

White Paper on the completion of the internal market (14 June 1985)

Caption: On 14 June 1985, the European Commission submits to the Council its White Paper on the completion of the internal market which sets out a timetable for the measures required for the completion of the single market by 31 December 1992 at the latest.

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INTRODUCTION

1. "Unifying this market (of 320 million) presupposes that Member States will agree on the abolition of barriers of all kinds, harmonisation of rules, approximation of legislation and tax structures, strengthening of monetary cooperation and the necessary flanking measures to encourage European firms to work together. It is a goal that is well within our reach provided we draw the lessons from the setbacks and delays of the past. The Commission will be asking the European Council to pledge itself to completion of a fully unified internal market by 1992 and to approve the necessary programme together with a realistic and binding timetable."

2. In such terms did the Commission define its task in the "Programme of the Commission for 1985" which was presented to the European Parliament on 6 March. On 29 and 30 March, the European Council in Brussels broadly endorsed this view and

"laid particular emphasis on ... action to achieve a single market by 1992 thereby creating a more favourable environment for stimulating enterprise, competition and trade; it called upon the Commission to draw up a detailed programme with a specific timetable before its next meeting".

3. This White Paper is designed to spell out the programme and timetable. Given the European Council's clear and repeated commitment to the completion of the common market, the Commission does not intend in this Paper to rehearse again the economic and political arguments that have so often led to that conclusion. Instead the Commission, which wholeheartedly shares the Council's commitment and objective, sets out here the essential and logical consequences of accepting that commitment, together with an action programme for achieving the objective.

4. The Treaty clearly envisaged from the outset the creation of a single integrated internal market free of restrictions on the movement of goods; the abolition of obstacles to the free movement of persons, services and capital; the institution of a system ensuring that competition in the common market is not distorted; the approximation of laws as required for the proper functioning of the common market; and the approximation of indirect taxation in the interest of the common market.

5. In the early days attention concentrated on the common customs tariff, which was established eighteen months ahead of the 12-year programme set out in the Treaty. It was a remarkable achievement - one that we can look back on with pride and one from which we can derive inspiration for the future. That task achieved, attention turned to indirect taxes. The high water mark was perhaps the adoption - unanimously by the Council - of the 6th VAT directive in 1977. But thereafter momentum was lost partly through the onset of the recession, partly through a lack of confidence and vision.

6. The recession brought another problem. The Treaty specifically required not simply the abolition of customs duties as between the Member States, but also the elimination of quantitative restrictions and of all measures having equivalent effect. Originally it was assumed that such "non-tariff barriers", as they are commonly called, were of limited importance compared with actual duties. But during the recession they multiplied as each Member State endeavoured to protect what it thought was its short term interests - not only against third countries but against fellow Member States as well. Member States also increasingly sought to protect national markets and industries through the use of public funds to aid and maintain non-viable companies. The provision in the EEC Treaty that restrictions on the freedom to provide services should "be progressively abolished during the transitional period" not only failed to be implemented during the transitional period, but over important areas failed to be implemented at all. Disgracefully, that remains the case.

7. But the mood has begun to change, and the commitment to be rediscovered: gradually at first, but now with increasing tempo. The Heads of State and Governments at the European Council meeting in Copenhagen in 1982 pledged themselves to the completion of the internal market as a high priority. The

pledge was repeated at Fontainebleau in June 1984; at Dublin in December of that year; and, most recently, in Brussels, in March 1985. The time for talk has now passed. The time for action has come. That is what this White Paper is about.

8. The case for the completion of the internal market has been argued elsewhere: and, as the communiqués at successive European Councils have indicated, it has been accepted by the Heads of State and Governments of the Member States. But it is worth recalling that the objective of completing the internal market has three aspects:

- First, the welding together of the ten, soon to be twelve, individual markets of the Member States into one single market of 320 million people;
- Second, ensuring that this single market is also an expanding market - not static but growing;
- Third, to this end, ensuring that the market is flexible so that resources, both of people and materials, and of capital and investment, flow into the areas of greatest economic advantage.

9. Whilst, therefore, the discussion in this Paper will be directed primarily to the first of these objectives there will be a need to keep the other two objectives constantly in mind and to ensure that the measures taken contribute to those ends.

10. For convenience the measures that need to be taken have been classified in this Paper under three headings:

- Part one: the removal of physical barriers
- Part two: the removal of technical barriers
- Part three: the removal of fiscal barriers.

