

Second report from the Commission of the European Communities on the completion of the internal market (18 May 1987)

Caption: On 18 May 1987, the European Commission sends a second report to the Council and the European Parliament a report in which it considers the progress made in the implementation of the Commission's White Paper on the completion of the internal market.

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Second report from the Commission to the Council and the European Parliament on the implementation of the Commission's White Paper on completing the internal market (18 May 1987)

Introduction

1. Developments in the European and in the World economy give greater, not less, importance to the programme for the Completion of the Internal Market. With economic activity in Europe not growing as fast as we had hoped and with a slow-down in the world economy and international trade, it becomes more and more important that the competitive edge of industry in the Community should be sharpened. The only way that this can be done is if the people of Europe can draw upon their united strength; if they deploy the full reserves and opportunities of an internal market of 320 million people; and if they remove internal barriers and restrictions which divide them and impose wholly unnecessary and avoidable additional costs.

2. The cornerstone of any Community is mutual dependence and support. This constitutes the very heart of what the Community means and what it really stands for. All the Community countries depend upon one another. We must realize, reinforce and profit from this interdependence to achieve the progress and prosperity that can be achieved only in a single unified market.

3. The Community is the biggest trading bloc in the world. 50% of that trade is done among Member States themselves. It represents goods and services, indeed people and capital, circulating within the Community. And this despite the barriers, the impediments and the obstacles. We must maximise that trade and the opportunities it offers. We can only do so by removing the barriers and allowing Europe to operate as a single entity. That is what is really meant by 'Completing the Internal Market'.

4. There is another, related imperative. We have 16 million of our people unemployed. So long as Europe remains divided, the prospective growth rates which can be foreseen offer no hope of any significant or long-lasting improvement in that figure. Europe needs to make, must make, a quantum leap forward, - in efficiency, mobility, in investment, in economic and social cohesion, in monetary cooperation, in science and in research. None of these things will happen by themselves. They will only happen if we set the right framework in which they can happen. And that framework is the completed Internal Market.

5. Investment requires confidence. We are offering industry the greatest opportunity and indeed the greatest challenge that has faced them for many a year. With a market base of 320 million people, industry in the Community will have at long last an equal - opportunity with its major competitors overseas to maximise its efficiency, reduce its costs and sharpen its competitive edge. We need to do better and we can do better to meet competition from abroad in our domestic markets and competition world wide in our export markets. This will require massive investment in industry itself and in the infrastructure of the Community - in transport, in energy, in science and elsewhere. All these factors will combine to form a growing circle of prosperity and employment in the Community. The funds needed will be very great, but they will be forthcoming if there is confidence on the part of industry and Governments that the opportunities most assuredly will materialise. That confidence can only be built on a perceived and unshakable determination on the part of the Member States of the Community that the Internal Market will indeed be completed by 31st December 1992 as provided in express terms by the Single European Act, and - and this is very important - on timely and demonstrable progress towards that goal being achieved. The whole purpose of the timetable included in the White Paper and in the Progress Reports we in the Commission present each year is to impose the necessary discipline, to measure progress, to identify shortcomings and to demand solutions. Rarely has it been necessary in human history to provide such moral sanctions to persuade or cajole people into doing what is so obviously and unmistakably in their own interest to do.

Developments affecting White Paper progress

6. Since May 1986 when the Commission published its first progress report (COM(86)300) there have been a number of developments which have had an impact on subsequent progress in implementing the White Paper Programme.

7. At the time of its first progress report, the Commission looked forward with eager anticipation and optimism to the early implementation of the agreement reached at the Intergovernmental Conference held in Luxembourg in December 1985. By January 1986 that agreement had been finalised in the form of the Single European Act, signed by all Member States. What was not foreseen in May 1986 was the considerable and regrettable delay this would eventually occur in the Single Act being ratified by all the Member States and so put into effect. This delay has had serious consequences.

