework for the integration of national markets. What is needed now is an integrated Internal Market strategy that delivers tangible benefits to citizens, high levels of business performance and job creation. In this new phase, synergies between the Internal Market and other common policies of the Union need to be maximised. In particular, Internal Market policy should be seen in the new framework for the coordination of economic policy. The

¹ See CSE(1997) 1 final, "Action Plan for the Single Market", 04.06.1997.

² See COM(1999) 74 final, "Assessment of the Single Market Action Plan", 18.02.1999.

Cardiff process of economic reform adds a crucial microeconomic strand to the policy recommendations formulated by the Commission, for discussion in the Ecofin Council. The strategy outlined in this Communication seeks to ensure that in the annual updating, the detailed target actions for the Internal Market proposed by the Commission are in line with the priorities defined in the Commission's recommendations for the Broad Economic Policy Guidelines.

Many have a stake in the Internal Market - businesses whatever their size or location, whatever their product or service; their employees; consumers and citizens. All their interests must be equally taken into account in defining strategic objectives for the Internal Market. These interests are not mutually exclusive. Where they do conflict, they have to be reconciled. The Internal Market is both the motor of the European economy, driving it towards growth, high levels of employment and improved productivity and also the means of delivering real benefits to citizens throughout the Community. Their judgement is a key benchmark of its success.

The Cardiff and Cologne European Councils stressed the importance of comprehensive structural reform and modernisation to improve the innovative capacity and efficiency of markets in goods, services and capital. The power to achieve these reforms remains largely in the hands of Member States. But the Union's institutions will have an increasing role in monitoring the progress in achieving economic reform and improving market efficiency.

The Internal Market is not an end in itself. The benefits of improved economic performance must be distributed equitably between all Member States and among all sections of society. Tangible benefits for citizens and consumers - safe and high quality food, products and services; better choice and lower prices - must be seen to be amongst the benefits of Internal Market policies. Policy makers - at both European and national level - therefore need to become ever more responsive to the views of those they serve. To achieve this, the Dialogue with Citizens and Business promises new ways (Internet and e-mail) of improving the interactive nature of policy development.

Deepening the Internal Market and ensuring its proper functioning must not be an inward-looking exercise. The competitiveness of the European economy in a global economy depends on many Internal Market policies - these include the access of smaller companies to

³ See COM(1999) 10 final, "Economic Reform : Report on the functioning of Community Product and Capital Markets", 20.01.1999.

venture capital; modern intellectual and industrial property systems; open public procurement policies; the regulatory issues connected with the development of electronic commerce and the information society and the development of cross-border services to companies and citizens alike. The positive experience of the Union's Internal Market can also contribute to the shaping of a better global economic governance. And as one of the world's more open markets, the Union can but benefit from further progress towards trade liberalisation and improvement (bilateral or multilateral) of access to the markets of our main trading partners.

THE NEW APPROACH

Strategic objectives

In order to deliver its full potential, a successful Internal Market policy must meet two overarching goals: to enhance the competitiveness of the European economy and to improve the quality of life of European citizens. To do this, four strategic objectives are suggested and described more fully in the next chapter. These objectives are intended to provide a frame of reference for policy development. Future Internal Market initiatives will be explicitly linked to one or more objectives. Sectoral policy frameworks (some, such as public procurement and the Financial Services Action Plan⁴ are already in place) will be fitted into this wider policy picture, so that their contribution to the fundamental goals of the Internal Market is spelt out. The four strategic objectives will also provide the benchmark against which progress can be judged. Thus the Commission will develop existing quantitative and qualitative indicators to assess not only whether Internal Market measures – legislative or non-legislative – have had their intended effect but also how far they have contributed to the attainment of the broader strategic objectives. The process will also identify specific obstacles or new challenges.

Operational objectives

A series of operational objectives has also been identified. Each covers a particular policy dimension (or more rarely, a group of linked policies) that contributes to the achievement of the strategic objective while often serving other strategic objectives as well.

⁴ See COM(1999) 232, "Financial Services : implementing the framework for financial markets : Action Plan", 11.05.1999.

Target Actions

Although not defined in this Communication, short-term priorities for pursuing each strategic and operational objective will be identified as target actions (legislative or non-legislative). Each target action will have agreed deadlines, and a measurable output and will require initiatives at national or Community level (or both). Preparation of these target actions is already under way and will be completed in the light of the response to this Communication for inclusion in the final version of the Strategy which will be forwarded to the Internal Market Council, the Parliament and the European Council.

In the case of legislative proposals, a particular initiative might be broken down into a number of successive targets with responsibility shifting between Community institutions depending on the phase of the legislative procedure. Similarly, the practical operation of agreed Internal Market rules might call for parallel action by Member States and the Commission. Implementing the structural reforms triggered by the Cardiff process will be primarily a matter for the Member States. Target actions will be revised annually as progress is made. They could be supplemented where new priorities are set in response, for example, to technological change, commercial developments or social needs.

