



FILE

Europe without frontiers: a review half-way to 1992

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To make the European Community into a large area without internal frontiers, within which the free movement of persons, goods, services and capital would be complete by the end of 1992: that was the objective set out in June 1985 by the European Commission's White Paper on completing the internal market. The aim was endorsed in 1986 in the signing of the Single Act which supplemented the European Treaties.¹

For the European Commission, the completion of the internal market is the key both to the prosperity of Europe and to its future.

- The key to European prosperity. The Cecchini report on 'the cost of non-Europe', drawn up in 1988 for the European Commission, sees the single market as the way to achieve additional growth of 5% in Community gross domestic product (GDP), price reductions of 6% and 2 000 000 new jobs. Accompanied by the right economic policies, coordinated between the 12 Community Member States, GDP could be increased by 7% and 5 000 000 new jobs created, in the medium term.²
- The key to the future of the Community. The large market must serve as the foundation for the other policies whose development is provided for in the Single Act: economic and monetary union, social policy, economic and social cohesion, research and development, protection of the environment, cooperation in foreign policy.

By the end of 1988, the European Commission had submitted to the Community's Council of Ministers the great majority of the 279 proposals envisaged in the June 1985 White Paper in order to achieve the large market. The Council had reached agreement on 45% of the complete programme. In general terms this result can be considered a very positive one, especially if one recalls the delays which for long beset the construction of Europe. This is why the Heads of States and/or Government meeting as the European Council were able to state that the completion of the internal market 'has now reached the point where it is irreversible, a fact accepted by those engaged in economic and social life'. Industry has in fact begun to develop its strategies and to invest with a view to the large internal market which it will have at its disposal in 1993.

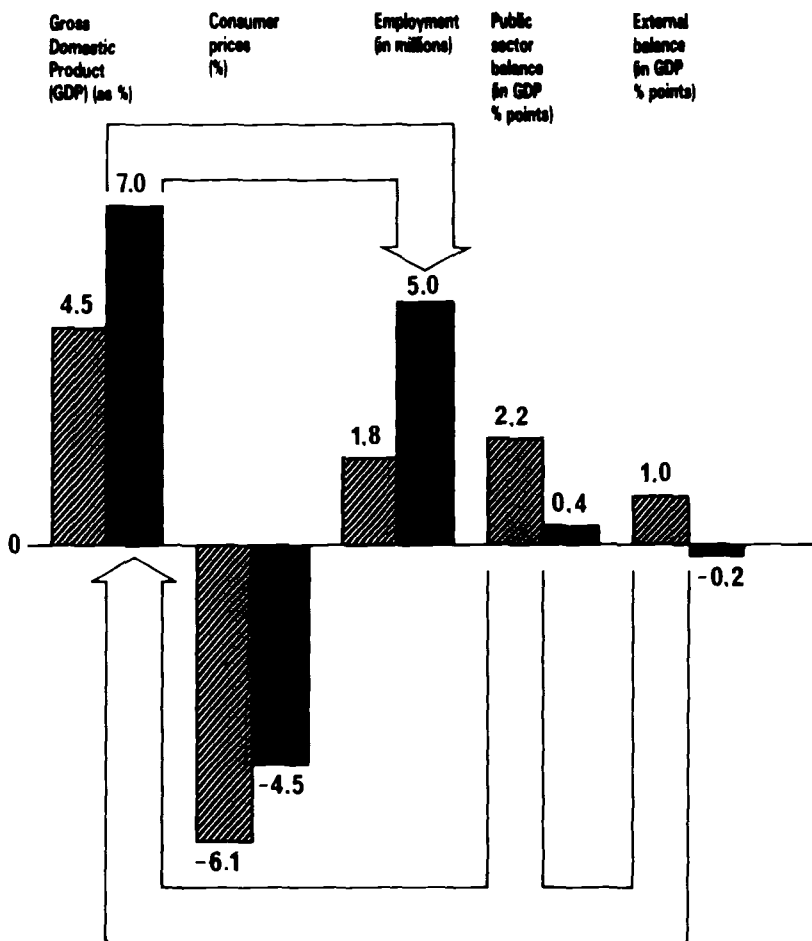
Behind this success is the commitment of the European Community institutions, of the Heads of State and/or Government, politicians, businessmen, trade unionists and very many ordinary citizens. There have also been institutional improvements introduced by the Single Act amending the European Treaties.³ In the Council of Ministers, for a number of subjects, voting by qualified majority has been substituted

¹ See *European File* No 17/87: 'Europe without frontiers: towards a large internal market'.

² See *European File* No 14/88: 'The big European market: a trump card for the economy and employment'.

³ See *European File* No 11/86: 'The institutions of the European Community'.