The Single Act represents a first and a radical revision of the Treaty of Rome introduced with the completion of the Internal Market very much in mind. Its implications for the White Paper programme, which it mentions by name, are immense. The Single Act enshrines within the Treaty and in the most categorical terms the commitment made on so many occasions by the Heads of state and Government to create between now and the end of 1992 an area without internal frontiers in which the free movement of goods, persons, services and capital is assured. Never before has there been such an explicit and solid basis for the internal market programme as set out in the Commission's White Paper. But, equally important, to achieve this objective the Single Act also improves significantly the Community's institutional system by extending qualified majority voting to some two thirds of the proposals set out in the White Paper programme and by enabling Parliament through the 'cooperation procedure' to play a much larger and more active part in the decision making process on internal market proposals. The acid test will be whether the Council does in fact change over to qualified majority voting where this is provided for in the Single Act. No less crucial will be the practical implementation of the 'cooperation procedure'.

9. The Single Act also envisages for the Commission wider executive powers to implement rules laid down by the Council. The Intergovernmental Conference in December 1985 specifically called upon the Council to adopt, in advance of the entry into force of the Single Act, principles and rules governing the definition of the Commission's executive powers in each case. To this end the Commission on 3 March 1986 submitted its proposals to the Council in the form of a draft Regulation, to translate into law the express request of the Intergovernmental Conference that internal market matters priority should be given to the advisory Committee procedure.

10. Regrettably, on the eve of the entry into force of the Single Act and some twelve months after the Commission submitted its proposal, the Council has still not adopted the necessary principles and rules. As a result, important Commission proposals - notably those implementing the new approach to food law - on which valuable progress might otherwise have been made, remain delayed in the Council on the committee procedure issue. The Commission believes the strengthening of its own executive powers to be an essential instrument for completing the Internal Market programme. It therefore calls upon the Council as a matter of urgency to adopt the principles and rules it has proposed.

The overall picture

11. Less than two years have passed since the White Paper was published and during this start-up period in the programme considerable effort has had to be put into devising and improving working procedures. It has taken some time for the three principally involved institutions to translate this effort into positive results, but the performance of each during 1986 can be summed up as follows:

first, the Commission considerably speeded up its tabling of proposals, clearing almost all the 1985 backlog and submitting most of the proposals scheduled for 1986;

second, the Council in 1986 also speeded up the rate at which it adopted proposals as compared with 1985, but is nevertheless even further behind schedule than it was when the Commission published its first progress report in May 1986; and

third, the Parliament, though reasonably up-to-date in its processing of White Paper proposals, could become a factor for delay if the rate at which it submits its opinions to the Council does not match that at

which the Commission submits its proposals for the Parliament's opinion.

12. The coming into force of the Single Act once it is ratified will definitively mark the end of the start-up period of the White Paper programme. The necessary tools will then exist to build upon the foundations which we have laid since June 1985. The rate of progress should increase markedly as a result provided the institutions use the Single Act for the purpose it was intended. In practice, progress in future will depend in large measure upon how effectively and diligently the Commission, the Council and the Parliament use the tools which the Single Act provides.

Progress in the Commission

13. In total the Commission has now tabled some 175 out of the 300 proposals set out in the White Paper timetable. Since publication of the White Paper, a number of the proposals originally envisaged have been either withdrawn, as further examination has shown them to be unnecessary, or in some cases a group of proposals have been amalgamated into a single proposal. Taking these factors into account, the Commission has dealt in all with nearly 60% of its programme. This represents good progress towards the ultimate objective - even though we would have liked to have been somewhat further ahead. The Commission's original target was to have submitted some 200 proposals by now. In fact its total backlog is 29 proposals.

14. Nearly half of this backlog relates to the agricultural sector, in particular to the abolition of veterinary and phytosanitary controls: the delays are due to continuing staff shortages. The Commission is taking steps within the framework of the 1987 budget to deal with these staffing problems and expects to put this sector back on track before too long.

15. Work since 1985 on completing the Internal Market has revealed a need for proposals which, although not originally envisaged in the White Paper programme, do complement that programme. Wherever possible the Commission has endeavoured to react to and meet that need. Consequently, it has submitted an additional 20 proposals linked to the objective of completing the internal market which were not included in the White Paper when it was published.