11. The most obvious example of the first category are customs posts at frontiers. Indeed most of our citizens would regard the frontier posts as the most visible example of the continued division of the Community and their removal as the clearest sign of the integration of the Community into a single market. Yet they continue to exist mainly because of the technical and fiscal divisions between Member States. Once we have removed those barriers, and found alternative ways of dealing with other relevant problems such as public security, immigration and drug controls, the reasons for the existence of the physical barriers will have been eliminated.

12. The reason for getting rid entirely of physical and other controls between Member States is not one of theology or appearance, but the hard practical fact that the maintenance of any internal frontier controls will perpetuate the costs and disadvantages of a divided market; the more the need for such controls diminishes - short of total elimination - the more disproportionate become the costs, expenses and disadvantages of maintaining the frontiers and a divided market.

13. While the elimination of physical barriers provides benefits for traders, particularly through the disappearance of formalities and of frontier delays, it is through the elimination of technical barriers that the Community will give the large market its economic and industrial dimension by enabling industries to make economies of scale and therefore to become more competitive. An example of this second category - technical barriers - are the different standards for individual products adopted in different Member States for health or safety reasons, or for environmental or consumer protection. Here the Commission has recently launched a major new initiative which has been welcomed and endorsed by the Council. The barriers to the freedom to provide services could perhaps be regarded as a separate category; but these barriers are analogous to the technical barriers which obstruct the free movement of goods, and they are probably best regarded as part of the same category. There is an additional merit in such an approach since the traditional dichotomy between "goods" and "services" has fostered an attitude in which "services" are somehow regarded as inferior and relegated to the bottom of the queue. Technical barriers are technical barriers whether they apply to goods or services and all should be treated on an equal footing. The general thrust of

the Commission's approach in this area will be to move away from the concept of harmonisation towards that of mutual recognition and equivalence. But there will be a continuing role for the approximation of Member States' laws and regulations, as laid down in Article 100 of the Treaty. Clearly, action under this Article would be quicker and more effective if the Council were to agree not to allow the unanimity requirement to obstruct progress where it could otherwise be made.

14. The removal of fiscal barriers may well be contentious and this despite the fact that the goals laid down in the Treaty are quite explicit and that important steps have already been taken along the road of approximation. This being so, the reasons why approximation of fiscal legislation is an essential and integral element in any programme for completing the internal market are explained in detail in Part Three of this Paper. Approximation of indirect taxation will raise severe problems for some Member States. It may, therefore, be necessary to provide for derogations.

15. We recognise that many of the changes we propose will present considerable difficulties for Member States and time will be needed for the necessary adjustments to be made. The benefits to an integrated Community economy of the large, expanding and flexible market are so great that they should not be denied to its citizens because of difficulties faced by individual Member States. These difficulties must be recognised, to some degree they must be accommodated, but they should not be allowed permanently to frustrate the achievement of the greater progress, the greater prosperity and the higher level of employment that economic integration can bring to the Community.

16. Last year, the Commission submitted a Consolidation Programme identifying a series of proposals to be adopted by the Council in 1984 and 1985. This White Paper pursues this effort in a wider perspective and with a view to completing the Internal Market by 1992. It therefore comprises the essential items of last year's paper without expressly repeating the Consolidation Programme which still remains valid.

17. This White Paper is not intended to cover every possible issue which affects the integration of the economies of the Member States of the Community. It focusses on the Internal Market and the measures which are directly necessary to achieve a single integrated market embracing the 320m people of the enlarged Community. There are many other matters - all of them important in their own way - which bear upon economic integration, indirectly affect the achievement of the Internal Market and are the subject of other Community policies.

18. For example, it is a fact that in order to facilitate the key role which the internal market can play in the policy for the recovery of industrial structures, the suspension of internal borders must be accompanied by actions which strengthen research and the technological base of the Community's industry. Such actions will allow firms to benefit from the size of the single market. It is within this context that the present work of strengthening the Community's technological base should be seen.

19. Similarly, the strengthening of coordination of economic policies and the EMS will be essential factors in the integration of national markets. However, any action taken to ensure the free movement of factors of production must necessarily be accompanied by increased surveillance by the Commission in the field of competition rules to ensure that firms and Member States adhere to these rules. In particular, a strong and coherent competition policy must ensure that the partitioning of the internal market is not permitted to occur as a result of protectionist state aids or restrictive practices by firms. Moreover the commercial identity of the Community must be consolidated so that our trading partners will not be given the benefit of a wider market without themselves making similar concessions.