The annual cycle

Over the last two years, an annual Internal Market cycle has begun to emerge. The Commission has added a number of monitoring and analytical tools to the work of the Council. They include the Scoreboard; the in-depth analysis in the report on the functioning of product and capital markets (the Cardiff I report); the results of feedback from the Dialogue with Citizens and with Business. The responses of the Council, the Parliament and the Economic and Social Committee to all these documents and the joint work programme of succeeding Presidencies have also been valuable. The Commission now intends to present an annual review and update of target actions for discussion at the second Internal Market Council of each year. This review will examine progress and consider how well the present rolling programme meets longer-term goals. Target actions will, as necessary, be changed or added in order to meet new needs and remedy weaknesses or gaps detected in the existing regulatory framework. Completed actions will generate new priorities, whilst the need to meet the environmental or consumer objectives of the Internal Market as well as the process of economic convergence and multilateral surveillance – may well call for complementary measures.

In particular, it will be crucial to ensure that the annual adjustments to Internal Market target actions are consistent with the priorities for structural reforms in product and capital markets defined in the Broad Economic Policy Guidelines. The various elements of the Internal Market Strategy, including the results of the first Internal Market Council discussion of each year, will provide an input to both the Commission's proposals for the review of target actions and the Commission's recommendations for the Broad Economic Policy Guidelines. The onus will be on the Commission, initially, and later on Member States in the Council fora to maintain a coherent approach.

Information on the most significant developments at international level, such as the progress made by candidate countries in the alignment with the Internal Market acquis and the negotiation of relevant bilateral or multilateral agreements will also be referred to in the review. Figure 1 illustrates the annual cycle that is envisaged. The next chapter examines the four strategic objectives in more detail.

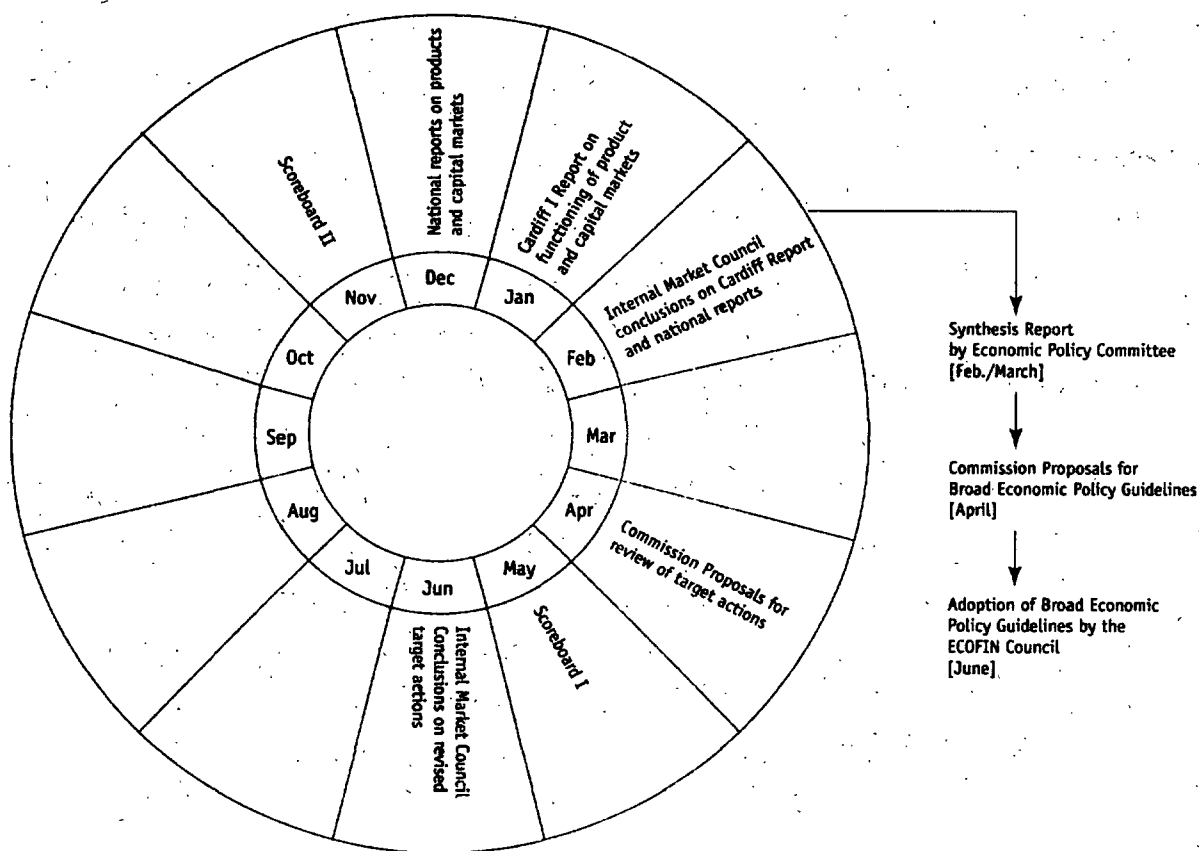


Figure 1: the annual cycle for the Internal Market Strategy

THE FOUR STRATEGIC OBJECTIVES

Four strategic objectives will set the broad policy direction for the Internal Market over the next five years.