16. The Commission's initiatives are not confined to - and cannot be measured simply by - the number of proposals tabled. Completing the internal market means establishing all the conditions for the harmonious functioning of the Community. The Commission has accordingly continued its work to ensure compliance with the competition rules and development of the principle of mutual recognition of national rules on the basis of Article 30 of the Treaty.

Progress in the Council of Ministers

17. Up to date the Council of Ministers has adopted 58 of the White Paper proposals submitted by the Commission. This leaves 112 White Paper proposals outstanding before the Council awaiting its decision. This can only be described as a most disappointing result.

18. The Council has made serious effort to improve the organisation of its work. The decision taken in 1985 to establish a rolling work programme involving three successive presidencies was followed by the appointment in 1986 of a coordinating group to facilitate the groundwork of delegations for Council meetings on Internal Market matters. As a result there has been an improvement in some areas in the pace of work in the Council. Two examples may be quoted: first the adoption of the Directive on the protection of microcircuits barely a year after the proposal was put forward; and second, the adoption of a joint position on the proposal on public supply contracts only six months after the Commission submitted it. These are examples of what the Council can achieve when it has a mind to. But overall progress is unsatisfactory. Of the 112 White Paper proposals still before the Council, 58 were scheduled for adoption in 1986 under the White Paper timetable and remain outstanding. This is a measure of the failure of the Council of Ministers to instil a new and necessary sense of urgency.

19. It should be noted that the rate of progress varies with the configuration of the Council. The 'internal market' Council meetings, under pressure from the European Council and the Presidency, achieved much better results in the latter half of 1986; but the Council meetings on agriculture and economic/financial affairs were of much more limited success. During the past twelve months, no proposals were adopted in the vitally important agri-foodstuffs sector and only 8 directives were adopted in the veterinary and phytosanitary fields. During the same period only 2 directives - of very limited scope - were adopted in the fiscal sector. The fact remains that the objective of a Community without internal frontiers as laid down in the Single Act will only be achieved if the necessary progress is made in all areas including in the veterinary and phytosanitary field and in the fiscal field.

Progress in the Parliament

20. Parliament has an important influence on the rate of decision-making by the Council. All the proposals in the White Paper must receive the opinion of the Parliament before they can be adopted: two decisions could not be taken in December 1986 solely because Parliament had not delivered its opinion. The entry into force of the Single Act will further enhance Parliament's role in the decision-making process. Except the veterinary and phytosanitary, fiscal and transport fields and a few sectors under Article 235, all White Paper proposals involve the 'cooperation procedure' and in those that do not the Parliament's opinion is still required.

21. At the time of the Commission's first progress report, 17 proposals were before Parliament. That number has now risen to 32 as proposals are being tabled faster by the Commission. Of these 32 proposals, 24 are scheduled for adoption by the Council before the end of 1987 under the White Paper timetable.

Progress towards the objectives of the White paper

22. The White Paper identifies the barriers - the fiscal, technical and physical barriers - which must be eliminated by 1992 in order to create an area without internal frontiers in which the free movement of goods, persons, services and capital is assured.

23. The following sections examine what progress has been made to eliminate these barriers in important individual areas since the first progress report was published in May 1986.

Abolition of frontier controls and formalities for goods

24. The Community's objective as expressly stated in the Single European Act is to establish an area without internal frontiers by 1992. Between now and the total elimination of all controls and formalities that this clearly infers, much can be done to simplify controls and formalities at least as far as goods are concerned.

25. With this end in view, the Commission presented to the Council in 1986 a proposal to introduce common border posts ('banalization'), as advocated by the European Council at its meeting Fontainebleau in June 1984. This proposal would abolish exit formalities at Community internal frontiers when goods are transported between two Member States. Instead all formalities would be confined to a single stopping point, the office at the point of entry, thus avoiding much of the duplication of controls and delays that occur at present.

26. The Council took a first step towards the introduction of common border posts, when on 1 December 1986 it adopted Regulation No 3690/86 which abolishes customs formalities at the frontier when leaving a Member State within the framework of the TIR Convention.