20. There are many other areas of Community policy that interact with the Internal market in that they both affect its workings and will benefit from the stimulus that will be provided by its completion. This is particularly true of transport, social, environment and consumer protection policy. As far as social aspects are concerned, the Commission will pursue the dialogue with governments and social partners to ensure that the opportunities afforded by completion of the Internal Market will be accompanied by appropriate measures aimed at fulfilling the Community's employment and social security objectives.

21. The Commission is firmly convinced that the completion of the Internal Market will provide an indispensable base for increasing the prosperity of the Community as a whole. The Commission is, however, conscious that there may be risks that, by increasing the possibilities for human, material and financial services to move without obstacle to the areas of greatest economic advantage, existing discrepancies between regions could be exacerbated and therefore the objective of convergence jeopardized. This means that full and imaginative use will need to be made of the resources available through the structural funds. The importance of the funds will therefore be enhanced.

22. Although this White Paper will touch on these matters where they have a direct bearing on the working of the Internal Market, it will not attempt to cover them in full and in detail as they represent considerable areas of study in their own right and merit separate and fuller consideration elsewhere. The existence of these problems does not mean that the frontiers and other frontier controls should not be abolished. On the contrary the task we face is to find solutions to the problems on the basis that the frontiers will have been abolished.

23. A detailed timetable for implementing the Commission's proposed programme of measures for the removal of physical, technical and fiscal barriers is to be found in the Annex to this Paper.

PART ONE: THE REMOVAL OF PHYSICAL BARRIERS

I. INTRODUCTION

24. It is the physical barriers at the customs posts, the immigration controls, the passports, the occasional search of personal baggage, which to the ordinary citizen are the obvious manifestation of the continued division of the Community - not the "broader and deeper Community" envisaged by the original Treaties but a Community still divided. These barriers are equally important to trade and industry, commerce and business. They impose an unnecessary burden on industry flowing from the delays, formalities, transport and handling charges, thus adding to costs and damaging competitiveness.

25. There is therefore a double reason for removing the physical barriers - an economic reason and a political reason. The setting up of the ad hoc Committee on a People's Europe at the Fontainebleau European Council (the Adonnino Committee) is ample testimony to the importance of the political concept. There is no area in which progress, where it can be made, would be more visible or more directly relevant to the aims, ambitions and vision of the Community.

26. Under the Treaty, customs duties and quantitative restrictions in intra-Community trade have been abolished. Customs posts at internal frontiers have, however, continued to exist as a convenient point at which to check compliance with national indirect taxation rules. Use has also been made of this continued official presence to enforce national protective measures relating to for example terrorism, drugs, other prohibited goods and immigration. Measures adopted by the Community itself have led Member States to use internal frontier posts for controlling aspects of common policies (agriculture and steel) and for applying safeguard clauses.

27. Our objective is not merely to simplify existing procedures, but to do away with internal frontier controls in their entirety. In some cases this will be achieved by removing the underlying causes which give rise to the controls. In others it will be a matter of finding ways and means other than controls at the internal frontiers to achieve comparable levels of protection and/or information.

28. Where the underlying causes consist partly of national policies and partly of common policies which are not yet fully developed, achieving our objective will require national policies either to be progressively relaxed and ultimately abandoned where they are no longer justified, or replaced by truly common policies applicable to the Community as a whole. Community policies which are not yet fully developed and at present give rise to internal frontier controls will have to be amended so as to obviate the need for controls. It follows that once these barriers have been removed, the reasons for the existence of controls at internal frontiers will have been eliminated.

29. The Commission recognises, however, that certain national protective measures do not in all their aspects fall within the scope of the Treaty. Two very important examples are measures against terrorism and the illicit trade in drugs. The Commission shares the legitimate concerns of the Member States about the need to control drugs and terrorism and is well aware of the role of internal frontier posts in this respect. It needs to be stressed, however, that frontier controls are by no means the only or indeed the most effective measures in this regard. If the objective of abolishing all internal frontier controls is to be met, alternative means of protection will need to be found or, where they exist, strengthened. Obvious examples are improving controls at the external frontiers of the Community; using spot-checks at the internal frontiers and inland; and further enhancing cooperation between the national authorities concerned.