1. To improve the quality of life of citizens
2. To enhance the efficiency of Community product and capital markets
3. To improve the business environment
4. To exploit the achievements of the Internal Market in a changing world

STRATEGIC OBJECTIVE 1 : TO IMPROVE THE QUALITY OF LIFE OF CITIZENS

The Internal Market brings many benefits to the 370 million people who live within the Union. As integration deepens, the Internal Market rights of individuals are increasingly seen in the wider context of overall Union policy. It is unchallengeable that the Community must respond to growing public expectations about the quality of life and sustainable development. This demands that these are seen as core Internal Market objectives. Citizens stand to benefit from truly open and efficient markets. The Internal Market stands or falls on how confident citizens as consumers are that the benefits of the Internal Market are underpinned by effective mechanisms for dealing with situations where their health, their safety or their economic interests are threatened. As employees, citizens must be confident that increased competition is accompanied by adequate levels of labour protection.

European citizenship confers a general right to move and reside freely within the Union, whatever the economic status of the individual and his/her family. It confers civil and political rights such as the right to vote in local and European Parliament elections in the country of residence. The Parliament has called for the rights conferred by European citizenship to be gradually supplemented and extended, as envisaged in Article 22 of the Treaty.

The right of people, whatever their nationality, to move across borders for short-term stays without the need for passport controls is now a reality across most of the Union. This generally benefits travellers and is an important symbol of integration. Its achievement against a background of strengthened action against criminal activity and illegal immigration

and improved judicial co-operation, has led to the inclusion within the Treaty of the objective of establishing an area of freedom, security and justice.

The Operational objectives of Strategic objective 1

➤ *Ensure sustainable development through further integration of Internal Market and environment policies*

The Treaty calls for environmental protection requirements to be integrated into the definition and implementation of Community policies, in particular with a view to promoting sustainable development (Article 6). Sustainable development can only come about through an integrated approach that takes account of environmental protection, the competitiveness of businesses and employment concerns. In its Communication of June 1999 on the Internal Market and the Environment⁵, the Commission set out its approach to making these policies mutually supportive and reinforcing. It also set out a number of further steps to ensure greater convergence between them thereby developing, as requested by the European Council, a strategy to integrate environment policy and Internal Market policy.

➤ *Protect the interests of consumers in the Internal Market*

Article 153 (2) of the Treaty now requires consumer protection to be taken into account in defining other Community policies. By removing barriers to trade between Member States, the Internal Market has given consumers greater access to goods and services from elsewhere in the Union. The growth in distance selling, spurred on by the expansion of electronic commerce and the price transparency brought about by the euro, will also encourage cross-border shopping. Trade in goods between Member States already amounts to 30% of Community output, implying a wider choice for the consumer. The impact on prices is less clear-cut: increased competition is expected to lead to lower and converging prices, if efficiency gains are passed on to final consumers. Although price dispersion⁶ has diminished in the Union, it remains much higher than, for example, in the United States. Evidence of price levels remains incomplete and further studies are needed.

⁵ See COM(1999) 263 final, "Single Market and Environment", 08.06.1999.

⁶ Price dispersion is a measure of how much prices vary, on average, from the average price in the market.

Greater trade in goods and services between Member States may carry with it additional risks for the consumer. It is as consumers that citizens will above all judge the success of the Internal Market. The Union must treat consumer concerns as a key element of the Internal Market's commitment to the citizen. A high level of protection and proper enforcement of the rules are therefore essential. Particular attention should be given to the safety of goods and services and more specifically, from the consumer perspective, the fairness of commercial transactions undertaken in the Internal Market. The effective use of early warning and information exchange mechanisms by responsible administrations is clearly essential. The policy of strengthening market surveillance must also be pursued energetically by all Member States.

➤ *Support employment and ensure coordination of social protection*

Opening up national markets to cross-border competition from other Member States and the Union's efforts to improve market efficiency through the Cardiff process significantly contribute to the process of job creation. But supply-side initiatives must be complemented by efforts to develop the skills, flexibility and mobility of Europe's workforce, as recognised in the Amsterdam Treaty. The Commission and the Member States must therefore continue to implement the European Employment Strategy, so that workers can contribute to productivity and growth in working conditions conducive to the effort this requires.

Striking the right balance between occupational flexibility and social security is important to improve competitiveness⁷. Dialogue and co-operation on these issues should aim for a consensus which will assist Member States in their efforts to modernise social security systems, for example by providing incentives to work as a counter-weight to unemployment while being sensitive to health and safety requirements and family responsibilities.

The effective organisation of work is also essential. The social partners are therefore encouraged to agree framework conditions favourable to the introduction of new forms of working⁸.