27. Two other measures were adopted in 1986 to simplify frontier controls on goods. On 9 June 1986, the Council adopted a Regulation which will abolish from 1 January 1988 certain postal charges made for presenting goods to customs. This measure will be of particular benefit to the many people who send small postal packages within the Community. Also, the Council adopted on 15 December 1986 a Directive

extending the provisions of Directive 83/643/EEC on the facilitation of physical inspections and administrative formalities relating to goods. The main purposes of the new Directive are to improve cooperation between national administrations, to adapt the opening hours of certain customs offices to take account of traffic flows, to provide for certain controls to be carried out by the customs on behalf of other services and to simplify the means of payment of certain administrative costs.

28. Despite the general slippage that has occurred on White Paper proposals in the agricultural and agri-foodstuffs sectors, some progress was made during the past year in the veterinary and phytosanitary fields. In 1986, the Commission put forward proposals to bring within the scope of Community rules frozen meat, meat products not treated by heating, salting or drying and egg products. It also submitted a proposal to step up action to eradicate classical swine fever, which is still a serious problem in the Community and creates trade difficulties. The Commission also proposed to the Council that the same rules and fees for health inspection should apply to all meat, whether intended for national markets or intra-Community trade.

29. For its part the Council adopted some internal market measures of which the most important were three measures designed to remove differences in the control and use of residues. The first measure was a directive concerning the examination of animals and fresh meat for the presence of residues (86/469/EEC). This directive establishes the principles of an overall control system applicable to Community production as a whole and to imported products. This system, which is an essential component of Community harmonisation in the animal products sectors, will ensure effective monitoring of the use of pharmacological substances throughout the Community market and will allow in particular an effective check to be made on the ban on hormones for fattening introduced in 1985. The two other measures were directives (86/362/EEC and 86/363/EEC) which fix the maximum levels for pesticide residues in cereals and foodstuffs of animal origin.

30. In the animal health sector, the Council adopted three Decisions in December 1986 designed to open up trade by eliminating major animal diseases. These Decisions reinforce plans to eradicate African swine fever in Spain and Portugal (Decisions 86/650/EEC and 86/649/EEC); promote Community action to eradicate brucellosis, bovine tuberculosis and leucosis; and continue for one further year the Community action to eradicate classical swine fever.

Freedom of movement and establishment for people

31. Two of the fundamental rights which the completed internal market must afford its citizens are the freedom to cross from one Member State to another without checks and formalities and to enjoy equal access to professional activities within the Community. There is nothing new about either of these rights. They both have their origins very firmly established in the Treaty itself.

32. The Commission as long ago as January 1985 submitted a proposal for a Directive to simplify and wherever possible to remove altogether controls at intra-Community frontiers. Since then, the Council has gradually eroded the substance of the Commission's original proposal to the point where if it were adopted today there would be no appreciable difference in the level of controls at most Community internal frontiers. Even so, the Council is still not prepared to adopt what little is left of the Commission's proposal.

33. On a more positive note, and in the light of the clear commitment in the Single Act to the creation of an area without internal frontiers by 1992, Ministers of the Interior and Justice at their informal meeting in October 1986, established a Committee of senior officials to promote and enhance cooperation between national police and judicial authorities on, for example, illegal immigration and visa and asylum policies.

34. The Commission's far reaching proposal for a general system of mutual recognition of higher education diplomas has also made disappointingly little progress. It too was submitted in 1985, in line with the wishes of the European Council meeting held in Fontainebleau. Despite the fact that the European Council as recently as December 1986 reiterated once again the importance it attaches to the mutual recognition of diplomas, little further progress has been made in breaking the deadlock within the Council.

35. The Commission's proposal on the right of residence for nationals of Member States who are not yet or no longer employed similarly remains blocked at the level of the Council, some 8 years after it was submitted.

36. This sorry state of affairs cannot, indeed must not, be allowed to continue. The Council must come to terms with the fact that it can no longer prevaricate as it did for 17 years for example before it got around to adopting the Commission's proposal on the right of establishment of architects.

37. In order to facilitate further the movement of Community citizens between Member States the Commission in 1986 forwarded to the Council additional proposals, not foreseen in the White Paper which aim to avoid double taxation and to simplify further the formalities governing movements of personal goods, certain vehicles and removals within the Community.