30. Internal frontier controls are made on both goods and individuals and are motivated by fiscal, commercial, economic, health, statistical and police considerations. Individuals and their personal property are usually checked by customs and police or immigration officials, and goods by customs and sometimes more specialised authorities.

31. The customs authorities' primary role at internal frontier posts - or within the Member State where formalities and checks take place inland - is to ensure that the indirect taxation system of the Member State in question (VAT, excise duties) continues to operate. It therefore follows that, from the customs viewpoint, the problem of removing physical controls is largely related to that of removing fiscal barriers. This latter problem is dealt with in detail in Part Three of this Paper.

32. The considerations which apply to goods and individuals are very different. We therefore examine them separately.

[...]

PART TWO: THE REMOVAL OF TECHNICAL BARRIERS

57. The elimination of border controls, important as it is, does not of itself create a genuine common market. Goods and people moving within the Community should not find obstacles inside the different Member States as opposed to meeting them at the border.

58. This does not mean that there should be the same rules everywhere, but that goods as well as citizens and companies should be able to move freely within the Community. Subject to certain important constraints (see paragraph 65 below), the general principle should be approved that, if a product is lawfully manufactured and marketed in one Member State, there is no reason why it should not be sold freely throughout the Community. Indeed, the objectives of national legislation, such as the protection of human health and life and of the environment, are more often than not identical. It follows that the rules and controls developed to achieve those objectives, although they may take different forms, essentially come down to the same thing, and so should normally be accorded recognition in all Member States, not forgetting the possibilities of cooperation between national authorities. What is true for goods, is also true for services and for people. If a Community citizen or a company meets the requirements for its activity in one member State, there should be no valid reason why those citizens or companies should not exercise their economic activities also in other parts of the Community.

59. The Commission is fully aware that this strategy implies a change in habits and in traditional ways of thinking. What is needed is a radical change of attitude which would lead to new and innovative solutions for problems - real or apparent - which may appear when border controls no longer exist.

[...]

PART III - THE REMOVAL OF FISCAL BARRIERS

I. INTRODUCTION

160. Fiscal checks feature prominently among the functions carried out at the Community's internal frontiers. Consequently, the removal of frontier controls is bound to have inescapable implications for the Member States as far as indirect taxes are concerned. The adjustments that will be needed to solve these practical problems are also very much in line with the terms of the commitment undertaken by those who signed the Treaties and with historical developments since then.

161. When the Customs Union was achieved in 1968, it was already apparent that the mere removal of tariffs would not enable a true common internal market to be created; and that differences in turnover taxes in particular were the source of serious distortion and hence a serious obstacle to the completion of the Internal Market. That such a situation might arise was foreseen in the Treaty itself. Article 99 specifically provided that the Commission should make proposals for the approximation of indirect taxation when this was needed for the completion of the internal market; and Article 100 provided the legal means for so doing.

162. Accordingly, in 1967, the Member States decided that the existing turnover taxes must be replaced by a Value Added Tax levied on a common basis. It was recognized from the outset that the imposition of such a tax on a common basis would raise many difficulties for Member States and would have to be phased in over a period of years. But it is clear from both the First and the Second VAT Directives which gave effect to this decision that a common basis was not only intended but was regarded as essential.

163. The adoption of a harmonized VAT was given further impetus by the Council Decision in 1970 that the Community should be financed through "own resources". A significant element in this new "own resources" regime was the allocation to the Community of the yield of part (not to exceed a rate of 1 per cent) of the harmonized VAT. It is clear from the Directives that what was in mind was not a notional calculation but the allocation of a specific share of an actual harmonized tax. The following year (1971) saw the adoption of a Council Resolution confirming its intention to create an area within which goods, services and capital could circulate freely and without distortions of competition. Not only was a common tax base regarded as essential to achieve this end, but common tax rates as well were contemplated. In the words of the Resolution: "Before the end of the first stage, the Council will deliberate on the studies undertaken, and on the proposals made, by the Commission concerning the approximation of rates of value added tax and of excise duties."

164. The broad principles of the harmonized common tax base for VAT were laid down in outline in the Second VAT Directive dated 11 April 1967. This was followed after a period of intensive consideration and discussion, by the Sixth VAT Directive, adopted in 1977 which set out in great detail the provisions of the common base. Because of the problems involved in reaching agreement on a number of difficult and contentious issues, the Sixth Directive contains a number of lacunae as well as special schemes, derogations and transitional provisions. At the same time, Article 35 of the Directive specifically provided that these derogations and special arrangements should ultimately be brought to an end. Nowhere is the general philosophy set out more succinctly than in the preamble to the Directive. This declares:

"Whereas account should be taken of the objective of abolishing the imposition of tax on the importation and the remission of tax on exportation in trade between Member States; whereas it should be ensured that the common system of turnover taxes is non-discriminatory as regards the origin of goods and services, so that a common market permitting fair competition and resembling a real internal market may ultimately be achieved".