Feedback from citizens through the Dialogue with Citizens and Business suggests that labour mobility – necessary to an adaptable economy – remains limited. More efficient and user-friendly application of Internal Market rights – such as the recognition of qualifications – is needed.

⁷ See COM(1999) 347, "A concerted Strategy for modernising Social Protection", 14.07.1999.

⁸ See COM(1998) 592, "Work Organisation : a Positive Approach", 25.11.1998.

➤ ***Ensure that European citizens make full use of their rights***

Citizens must be fully informed and able freely to exercise their rights. They need appropriate information, support and advice. The Dialogue with Citizens and Business can increasingly be used to help citizens to take advantage of their rights. The Union and national administrations, working together, should develop a common administrative culture which offers a high level of service and allows problems to be quickly resolved. A common administrative culture does not mean the harmonisation of national systems: it calls for agreement on certain basic principles - accessibility, transparency, efficiency - and on effective communication and co-operation between all administrations charged with enforcing Internal Market rules.

➤ ***Ensure that the area of freedom, security and justice becomes a reality***

The Amsterdam Treaty has established a commitment to making the Union's area of freedom, security and justice a tangible reality. The concept of "freedom" embodied in the Treaty goes beyond the free movement of people across internal frontiers. Citizens have valid concerns about the balance to be struck between the abolition of border controls on people and the need to fight organized crime, drugs and illegal immigration. Police and judicial co-operation in criminal matters has an increasingly important role to play. The Community needs to be sensitive to these concerns and take them into account when shaping measures to deepen the Internal Market. Due consideration will need to be given to preserving the appropriate balance between freedom, security and justice, in particular by building on the successful *acquis* of the Schengen Agreement. Judicial co-operation in civil matters will play an increasing role in facilitating and improving the resolution of cross border disputes and effective remedies at national level. The development of judicial co-operation must take into account the needs of the Internal Market and be coherent with the emerging legal framework for electronic commerce.

STRATEGIC OBJECTIVE 2 : TO ENHANCE THE EFFICIENCY OF COMMUNITY

PRODUCT AND CAPITAL MARKETS

In order to achieve the objective of enhancing the competitiveness of its economy, the Union needs competitive goods, services and capital markets. The introduction of the single currency offers exciting prospects for fundamental change whilst the Internal Market is the key to creating the right regulatory environment for a dynamic, knowledge-based, job-creating economy. The 1999 Cardiff Report concluded that, although the Internal Market had reached

a certain degree of maturity, there was scope for further integration, particularly in the services and capital markets. Increasing integration stimulates flexibility and efficiency. Flexible and efficient markets encourage productivity whilst permitting necessary adjustment to external shocks to take place through prices rather than job cuts.

The first goal of Internal Market policy and a precondition to improved market efficiency must be further to deepen market integration. Full implementation and enforcement of the agreed rules is a *sine qua non*. Adaptation of existing rules to cope with change or to overcome weaknesses in the operation of the Internal Market is a further requirement.

Increasing attention to market efficiency requires the development of the economic reform process agreed by the Cardiff European Council. The Member States and the Community institutions must respond to that process by actively implementing the necessary changes at national or Community level. Comprehensive structural reform and modernisation of markets is an integral part of the process of economic co-ordination in the Union, as expressed through the Broad Economic Policy Guidelines.

A properly co-ordinated and coherent enterprise policy across the Community is increasingly important, special attention being paid to the needs of small and medium sized enterprises, to ensure that their full potential for innovation, growth and job-creation is realised. Small companies suffer the disadvantage of having limited human and financial resources. Yet in that disadvantage there is strength: flexibility, innovation and the capacity rapidly to adjust in order to take advantage of Internal Market opportunities.

The Operational objectives of Strategic objective 2

► *Encourage economic reform in the interests of market efficiency*

The Internal Market can function optimally only if Member States, together with the Community institutions, are fully committed to the task of eliminating unnecessary rigidities. The question is not only whether Member State regulation is legally compatible with the Internal Market, but whether it is conducive to securing the maximum benefit from integrated markets in terms of competitiveness and employment. The process of economic reform instituted by the Cardiff European Council aims at increasing the efficiency of product and capital markets. It pinpoints areas where action is needed at Community or national level while incorporating a micro-economic dimension into the preparation of the Broad Economic Policy Guidelines. The process of joint evaluation whereby Member State reports are examined in the framework of the Internal Market Council must be further developed into a

peer-review exercise to allow this new instrument to deliver its full potential. The importance of the Cardiff process and the prospect of its significantly contributing to the improvement of the innovative capacity and efficiency of markets was underlined by its inclusion as one of the three pillars of the European Employment Pact agreed at the Cologne European Council.

➤ ***Ensuring financial services deliver their full potential***

Financial services represent a key sector, which is expanding and changing profoundly and which will significantly contribute towards making the Internal Market a reality for consumers and industry. The benefits to financial services of the introduction of the euro in terms of greater transparency and greater facility to trade across frontiers need to be reinforced by a concerted effort to give consumers access to a greater choice of competitive retail financial services products in which consumers can trust, to give industry (especially SMEs) easier access to a single deep and liquid market for investment capital and to ensure the continued stability of financial markets. Implementation of the May 1999 Financial Services Action Plan, which specifically centres on these issues, will be an important element in the overall Internal Market Strategy.