Technical harmonisation and standards

38. In 1986 the Commission broke important new ground in submitting to the Council and the Parliament three proposals based on the 'new approach' to technical harmonisation and standards, as called for in the Council's Resolution of May 1985. These covered pressure vessels, toys and construction products respectively and laid down the essential health and safety requirements. In line with the 'new approach', products which conform to the proposed essential requirements would be entitled to free movement within the Community. Construction products provide a particularly good example of the 'new approach' at work since the proposal on the Council table replaces the three separate proposals originally foreseen in the White Paper. It will be supplemented the publication (foreseen in 1988) of Eurocodes to provide common technical specifications in the construction sector.

39. Later this year, the Commission will put forward further 'new approach' proposals, in particular an important and far-reaching proposal concerning the safety machinery. All these 'new approach' directives take account of the objective enshrined in Article 100.A.3 of the Single Act which commits the Commission to tabling proposals based on a high level of health, safety, consumer and environmental protection.

40. As part of its strategy to prevent the creation of new technical barriers, the Commission also presented, in November 1986, two proposals for Directives aimed at extending the scope of the information and standstill procedure introduced in the fields of technical standards and regulations. The object of these draft directives is to extend the provisions of Directive 83/189/EEC to cover certain agricultural products, foodstuffs, medicinal products and cosmetics. This Directive requires prior notice the Commission of proposed national rules thus enabling the Commission to examine the national proposals for conformity to Community legislation before they come into force. The Directive is proving to be an essential tool for protecting the integrity of the internal market. Since it entered into force, some 294 draft national provisions have been notified to the Commission and their conformity with Community law checked; the Commission formally requested that modifications be made to 124 of these draft provisions.

41. In the field of harmonising industrial standards, the European Standards bodies CEN and CENELEC, are at present working on mandates to develop some 30 new European Standards. Despite the increased financial support that the Commission has given to CEN and CENELEC, both bodies are encountering difficulties in coping with their greater workload. Additional financing may have to be found and made available in the not too distant future.

42. Later this year, CEN and CENELEC will be invited to adopt as European standards common conditions and codes of practice put forward by the Commission for implementation by testing laboratories and certification and inspection bodies. This action forms part of the Community certification and testing policy: on the basis of such standards it will be possible for agreements on the mutual recognition of test results and certificates to be concluded sector by sector.

43. In the new technology sector, the Council in 1986 adopted a Directive introducing the common technical specifications of the MAC/Packet family standards for direct broadcasting by satellite. It also adopted two

Decisions: one on standardisation in the field of information technology and telecommunications; and one on the implementation of the first stage in the mutual recognition of type approval for terminal equipment.

44. Also in the field of new technology the Commission put forward in February 1987 proposals for a Recommendation and a Directive on the coordinated introduction of public pan-European digital mobile telephone communications in the Community.

45. In the past year, the Council has adopted or taken decisions in principle on ten proposals on industrial products. The five most important proposals concerned high-technology pharmaceutical and medicinal products.

46. The adoption of this package of five proposals which will enter into force on 1 July 1987 constitutes a major step towards the establishment of a Single European market in pharmaceutical products. They will in particular facilitate the development and marketing of medicines produced by biotechnology; protect highly innovative pharmaceutical products where patent protection is inadequate; and delegate to the Commission the power to adapt Directives on the testing of pharmaceutical products for human and veterinary use in the light of technical progress.

47. For its part the Commission in 1986 took three important initiatives to reduce the disparities between national regulations relating to prices of pharmaceutical products and the different social security systems. The first of these was a Communication setting out the Commission's interpretation of the compatibility with Article 30 of the Treaty of measures taken by the Member States concerning price control and reimbursement. The Communication is intended to be used as a guide for public authorities, indicating their obligations, and for economic operators, setting out their rights.

48. The second Commission initiative was a proposal for a Directive concerning the transparency of measures which govern the pricing of pharmaceutical products for human use and their eligibility under national sickness insurance schemes. Thirdly, the Commission submitted to the Council in December 1986 a recommendation for a Decision authorising the Commission to enter into negotiations to enable the Community to accede to the Convention on the preparation of a European Pharmacopoeia concluded under the auspices of the Council of Europe. Accession to this Convention would speed up the standardisation of quality criteria for medicinal products.

