The single market

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In the late 1980s, the European Economic Community, or Common Market, established by the Treaty of Rome of 25 March 1957, had still not been completed. Intra-Community trade had, admittedly, been liberalised by the rapid elimination of quotas and by the gradual lowering of customs barriers. With regard to industrial products, liberalisation was completed on 1 July 1968. As for agricultural products, the common agricultural policy (CAP), in force since 1962, comprised a product-specific Community market organisation which established a unified market with guaranteed prices.

However, many obstacles to free movement still remained. Customs controls remained a necessity because of disparities between national legislations relating to quality, safety and hygiene standards. Any country which deemed the manufacturing standards of another country inadequate was able to block imports. On 20 February 1979, of course, in the Cassis de Dijon case, the Court of Justice had handed down a ruling that ‘any product lawfully produced and marketed in one Member State must, in principle, be admitted to the market of any other Member State.’ Derogations from this principle were admissible only under very strict conditions, but the Commission, having identified cases of unreasonable regulations, then had to refer them to the Court of Justice, which settled cases on an individual basis.

With the oil crisis of 1973 and the ensuing economic recession, national protectionist reactions resurfaced. Unable to restore quotas and customs duties, Member States increased the number of non-tariff barriers to trade, implementing technical and commercial regulations.

In addition, distortions of competition crept in as a result of disparities in tax legislation between the Member States. From 1967 onwards, the situation improved as the French system of value added tax (VAT) gradually replaced the various existing indirect taxes, but rates remained different from one country to the next. No harmonisation had taken place in terms of direct company taxation. Rules on competition (monitoring restrictive agreements and dominant positions, as well as state aid granted to undertakings, etc.) had been adopted and implemented, but public undertakings were exempt from these rules.

Free movement of capital had been only partially implemented, the individual countries being keen to retain control over their financial markets in order to protect their currency and to safeguard possibilities for public and private borrowing. Freedom of movement and establishment for persons, on the other hand, was in place for salaried and non-salaried workers (craftsmen, tradesmen, manufacturers, etc.) but was far from complete for the liberal professions. Moreover, freedom to provide services (banks, insurance, transport, etc.) should have been gradually established, but this was not the case.

The fact that the Common Market remained incomplete was a definite obstacle to the Community’s economic integration and expansion.

The single internal market comes into being

As part of the first Community pillar, the single internal market was set to be opened in principle by the end of 1992, but no legal obligation existed, hence the delays caused by resistance from governments and pressure groups. Progress made in establishing an ‘area without frontiers’ was therefore uneven.

For individuals, the freedom of movement and of establishment, already authorised for employed persons and businessmen, was extended to ‘persons not in paid employment’ (students, pensioners and people living on annuities). Progress was also made in the mutual recognition of qualifications, and the elimination of border checks on persons would be achieved under the Schengen Agreement.

Customs formalities on goods, reduced on 1 January 1988, were eliminated on 1 January 1993. Trading on the Community market was facilitated by the mutual recognition of product manufacturing norms, provided that they met basic health and safety requirements which were the subject of ‘streamlined directives’ proposed by the Commission and adopted by the Council by majority voting.

Liberalisation of the services sector was considerably delayed, even though it played a more significant role in the economy than industry and agriculture. Since 1993, banks had enjoyed freedom of establishment; since 1992, insurance companies had enjoyed freedom to provide services. The challenging process of liberalising the transport sector was implemented gradually: maritime transport in 1986, air transport in 1987 and road transport in 1992. The creation of a European railway market was difficult because of disparities between national networks, but headway was made in opening up to private operators.

For those public services with a monopoly and subsidised national undertakings, an acceptable alternative had to be found between opening up to competition and protecting users. In 1997, the Commission adopted the concept of ‘universal service’, which enabled the liberalisation of public services to be restricted to take account of the needs of all users. National undertakings could remain in existence, provided that they opened up a part of their business or capital to competition. From 1 January 1998, the telecommunications market was fully liberalised.

A competition policy was implemented to prevent companies from holding dominant positions within the Union, by monitoring mergers and by prohibiting agreements and State aid. However, there were still tax disparities. Between 1993 and 1997, VAT rates gradually reached an average of 15 % (5 % for some convenience products), but the difference in tax rates varied considerably from country to country. Other taxes were not standardised, and that led to ‘tax dumping’ in order to attract businesses.

It was still not possible to establish a statute for a European company. In the meantime, a temporary solution, the ‘European Economic Interest Groupings’ (EEIG) was found to facilitate cooperation between companies governed by national law.

While obstacles to trade were, by and large, eliminated, measures were required which would make the Union’s economy more dynamic. The effects of the opening of the single market were certainly felt, and intra-European trade increased, but from 1992 onwards, the economic climate worsened, with a slowdown in growth and a rise in unemployment. Furthermore, Europe had to improve its competitiveness in response to international competition. At the European Council held on 10 and 11 December 1993, Jacques Delors, President of the Commission, had approved by the Council a White Paper on ‘Growth, competitiveness and employment’, which sought to increase cooperation in research and development, develop transport and telecommunications networks, create a common IT area and adopt a new development model which took into account the environment and qualitative requirements and take measures to improve the labour market. The Member States were encouraged to follow suit, but budgetary problems limited the Community’s achievements. The Dublin European Council held on 21 September 1996 once again discussed a programme of major infrastructure projects, but France and Germany refused to approve the requisite funds. Subsequently, the governments gave priority to reducing their deficits in order to join the single currency.

Unemployment rates were on the increase with the deterioration of the economic climate in 1995 and 1996. As a result, the Extraordinary European Council meeting on employment, held in Luxembourg on 21 and 22 November 1997, adopted a ‘coordinated strategy for employment’, setting general, but not quantified, targets.