Since 1977 a number of supplementary Directives have been adopted and a number await the Council's decision.

165. Soon after the first steps were taken to harmonize turnover taxes, the Community turned its attention to excise duties. As a first step the Commission identified tobacco, alcoholic drinks and hydrocarbon oils as the products on which excises should be levied - a choice which coincides with the coverage adopted by most Member States.

166. In the case of tobacco, a limited degree of harmonization has already been achieved. The basic directive adopted in 1972 defined the structures of excise duty on cigarettes; provided for harmonization in successive stages; and defined a range of relationships between the specific duty and the total duty. In the case of alcoholic drinks and hydrocarbon oils, little progress has been made despite the presentation by the Commission of a whole range of directives. At the same time, however, a limited degree of progress has been made as a result of judgments by the European Court which have compelled Member States to abandon tax arrangements which benefited domestic producers to the detriment of producers in other Member States.

167. It is clear from what has been said above that the harmonization of indirect taxation has always been regarded as an essential and integral part of achieving a true common market. Momentum has been lost in recent years but this was due essentially to the impact of the recession on the economic policies of Member States and preoccupation with other problems. But progress is being resumed and now we must proceed vigorously if we are to achieve the target date of 1992 for the completion of the Internal Market.

168. If goods and services and people are to move freely from one member State to another in just the same way as they can move within a member State, it is essential that frontier controls be abolished. Since these are primarily designed to ensure that each member State can collect the revenue in the form of indirect taxation to which it feels entitled, there are clear implications for the indirect taxation policies of individual Member States. Let us be quite clear that we are talking here not in terms of frontier facilitation, i.e. simplifying frontier procedures in the way that the Directive on the Harmonization of Frontier Procedures and the Single Administrative Document aim to do, but in terms of removing the frontiers altogether as only in this way is it possible to achieve the stated objective of free movement of goods and of people.

169. Indirect taxes, whether in the form of VAT or excises, enter more or less directly into the final price of the goods or services on which they are imposed. Different levels of taxation are therefore reflected in different price levels. If the differences in level are substantial, the differences in final prices will also be substantial, though small differences can often be absorbed either in margins or by consumer indifference. Given the relationship between prices and levels of taxation, we need to consider whether or not it would be practically possible, in the absence of frontier controls, for Member States to charge significantly different levels of indirect taxation.

170. The considerations which apply to commercial traffic and to the individual traveler are not the same. They are therefore treated separately in the following paragraphs: the VAT dimension is examined first; the analysis is then widened to include the excises.

[...]

CONCLUSION

219. Europe stands at the crossroads. We either go ahead - with resolution and determination - or we drop back into mediocrity. We can now either resolve to complete the integration of the economies of Europe; or, through a lack of political will to face the immense problems involved, we can simply allow Europe to develop into no more than a free trade area.

220. The difference is crucial. A well developed free trade area offers significant advantages: it is something much better than that which existed before the Treaty of Rome; better even than that which exists today. But it would fail and fail dismally to release the energies of the people of Europe; it 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.

221. The free movement of goods is an important, valuable and possibly indispensable step which has to be taken before economic integration can be achieved. But it is not the ultimate goal; at best it is the indispensable precursor. This philosophy is clearly reflected in the Treaties themselves. The Customs Union was the first objective of the Treaty of Rome. But that it was by no means intended as the last is clearly demonstrated by the fact that what the Treaty established was the European Economic Community. The

preamble to the Treaty starts with the declaration:

- "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".

222. Just as the Customs Union had to precede Economic Integration, so Economic Integration has to precede European Unity. What this White Paper proposes therefore is that the Community should now take a further step along the road so clearly delineated in the Treaties. To do less would be to fall short of the ambitions of the founders of the Community, incorporated in the Treaties; it would be to betray the trust invested in us; and it would be to offer the peoples of Europe a narrower, less rewarding, less secure, less prosperous future than they could otherwise enjoy. That is the measure of the challenge which faces us. Let it never be said that we were incapable of rising to it.