Opening up the public procurement market

49. Public procurement has been identified by successive European Councils as a key area. The total value of government procurement including contracts awarded by firms in the public sector is estimated to be worth about 400 billion ECU per year in the Community as a whole. This vast market however is in effect closed to real competition at Community level. Only 2% of public procurement contracts in the Community are awarded to firms from other Member States and some 75% of contracts are awarded to national 'champions' for whom the tenders are tailor-made.

50. The lack of open and effective competition in this field, is one the most obvious and anachronistic obstacles to the completion of the internal market. The importance of opening up this market cannot be exaggerated.

51. In the White Paper timetable, the Commission envisaged a series of initiatives between 1987 and 1989 designed gradually to open up all public procurement to Community competition by 1992. In fact, the Commission has stepped up the tempo of this work and put forward its proposals more quickly than it had originally planned, in keeping with the calls for urgent action on public procurement made by successive European Councils in 1986.

52. As a first step, the Commission sent to the Council in June 1986 a Communication setting out its general policy orientations, together with a draft proposal to amend the 'Supplies' Directive (77/62/EEC of 21 December 1976). On the basis of this proposal, the Council in December 1986 agreed a number of

amendments, though less rigorous ones than those put forward by the Commission. The Parliament's opinion on this proposal is still awaited.

53. In December 1986, the Commission forwarded to the Council its proposal for a Directive amending the 'Works' Directive (71/305/EEC) of 26 June 1971).

54. Taken together these two proposals would improve substantially the transparency of public supplies and works contracts and so create conditions for a genuine opening-up of public procurement to intra-Community competition, including for the first time real opportunities for small and medium sized enterprises. They would correspondingly increase the effectiveness of the procedures for monitoring application of Community rules, and would improve the procedures for awarding contracts so as to restrict the excessive use made in the past of exemptions.

56. In its proposal to amend the 'Works' Directive the Commission has included the measures it regards as necessary to strengthen adequately the present regime despite the fact that the Council had weakened the corresponding measures in the 'Supplies' Directive.

57. The Commission has very recently agreed a series of further measures which it will present to the Council in the form of formal proposals later this year. These will include a draft Directive on enforcement procedures, to allow the Commission intervene direct with the awarding authorities to suspend award proceedings; and would require Member States where necessary to amend their court procedures so as to ensure that tenderers could appeal easily and effectively against impending awards which were clearly incompatible with Community law. Further proposals will ensure a gradual opening up of public procurement in four important sectors not covered by the existing Directives, namely telecommunications, transport, and the supply of energy and water.

58. The Commission looks to the Council to follow up the impetus given by the European Council to the objective of opening up public procurement and rapidly to take the decisions which industry and commerce have a right to expect.

Financial Services

59. Considerable progress has been achieved during the past year. All the proposals foreseen in the White Paper for 1986 were presented by the Commission before the end of the year.

60. In the banking sector, the Council adopted a Directive on bank accounts which will permit increased mutual understanding and comparison of the financial performance of banks in different Member States. This Directive will be completed by a proposal for a Directive on the obligations of branches of foreign banks regarding the publication of annual accounting documents, which will put an end to the practice, existing in many Member States, of requiring from such branches the publication of separate annual accounts.

61. The development of new methods of payment such as payment cards containing magnetic strips and microchips, involves questions of technology, infrastructure and usage rules and clearly has internal market implications. That is why the Commission, in a Communication to the Council early in 1987, announced initiatives towards the interoperability of card payment systems in the Community and their rules of use.

62. Mandates will be given to CEN-CENELEC to draft a set of European standards for identification and payment cards covering embossed characters, magnetic strip and microprocessor cards with maximum alignment with ISO standards, and to define standards for the specification of the records to be exchanged.

63. A code of conduct relating to electronic payments, via a terminal installed at the points of sale of traders or providers of service, will be published before the end of 1987.

64. As regards freedom of services in the insurance sector, work in the Council on the relevant proposals and

in the Commission on the preparation of new directives had been suspended until the Court gave its judgement on the cases pending before it. This judgement was delivered on 4 December 1986.