The result should be to boost employment, by facilitating investment in innovation, especially by smaller companies, and to ensure a greater choice of quality services to meet consumer demands, particularly with the growth of electronic commerce. To facilitate progress on agreeing and implementing the necessary measures, the Commission will be working in close cooperation with Member State officials, market practitioners and users.

➤ ***Complete the agreed legislative framework, supported by a common understanding of the rules and building a shared commitment to their active enforcement***

The fundamental precondition for a fully integrated market that commands the confidence of its stakeholders is a shared body of rules uniformly applied by Member States. The failure to transpose agreed directives therefore remains a focus for urgent attention. Much has been achieved: the "fragmentation factor" – the percentage of directives not yet implemented in one or more Member States – has fallen to 12.8% compared to 35% in June 1997. All Member States should now be able to reach the levels set by the leading countries: that benchmark should be to maintain a transposition deficit of less than 1.5%.

The new legal order also requires a shared understanding of the meaning of the rules and the development of agreed strategies for enforcement including enhanced administrative co-operation. National administrations must work together to deliver a uniformly high level of

enforcement and the efficient resolution of problems encountered by businesses and individuals. National officials should not simply be enforcers of Community law, but enablers who help enterprises to understand and comply with the legislation. They must accept this challenge and pool their knowledge and expertise. Whilst the primary responsibility for enforcement lies with the Member States, the Commission can initiate and facilitate joint exercises and the exchange of good practice, and will continue to monitor progress.

Such efforts should reduce the number of infringement proceedings for breaches of Internal Market rules. Nevertheless, the Commission will continue to pursue infringement proceedings diligently whilst Member States should ensure that all letters of formal notice and reasoned opinions are dealt with promptly and appropriately.

Access to information and advice plays a critical role in helping businesses and citizens to make the most of the Single Internal Market and to resolve any problems. In addition to using the existing European Information Centres and Euroguichet networks, the Commission will give a high priority to the further development of the Dialogue with Citizens and Business and the Euroguichets.

➤ *Eliminate existing or potential obstacles to cross-border trade and improve the application of the mutual recognition principle*

The Internal Market has proved an effective means of integrating goods markets, despite some remaining problems. Less progress has been made in the services' sector⁹. The Community's objective must now be to eradicate any remaining obstacles to cross-border trade and to prevent the emergence of new barriers. Concrete work is now under way to address the problems identified in business surveys. These include problems with the application of the mutual recognition principle¹⁰, the additional costs incurred by business in conforming with national testing and approval procedure; inadequate access to national procurement markets; misuse of national rules protecting the "public good" in order to restrict unfairly the cross-border provision of services. Many of these weaknesses were identified in the Single Market Action Plan as needing further attention.

The growth of electronic commerce opens new possibilities for cross-border transactions. It offers business access to new markets at relatively low-cost, particularly for those trading in intangibles (financial services, insurance) or low bulk/high value consumer products (CDs,

⁹ See COM(1999) 10 final, "Economic Reform : Report on the functioning of Community Product and Capital Markets", 20.01.1999.

branded goods). E-commerce also allows consumers to seek the best value across the Internal Market and worldwide. Further Community action may be necessary to ensure that the benefits of electronic commerce are not offset by divergences between national rules. The Community's objective must be to create an appropriate regulatory environment: to restrict regulation to the minimum necessary to offer legal certainty to service providers; to provide consumers with a high level of protection and to prevent the use of the Internet as a vehicle for criminal activity.

The increasing use of digital technology for processing commercial transactions carries with it certain dangers for privacy. Existing Community rules guarantee a high level of protection of personal data and of privacy and are essential to the confidence of consumers in cross-border transactions. The Data Protection Directive will be reviewed in October 2000. This review must take into account the international dimension of data exchanges as well as developments in technologies and markets.

➤ ***Securing effective market-opening legislation in the utilities and transport sectors, whilst preserving universal service***

Liberalisation in telecommunications, electricity and air and road transport is already producing benefits in terms of reduced prices and higher quality. Liberalisation of rail freight is a current priority. For the Community to be able to consolidate and build upon this success, regulatory structures created to facilitate liberalisation must continue to nurture the competitive process, with particular attention to the regulation of interconnection, interoperability and licensing and to facilitating pan-European services. Consistent and coherent application of Community law by all of the national regulatory authorities must also be assured whilst procedures for strengthened co-operation between national regulatory authorities at Union level need to be urgently developed. As competition becomes fully established, concern will focus on the behaviour of market players. Thus competition law will ultimately become the primary tool for managing these markets, although the objectives of universal service and interoperability may continue to require specific regulation. Liberalisation of telecommunications, coupled with universal service provisions, should ensure that all citizens have affordable access to a universal service specified at European level, and access to Information Society services.