Europe without frontiers: medium-term macroeconomic effects of market integration *



Without an accompanying economic policy



With an accompanying economic policy, administered so that the margins for manoeuvre on the budget and external balances are used to support growth and employment (increased public investment, reduction in taxation, etc.).

* Simulations carried out with the help of the Hermes and Interlink models. Margin of error: ± 30 %.

Source: Commission of the European Communities.

for the previous requirement of unanimity. At the same time, a cooperation procedure has strengthened the participation of the European Parliament in the legislative process.

However, as underlined in a European Commission report presented at the end of 1988 – the half-way point to the deadline for the completion of the internal market – there are still some reasons for concern.

- [] Although the institutional reforms provided for in the Single Act have shown good results, the Council of Ministers continues to be reticent in taking the decisions which still require unanimity (in the fiscal field, for example) or in delegating powers to the Commission for the execution of decisions already taken. As we shall see, the field of taxation poses a major political challenge. In the longer term, once the large market is fully established, it is clear that the administration of it will require many further decisions.
- [] Determined efforts are still needed to carry out the programme set forth in the Commission's 1985 White Paper. Although there are nearly four years left before 31 December 1992, it must not be forgotten that the Member States have to transpose into their national legislation the many decisions taken at Community level. Taking account of the normal delays for implementation, respecting the 1992 deadline means, as the European Council emphasized, that ministers must work faster and complete the main part of their task between now and the end of 1990.
- [] Progress already made varies from sector to sector. 70% of the agreements reached by the end of 1988 involved technical barriers which hindered the movement of goods, services and capital. The good results achieved in this field account for much of the feeling of 'irreversibility' which has developed. None the less, in other sectors, particularly those involving the elimination of physical and fiscal barriers, the Commission's report judges the results to be 'unacceptably poor'.

Achievements: undeniable successes

The main reasons for satisfaction on the part of the Commission are the results obtained in the following areas:

- [] To deal with barriers to the movement of goods resulting from differing rules and technical standards applied to numerous products, the Commission has succeeded in establishing a new and efficient approach to harmonization, based on the principle of mutual recognition.¹ In general, Community legislation can from now on limit itself to fixing the requirements that are essential for guaranteeing a high level of health, safety and environmental protection, because the definition

¹ See *European File* No 18/88: 'The removal of technical barriers to trade'.

of European standards has been made the responsibility of the specialized technical bodies. This has enabled framework directives to be adopted for pressure vessels, toys and construction materials. Very significant progress has also been made in the area of food products. The task now is to stimulate European standardization activities (particularly in high-technology sector), to create a European system for the mutual recognition of test results and conformity certificates, and to bring to fruition efforts to harmonize upwards the rules for protecting the health and safety of workers in the workplace.

- The services sector, previously the Cinderella of European integration, is now the object of great attention. In high-technology areas such as telecommunications,¹ television,² and information services, the opening-up of frontiers must go hand-in-hand with the stimulation of research and development, the development of European standards that are competitive on a world level, and the promotion of new equipment, services and programmes.

In this context, a Community directive on the transnational broadcasting of television programmes is in the process of being adopted. Still in the highly diverse services sector, we should note the major progress achieved in the transport field: the liberalization of maritime links with countries outside the Community; the opening-up of European Community air transport and increased competition in it;³ the decision to abolish national quotas for road haulage at the end of 1992. In addition, the liberalization of financial services is well under way⁴ with the adoption of several measures on banking, insurance and investment services.

- The complete liberalization of capital movements,⁵ which is a corollary to the establishment of a common market in financial services, is now decided and will quickly enter into force. It must be complemented by measures to overcome the risks of distortion, tax evasion and tax fraud resulting from differing systems for the taxation of savings. The emergence of a European Community in capital and financial services will make for improved conditions for financing productive investment. This will constitute a powerful stimulus to closer economic and monetary union and strengthening of the European Monetary System in particular.⁶
- Public procurement is also being called on to open up to Community competition, with the adoption of two important decisions concerning the transparency of public supplies and public works contracts. It now remains to extend competition to telecommunications, energy, transport, water and services

¹ See *European File No 15/88*: 'Telecommunications: the new highways for the large European market'.

² See *European File No 4/88*: 'Towards a large European audiovisual market'.

³ See *European File No 2/89*: 'Air transport and aeronautics: towards a Europe of the skies'.

⁴ See *European File No 17/88*: 'Towards a big internal market in financial services'.

⁵ See *European File No 12/88*: 'A European financial space: the liberalization of capital movements'.