65. In the case relating to co-insurance, the Court has ruled that there can be no requirement on the lead insurer to be established in or have an authorisation from the destination State. The Commission welcomes this decision and urges the Member States concerned to take whatever steps are needed to implement it as soon as possible.

66. Work has now also resumed in the Council in the light of the Court judgements on the basis of the draft Second Directive on Non-Life insurance with a view to reaching agreement on rules to facilitate the free provision of services in this sector. The Commission attaches great significance to this work and urges the Council to bring it to a successful conclusion as soon as possible during 1987.

67. In its judgements the Court has emphasised the need, given the special characteristics of the insurance sector, to ensure adequate protection for the consumer. The Commission is therefore considering what further harmonization is needed for this purpose in the insurance sector. One consequence of this is that the proposals foreseen in the White Paper for freedom of services for life insurance and compulsory motor insurance will now need further examination and it will not be possible to put them forward before 1988.

68. In the securities markets field, this year should see the adoption by the Council of a Directive on securities offer prospectuses as well as a Directive extending mutual recognition to stock exchange listing particulars. In addition, a proposal will be presented for a Directive governing the rules of investment advisers.

Transport

69. The Commission has this year submitted to the Council two proposals on the liberalisation of coach services. This was the sole White Paper proposal outstanding in the transport field though the Commission does intend this year to put forward an additional proposal to abolish all controls on means of transport at internal frontiers.

70. At the level of the Council, good progress was made in 1986 in the sea transport sector. A package of four measures was adopted in December 1986, which should lead to progressive liberalisation and strengthening of competition in this sector.

71. In other transport sectors, progress was less marked. On road transport of goods, the Council in 1986 adopted an overall 27% increase (15% nominal plus corrections) in the Community road haulage quota for 1987 and agreed conclusions to adopt in 1987 an annual 40 per cent increase in the quota. The Commission's proposals for the liberalisation of inland shipping have not yet been adopted by the Council.

72. In July 1986, the Commission, using the powers afforded under Article 89 of the Treaty, took steps to ensure that the principles of fair competition laid down in Articles 85 and 86 are applied in the air transport sector and is currently engaged in a formal dialogue with ten companies about their current agreements and concerted practices. Although the Council agreed in March 1987 on the conditions to be attached to fares in the discount and deep discount zones, the major issues of capacity, market access and competition remain unresolved. The Commission expects the Council to take the necessary decisions before the end of June 1987.

Liberalisation of capital movements

73. Good progress was made in 1986. The first phase of the Commission's programme to liberalise capital movements was accomplished in November 1986 when the Economic and Financial Affairs Council adopted a Directive (86/566/EEC) which extends the obligation to liberalise to include long term commercial credits, transactions in securities not dealt with on a Stock Exchange (shares, bonds, UCITS) and the admission of company securities of one Member State to the capital markets of another.

74. The Commission expects to submit its proposals for the second phase of its liberalisation programme before the end of the year.

Intellectual and industrial property

75. A Directive concerning the legal protection of micro-circuits was adopted December 1986. This was an important step. In addition to the 'security' that it will provide within the Community for European semiconductor manufacturers, the Directive should also guarantee their access to the US protection system. This was the sole proposal in this field adopted by the Council in 1986.

76. The Commission will be presenting in 1987 a proposal on the patent coverage of biotechnology inventions. The promised Green Paper on copyright will also be presented during the Year, and will cover copyright questions related to certain new technologies including software.

The removal of fiscal barriers

77 . At the European Council in Milan in June of 1985, the Heads of State and Government asked Finance Ministers to examine on the basis of the White Paper any measures which might be necessary in the fiscal field for the achievement of the objective of a single market and the possible timetable for the application of those measures. To this end, the appropriate Council of Ministers (EcoFin) appointed a High Level Ad-hoc Group of representatives of Finance Ministers to examine the matter and report.

78. In June 1986, the report of this High Level Ad-hoc Group was submitted to the Council which broadly endorsed the Group conclusion that the Commission approach to the abolition of fiscal frontiers was the most suited to the completion of the internal market. The Council asked the Commission to submit detailed proposals on the rates and rate structure of indirect taxation and on the clearing system which is needed for the current allocation of revenue between the Member States. The Commission will submit these proposals shortly. The Council undertook in June 1986 to deal in the meantime with proposals already submitted covering the common basis of assessment of VAT and the common excise duty structures. Despite this, little hard progress in the fiscal field was made in 1986.