¹⁰ See COM (1999) 299 final, "Mutual recognition in the context of the follow-up to the Action Plan for the Single Market", 16.06.1999..

The national reports on product and capital markets suggest that, in sectors where full liberalisation is not feasible, other approaches may improve efficiency. These include the operation and management of public services by public or private bodies or companies selected on the basis of an open tender, with appropriate safeguards for consumers.

➤ *Encourage creativity and innovation by adequately protecting industrial and intellectual property rights*

Adequate protection of industrial and intellectual property rights is essential to ensure a climate that is conducive to innovation, creativity and investment. The existing harmonisation of industrial and intellectual property has removed the uncertainty and administrative burden inherent in the co-existence of a multiplicity of national rights with a different scope of protection, thus facilitating and stimulating the exploitation of goods and services across the Internal Market. The markets for industrial and intellectual property are constantly evolving, stimulated by technical developments, new marketing strategies and consumer/user behaviour. Activity at Community level is therefore indispensable to safeguard the effective functioning of the Internal Market in this area. As the pace of change increases, the Community has to become more pro-active, anticipating new developments. Internal Market rules in this field should foster a pro-competitive environment and at the same time achieve a careful balance of all the interests involved.

STRATEGIC OBJECTIVE 3 : TO IMPROVE THE BUSINESS ENVIRONMENT

Action aimed at deepening market integration by removing sectoral barriers in goods and services markets and by improving the functioning of the *acquis* will have its full effect only if the overall environment in which business is carried on is favourable. This too requires a shared commitment on the part of Member States and the Community institutions to eliminate anti-competitive practices: tax obstacles to cross-border activity and unfair tax competition. Both at national and Community level, continuing and reinforced efforts are also required to achieve a less burdensome regulatory framework and a high quality of regulation.

The Operational objectives of Strategic objective 3

➤ *A shared determination to ensure that market integration is not undermined by anti-competitive practices*

Neither anti-competitive behaviour by businesses nor aid granted by Member States will be allowed to obstruct further integration or improved efficiency in the Internal Market.

Vigorous application of Community and national rules is needed to ensure that producers and distributors cannot re-segment the market or maintain prices at an artificially high level through collusive behaviour or abuse of a dominant position. A number of Member States have already embarked upon a reform of national competition policy and the Commission's "White Paper on modernisation of the rules implementing Articles 85 and 86 of the EC Treaty"¹¹ raises the prospect of further changes to the regulatory architecture. It is essential that national competition bodies and the Commission work together to secure free and fair competition at all levels of the market.

Although overall levels of state aid are declining, they remain a major threat to market integration and efficiency. The Council and Commission have recently put in place a number of measures intended to provide a more transparent and coherent framework for the application of the Treaty rules on state aid. However, the individual assessment of notified aids should be complemented by a consideration of the cumulative impact on the Internal Market of state aids which constitute distortions of competition, as announced in the conclusions of the Internal Market Council of 25 February 1999. Member States should also redirect remaining state aid away from ad-hoc and sectoral aid and towards aid designed to pursue horizontal policy objectives of Community interest.

➤ *Eliminate tax barriers to the Internal Market and unfair tax competition*

The impact of different forms of taxation on the operation of the Internal Market is one of the main determinants of Community taxation policy. Some degree of tax harmonisation is indispensable to the proper functioning of the Internal Market. Harmonisation is not required in all areas and where it is required, the extent of harmonisation will vary. Indirect taxes are a more conspicuous impediment to intra-Community trade than direct taxes. They visibly and immediately affect the free movement of goods and the free supply of services : further harmonisation measures, which include the transition to an origin-based VAT system, will be necessary. There are however aspects of the tax systems of Member States which will not require any co-ordination or harmonisation. Personal income tax requires no action other than the elimination of double taxation which may impede citizens exercising their rights of free movement. There is, however, an intermediate zone of direct taxation on highly mobile tax bases, in particular the taxation of companies and the taxation of capital. Here Member States agree that a certain degree of co-ordination is required to prevent both the erosion of tax bases and double taxation.

¹¹ 1999/C132/01. Articles 85 and 86 have been renumbered as Articles 81 and 82.

Existing taxation rules need to be applied efficiently. Business surveys at both Community and national level consistently point to the complexities of VAT procedures and the delays in obtaining refunds of VAT paid in another Member State as a major disincentive to cross-border trade. The Commission has already made proposals to simplify these issues in the short term (abolition of tax representatives and replacement of VAT reimbursement by a real right of deduction). Existing VAT rules and procedures will require modernisation to take account of the evolution of business and especially of e-commerce. The fight against fiscal fraud must be stepped up especially in the field of indirect taxation, where organised cross-border fraud damages legitimate trade, adversely affects employment and undermines confidence in the taxation system.