⁶ See *European File No 15/86*: 'The European Monetary System'.

and to provide more effective control of administrations' behaviour by organizing appropriate access to redress. Proposals for most of these points have been submitted to the Council.¹

- In order to ensure the unity of the European economic area, it is essential both to combat anti-competitive practices which are liable to fragment the market again and to encourage transnational cooperation between companies. New provisions for the preventive control of large-scale mergers and take-over bids must be added to the traditional instruments of competition policy already implemented by the Commission and the European Court of Justice. At the same time, transnational cooperation must be facilitated: the Commission is participating in the development of information services and activities and in the promotion of cooperation, all of which is of particular use to small and medium-sized enterprises;² it is also pleased with the entry into force in July 1989 of the statute for the European Economic Interest Grouping.³ This should be supplemented by a statute for a European company and by provisions on cross-frontier company mergers, the Community trade mark and patent, software protection and biotechnological inventions.

- () The mutual recognition of diplomas of professional qualification, already in practice for architects and most of the medical and paramedical professions, will be extended between now and 1990 to all higher-education diplomas awarded on completion of professional education and training of at least three years' duration. Possibilities for exercising a profession in another Member State will be increased. However, the Comett, Erasmus and 'Youth for Europe' programmes, which promote mobility for young people,⁴ are unfortunately the only major achievements relating to the 'people's Europe'. Overall, despite numerous European Commission initiatives, work in this area is marking time. The Commission has taken action under the Community Treaties to open up many public employment jobs to all Community citizens. The Commission is also still waiting for ministers to recognize the right of all Community nationals to reside in the Member State of their choice (this right is currently limited to persons in gainful employment) and to vote in local elections after a certain period of residence.

A danger: clinging to frontiers

While clear progress has been made towards eliminating technical barriers to trade, delays have been building up in three sectors essential to the elimination of check-points at the Community's internal frontiers.

¹ See *European File* No 1/89: 'The opening up of public procurement in the Community'.

² See *European File* No 11/88: 'The European Community and cooperation among small and medium-sized enterprises'.

³ See *European File* No 6/89: 'The European Economic Interest Grouping'.

⁴ See *European File* No 7/88: 'Comett, Erasmus, Youth for Europe'.

- The first delicate issue, although primarily technical, is that of animal and plant health controls applied to trade in animal and plant products. In the future, the only controls remaining in this area should be those at the production and marketing sites, regardless of the product's origin. A great deal remains to be done, however, to approximate the situations in the different Member States and the levels of protection they require, so that border checks can easily be eliminated. The Commission recognizes that it is not without responsibility for the delays in this field.

- The second difficult point involves the people's Europe: it is the free movement of persons at borders. Member States have shown little interest in simplifying border controls, something which in the Commission's view was only a temporary measure to prepare for the abolition of controls at the end of 1992. The need to combat illegal immigration, terrorism, arms- and drugs-dealing are, of course, cited in this connection. However, while police action can always be useful – and will remain possible, in border areas as elsewhere – where there are legitimate grounds for suspicion, the systematic controls currently in effect have shown themselves to be both tragically ineffective and a cause of annoyance to the great majority of people. In line with the undertakings given by the Heads of State and/or Government, the European Commission continues to plead in favour of the free movement of persons and it supports the cooperation which is developing among governments in the fight against crime. According to the Commission, the strengthening of this cooperation, along with more stringent controls at the Community's external borders and the definition of a common approach in areas such as visa policy and immigration, the right of asylum, the sale of arms, etc. will enable intra-Community border controls to be abolished while offering better protection to the people. Because responsibilities in these areas are widely dispersed, the designation of national coordinators competent in the matter of free movement (decided on by the European Council at the end of 1988) should finally provide the Commission with interlocutors who can help it to make progress in the matter.

- The third issue is the problem of indirect taxation, which has always been a formidable stumbling block on the way to the large market and the free movement of persons. The elimination of physical barriers and controls at internal borders cannot be achieved without the abolition of the fiscal reasons for these barriers: significant differences in the levels of VAT on goods and services and in excise duties on certain products, fears about loss of trade and of tax revenue. Hence the clear need, proven by 30 years of experience and by a recent study conducted by personal representatives of the economics and finance ministers, for a marked approximation of the systems of indirect taxation in the Member States. In spite of the problems which this may cause for certain governments – who will have to modify the levels of some other taxes in order to maintain a balance between revenue and expenditure – rapid progress is required, in order to make possible the gradual implementation of new measures to abolish internal frontiers at the end of 1992.

The large market, and beyond

The programme set out in the 1985 White Paper is not the full story. Further developments are desirable in a range of Community policies which, though they pursue their individual objectives, also contribute to the completion and effective operation of the internal market.