79. Worthy of particular note is the fact that the Commission's proposal - submitted in November 1985 - for a 'standstill' to promote convergence in the number and level of VAT rates has never even been discussed at Council level. Also unadopted remains the proposal on special VAT schemes for small and medium sized enterprises, including substantial increases in the VAT threshold levels, which the Commission put forward in 1986.

80. The Commission can only share the view expressed by the European Council at its meeting at the Hague in 1986 that a number of basic decisions need to be taken quickly in relation to the removal of fiscal barriers at the frontiers in order to achieve the goals set for 1992. Because of its inaction in the fiscal field in 1986, the onus on the Council to take positive decisions in 1987 has become even greater.

Conclusions

81. The successful completion of the internal market will be the Community's greatest single achievement since it came into being. Together with the Customs Union it will complete the basic fabric of economic unity which the Treaty of Rome set out to create. In the 30 years which have passed since the Treaty was signed, further important objectives; have been added, but the pre-eminence of the Internal Market remains.

82. Success depends upon two things. It depends upon political will and on the ability to translate that political will into practical achievement.

83. The repeated declarations made by the Heads of State or Government and the Single European Act are clear evidence that the political will exists. But essential though it is, political will alone is not sufficient.

The record of the Council of Ministers provides ample evidence of this fact. Left to their own devices Ministers of Agriculture and of Finance and their officials have not shown sufficient recognition of the fact that the clearly laid down 1992 target requires a major change in their outlook and in the pace at which they deal with internal market related dossiers. In marked contrast, the results produced by the Internal Market Council in the second half of 1986 were particularly good in relation to previous performance. This was the product of political determination at the very top backed up by positive action below. The inescapable conclusion must be that it is for the Heads of State or Government themselves to ensure that their administrations translate their own political will into positive tangible results.

84. What has happened is understandable but it must be put right. It is easy enough at the top political level to see the immense economic advantages, which would flow from an integrated European market. But when comes to the practical detail of individual proposals too often the vision is lost and national and sectoral interests take over. The lesson to be learned, quite simply, is that Heads of State or Government must involve themselves in the successful completion of the Internal Market programme and require their Ministers to respect what the European Council lays down. Unless they do, what is at present a serious but retrievable situation so far as the Council is concerned will get worse. There are difficulties immediately ahead due to the delay in entry into force of the Single Act and the need to get the new cooperation procedure with the Parliament working smoothly. But once through this patch of choppy water, it is essential that the Council of Ministers - in all its manifestations - significantly improve its performance.

85. In this respect it is important to bear in mind that the delays which have occurred do not seem to be due to fundamental opposition - from eg. economic, regional or sectoral interests - to the objective of completing the Internal Market. The contrary is true: the objective continues to enjoy the support of the large majority of the economic groups concerned, including Industry and the Trade Unions. A number of proposals currently on the Council's table are blocked, not because of political or economic problems linked to the substance of the proposals, but because of procedural difficulties (such as differences about legal bases; disagreement about delegation of powers of implementation to the Commission; conflicting priorities within the Council of Ministers; and so on). It is entirely within the power of the Community institutions to overcome these difficulties, particularly after the Single European Act is implemented.

86. The Parliament too - whose support for the objectives of the White Paper has been unflagging - must also look to its laurels. The pace at which the Parliament delivers its opinion is already influencing the progress of work in the Council. This influence will become greater once the cooperation procedure enters into effect and as the number of proposals sent to the Parliament for its opinion increases. The Commission looks to the Parliament for its continued support and for its early opinion on internal market proposals.

87. By the end of next year, the Commission is required, under the Single European Act to report to the European Council on the progress made towards achieving the internal market by 31 December 1992.

88. The Commission hopes - and is entitled to expect - that by then it will be able to report that satisfactory and balanced progress has been achieved in all the sectors concerned. It regrettably cannot give such a report on the present occasion.