➤ ***Create an improved and simplified legal and administrative framework which reduces the regulatory burden on business***

Over-complex or ill-conceived legislation imposes additional costs and burdens on business, inter alia reducing competitiveness. It can also act as a disincentive to expansion, thus undermining job-creation, particularly in small and medium-sized companies. There is a growing awareness at national level and in international fora, such as the OECD of the need to improve the quality of regulation. The Commission has already made considerable efforts in this field¹² including the implementation of the SLIM initiative and the Business Test Panel pilot project. However, the results, in terms of impact on existing or planned legislation, continue to fall short of expectations.

We need to develop a coherent policy which encompasses work at both national and Community level. This might include, for example, the concurrent application of the SLIM approach to a Community directive and the corresponding national implementing measures through co-ordinated parallel exercises in the Member States. Business needs a clear and up-to-date framework of company law for its operations in the Internal Market. In this context, the adoption of the European Company Statute and related proposals¹³ remains a major objective, as does the adoption of the proposal on take-over bids. Commission proposals on cross-border mergers and on the transfer of the registered office of a company will also be tabled as soon as the outstanding issue relating to worker representation has been resolved.

¹² See the annual "Better Lawmaking" report, the most recent of which is COM (1998) 715 final, 01.12.1998.

¹³ Statutes for Co-operatives, Mutualities and Foundations.

STRATEGIC OBJECTIVE 4 : TO EXPLOIT THE ACHIEVEMENTS OF THE INTERNAL MARKET IN A CHANGING WORLD

The Internal Market cannot be considered in isolation from the world economic order. At micro-economic level, the increased competitiveness brought about by the Internal Market is vital to European businesses competing in global markets. At a political level, the Internal Market offers a model in building global or regional consensus on trade liberalisation.

The Operational objectives of Strategic objective 4

➤ *Contribute to the shaping of the multilateral trading system for the next century*

The Internal Market, the single currency, the prospect of enlargement - which will make the Union the world's largest integrated market, with over half a billion consumers - and the growing political importance of the Union world-wide mean that Union is a major actor in the development of the multilateral trading system. Agreement at Seattle on the launch of the next Round later this year should provide an opportunity for the Union to reaffirm its commitment to an open world trading system, and to the strengthening of the World Trade Organisation.

The Union's contribution to the negotiations will aim at reaching a high-level of trade liberalisation and market access whilst ensuring that Europe's social, environmental, cultural and other societal interests are safeguarded.

Further progress towards trade liberalisation remains the Union's overall objective. Key sectors of the Internal Market are already on the agenda: public procurement, investment, intellectual and industrial property rights, professional and financial services. Solutions developed within the Single Market may offer possible bases for an international regulatory framework (for example, in the discussions about international standardisation versus mutual recognition). The growing importance of Internal Market principles in trade agreements with third countries will clearly be reflected in the outcome of the next multilateral round. Free trade areas are being contemplated or negotiated with countries or groups of countries such as Mexico, Chile, Russia, Mercosur, and the Mediterranean countries under the Barcelona Process. Industry's active involvement in the shaping and monitoring of the Internal Market *acquis* is an approach that could be extended to the bilateral and multilateral context, as, for example, in the case of the Transatlantic Business Dialogue.

➤ *Ensure that the Internal Market contributes to a successful enlargement of the Community*

Preparation for membership of the Union has already strengthened the economies of the Central and Eastern European countries, as their relative resistance to the Asian crisis last autumn testified. The applicant countries must continue their preparations for an enlarged Internal Market. It is of vital importance that, in addition to making the necessary legislative changes, they put in place administrative infrastructures which will guarantee the effective exercise of Internal Market rights. The Commission will use the instruments available under the reinforced pre-accession strategy to help them set up and improve the necessary structures. For the existing Member States, further thought should also be given to the likely impact of enlargement on the functioning of product and capital markets.

Attention must be focused on maximising the Internal Market dimension of the pre-accession strategy. The "Road Map for alignment" must be fully implemented, through all available instruments. These include TAIEX (Technical Assistance Information Exchange) and twinning arrangements, which should be extended so as to cover all Internal Market sectors.

ACHIEVING OUR OBJECTIVES

To meet the strategic and operational objectives laid out above, we need to make effective use of our existing instruments to secure a continuous improvement in the regulatory framework. Figure 2 (below) sets out the ideal "virtuous circle". In all areas of the Internal Market, we need to ensure that the existing rules are given full effect. Only then will it be possible to determine whether the framework requires adjustments to achieve our agreed objectives. Thus, the importance of monitoring and feedback cannot be overstated. The processes described below are continuous and should be applied both at the level of individual measures and the overall policy mix. However, it will be reinforced by the annual cycle described above.