- Technological research and development. Community programmes such as Esprit and RACE, and intergovernmental programmes like Eureka, should help Europe to draw full advantage from the large market and to respond to the challenge of external competition.¹ Results already achieved testify to this and Europeans should have every interest in increasing the volume of the human and financial resources jointly deployed.
- Protection of consumers and of the environment. The completion of the internal market does not mean less security in these areas. On the contrary, everyone must be assured that their interests will be fully protected. The compelling needs of consumer protection² and of environmental protection³ must be taken fully into account in the Community's various policies.
- Energy. In this sector, where European countries work together to ensure security of supply and improve the competitiveness of their industry, particular trade liberalization measures are required in order to be ready for 1992.⁴
- Transport. The liberalization of trade in the context of the large market must be complemented by improvements in European transport links. New Community financing could help to carry out the major infrastructural work required.
- Regional development. To operate soundly, in the interest of all its constituent parts, the Community of the large market must strengthen its economic and social cohesion and must, in particular, promote the development of less-developed regions and regions in decline.⁵ The Community's structural Funds have recently been amended for this purpose. Now allocated resources which are to double in size between 1987 and 1993, aid from the Funds will be coordinated so as to support, according to clearly defined priorities, development programmes drawn up and implemented in conjunction with national and regional authorities.
- Social policy. Economic and social cohesion is also dependent on a better participation of young people in the labour market and on a determined fight against long-term unemployment – two objectives which the European Social Fund assists by supporting a series of innovatory national programmes. In

¹ See *European File* No 19/87: 'Research and technological development for Europe'.

² See *European File* No 12/87: 'The European Community and consumers'.

³ See *European File* No 5/87: 'The European Community and environmental protection'.

⁴ See *European File* No 2/87: 'The European energy policy'.

⁵ See *European File* No 14/87: 'European regional policy'.

accordance with the Community's social objectives,¹ the social aspect of the internal market must be developed so that every person can benefit from it. The Commission has selected four priorities in this regard: harmonization upwards of rules on health and safety at work; the insertion of provisions on workers' rights in the statute for a European company; the adoption of a Community charter of fundamental social rights for workers to forestall the risks of fears of a dismantling of social protection; and intensification of the social dialogue at European level.

- Economic and monetary union. As already indicated, progress made in the area of capital movements and financial services will require new steps to be taken on the road to monetary union. At the same time, the need for coordination in regard to the economy will become even more pressing. Anxious to strengthen Community cohesion and to stimulate growth and employment, the European Commission has been endeavouring for several years to convince the Member States that it is in their interest to coordinate their economic policies more effectively. Remember that the right economic policy will increase perceptibly the benefits expected from the large market in terms of growth and employment.
- Common commercial policy. The completion of the internal market and the stimulus it will give to growth will be of benefit both to the Community countries and to their external trading partners, whose companies will also benefit from the elimination of barriers to trade within the Community. The large market cannot close in on itself. As the world's leading trading power, the Community has every interest in promoting the freedom of international trade and in respecting agreements concluded in this regard.² A balance in mutual advantages is naturally desirable. In areas not yet covered by international agreements, the Community could therefore ask third countries for benefits comparable to what they will gain from the large market — without this implying strict reciprocity sector-by-sector or identical concessions. As the European Council affirmed, the Europe of 1992 intends to fulfil its role as a partner on the international stage.



In 1985, when the European Commission launched the programme to complete the large market, it was impossible to predict the success of the venture, the dynamism which it has engendered and the progress it has already made possible. However, it is important to guard against too idyllic a view of affairs.

The Heads of State and/or Government, meeting in the European Council in Rhodes in December 1988, emphasized that 'the achievement of the large market forms a whole and the maintenance of a global approach is one of the conditions for

¹ See *European File* No 13/88: 'The social policy of the European Community: looking ahead to 1992'.

² See *European File* No 16/88: 'The European Community in the world'.

success. It is therefore important to advance in a balanced and coordinated way in all areas (free movement of goods, services and capital, free movement of persons) and to ensure that the appropriate harmonization or approximations happen where necessary', in accordance with a 'rhythm of work (which) must be stepped up in the future'.

Despite numerous encouraging signs, there are many difficult problems still to be settled, particularly in the areas of tax approximation and the free movement of persons. The Community cannot allow itself to evade these problems. It cannot scale down its ambitions by weakening the concept of 'a space without internal frontiers'. The benefits expected from the completion of the internal market will be fully achieved only when border controls are totally eliminated. Otherwise, whatever good reasons or pretexts might be given, freedom of movement could always be interfered with, even though it is an objective solemnly approved and enshrined in the Single European Act. Such a situation is all the less acceptable in that Community citizens are being asked for efforts to ensure the success of a programme for the free movement of goods, services and capital. They should enjoy the same free movement for themselves ■

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