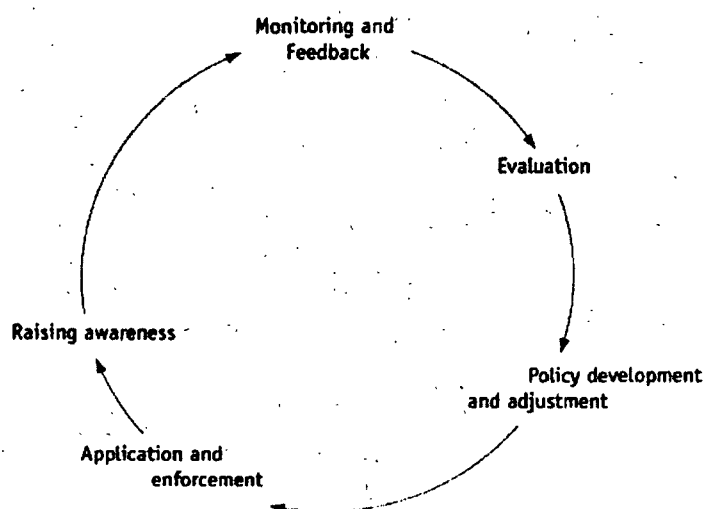


Figure 2 : The virtuous circle

- *Application and enforcement; raising awareness*

Strengthening and deepening the Internal Market calls for rules that work effectively in practice. National administrations and the Commission must ensure that they are applied fairly, consistently and efficiently across the Union and that the basic principles and policies are widely known and understood.

The Commission must further improve and speed up infringement procedures. Soft law techniques are also important. They range from the peer pressure applied via the publication in the Scoreboard of the comparative performance of Member States, through instruments

such as guides, interpretative communications, codes of conduct and common approaches. Where codes of conduct or voluntary agreements are used as an alternative to regulation, the Commission will ensure that the views of all interested parties are taken into account.

The existing transparency mechanisms¹⁴ are bearing fruit : recent experience suggests that Member States have developed an "Internal Market reflex" when framing new technical regulations. Preventive action of this kind will be pursued in future. Furthermore, the Commission intends fully to exploit Decision 3052/95¹⁵ which, if properly applied by the Member States, should give a clear indication of the pressure-points in the non-regulated sectors.

The day-to-day operation of the Internal Market depends on the thousands of decisions taken each year by national administrations and on the rulings of national courts and tribunals. The effective exercise of the freedoms conferred by the Treaty presupposes a relationship of mutual confidence between national officials and those affected by their decisions. This calls for a significant investment in training, enforcement and co-operation with other Member States. The Community will continue to assist and reinforce national action in this area.

Finally, information : a better informed public will not only be more willing to exercise their Internal Market rights, they will also be more exacting in their demands for proper enforcement of the rules¹⁶. The Dialogue with Business and Citizens is a good example of the synergies that can be developed between the Commission and Member States in providing targeted, detailed information on the exercise of Internal Market rights at national level.

- *Monitoring and feedback*

The Single Market Scoreboard provides useful indicators of legislative and administrative progress, while the annual Cardiff I report provides in-depth economic analysis of the functioning of product and capital markets. The Commission has thus begun to develop comprehensive performance indicators. This work will continue to provide a sound basis for evaluating progress towards the agreed strategic objectives. The new twice-yearly report on the operation of the mutual recognition principle should provide further insights.

¹⁴ Directive 98/34 (previously 83/189) requires Member States to notify proposed technical regulations to the Commission and the other Member States. The scope of the Directive has been expanded to include rules relating to information society services. Such rules have to be notified as from 5 August 1999.

¹⁵ Decision 3052/95 requires Member States to inform the Commission of decisions refusing market access to goods produced elsewhere in the Union.

¹⁶ According to recent surveys carried out by the Commission, only a little over 20% of citizens feel well informed about their EU rights and most businesses are still uncertain what to do if they encounter practical difficulties when trading across frontiers.

Monitoring must not be an exclusively top-down activity. The assessment of the impact and effectiveness of Internal Market policy must equally take full account of the views and experience of those it is intended to benefit. The Internet and e-mail now offer ways of supplementing traditional forms of consultation by drawing on individual experiences to build a bottom-up picture of strengths and weaknesses. Analysis of the feedback now beginning to flow in from the Dialogue will enable us to identify areas where the existing rules (or their application) deserve attention. For feedback from consumers, the Dialogue will be complemented by the Commission's network of Euroguichets.

- *Policy development and adjustment*

These analyses will guide the setting and modification of the target actions that are needed to meet the agreed long-term objectives. New legislative initiatives may be necessary, but the future governance of the Internal Market will more often call for simplification or rationalisation of existing measures or the strengthening of administrative co-operation. The Broad Economic Policy Guidelines, which now include country-specific micro-economic recommendations, will also be a key instrument in promoting market efficiency and structural reform at national level.

The Dialogue with Citizens and Business can improve the interactive nature of policy development. In a recent survey, 43% of business people expressed interest in contributing to policy formulation via the internet and citizens, whose voice is less well-heard, can also be encouraged to make their views known on policy choices. The Business Test Panel pilot project is another example of the way in which new forms of consultation can assist in the search for better regulatory solutions.

We must thus move towards a continuous cycle of evaluation, adjustment and implementation. At all stages of this process –but particularly when reviewing the impact of current policy and when considering how it might be amended- the strategic objectives will serve as a point of reference.

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