

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 310 final

Brussels, 14 June 1985

COMPLETING THE INTERNAL MARKET

White Paper from the Commission
to the European Council
(Milan, 28-29 June 1985)

COM(85) 310 final

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Document

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DECLARATIONS BY THE EUROPEAN COUNCIL
RELATING TO THE INTERNAL MARKET

"The European Council... instructs the Council :
- to decide, before the end of March 1983, on the priority
measures proposed by the Commission to reinforce the
internal market"

Copenhagen, 3/4 December 1982

"It asks the Council and the Member States to put in hand without
delay a study of the measures which could be taken to bring about
in the near future...
the abolition of all police and customs formalities for
people crossing intra-Community frontiers..."

Fontainebleau, 25/26 June 1984

"The European Council... agreed that the Council, in its
appropriate formations :
... should take steps to complete the Internal Market,
including implementation of European standards"

Dublin, 3/4 December 1984

"... the European Council laid particular emphasis on the
following... fields of action :
a) action to achieve a single large 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".

Brussels, 29/30 March 1985

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⁽¹⁾ 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.

(1) COM(84) 305 final of 13 June 1984.

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.

II. CONTROL OF GOODS

33. To date Community action has concentrated on alleviating internal frontier formalities and facilitating the movement of goods. To this end and in accordance with Articles 12, 30 and 95 of the EEC-Treaty, the Commission has ensured and will continue to ensure that the customs authorities observe the principles of non-discrimination and proportionality. The Community transit procedure and the single administrative document are concrete examples of the achievements reached by means of Community legislation ; they can and should be improved further in the medium term (for example by renouncing the Community transit guarantee). Where appropriate, there should be increased use of electronic data transmission

systems, on the basis of common standards. In addition, the implementation of the fourteenth VAT directive would greatly simplify internal frontier formalities by shifting the collection of VAT to inland tax offices ; but it will not in itself eliminate the need for customs checks at frontiers either on entry into the importing country or, with greater reason, from the exporting country in order to provide proof of actual export.

34. In order to provide a suitable foundation for further progress, the Commission will at an early stage seek a commitment from the Member States that no new or more stringent controls or formalities relating to goods are introduced. With cooperation between Member States, further simplification at internal frontiers might be achieved by avoiding duplication of controls on both sides of the frontier (so-called "banalisation"). For example, it might be possible for the exporting Member State to obtain proof of actual export of goods or statistical data on exports from the customs office of entry in the importing Member State importation. But the fact remains that to shift from the alleviation to the elimination of internal frontier controls requires a major and qualitatively different approach. To do this we need to find ways of abolishing the barriers which give rise to the need for the different controls imposed on goods.

Commercial and economic policy

35. Commercial policy measures affecting Member States individually (residual import quotas maintained by some Member States ; import measures taken by the Community but limited to one or several Member States only ; individual import quotas for Member States as part of a Community-wide measure or of an agreement coordinated by the Community) may lead the Commission on the basis of Article 115 of the EEC Treaty to authorise a Member State to exclude the product under protection from free movement within the territory of the Community. National measures stemming from authorisation by the Commission necessarily involve formalities at internal frontiers. It is worth noting that it is the absence of or failure to apply a common policy which give rise to such action. It follows that, until the powers transferred by the Treaty to the Community are fully exercised and the common commercial policy has been strengthened in such a way that all national protection measures and all regional quotas set up by the Community can be abolished, there will be a continuing need for some form of control. The Commission takes the view that it is not an unreasonable aim to achieve this abolition of national and regional quotas by 1992. Nevertheless we recognise that there may well be considerable problems to be overcome.
36. If Article 115 were no longer to be applicable, any import restrictions would have to be applied on a Community-wide basis. The enforcement of such quotas, which relies to a large extent on the administrations of Member States, would require intensive cooperation between national administrations and the Commission. Should it prove impossible to eliminate all individual quotas for

Member States by 1992, internal frontier controls could no longer be the instrument of their application. Alternative ways of applying quotas would need to be found.

37. The case is different for the use of clauses to cope with imbalances giving rise to serious threat of balance-of-payments difficulties. It is not possible realistically to set out a precise timetable for progressive restriction of the use of Article 108, in view of the direct link between this Article and economic situations of individual Member States. But if the aim of eliminating internal frontier controls by 1992 is to be achieved, measures applicable at internal frontiers will need to be renounced by then.
38. Certain mechanisms applying to trade in agricultural products also require controls at internal frontiers. For example, monetary compensatory amounts are applied to trade in certain commodities on export and import ; countervailing charges under Article 46 can be applied to trade in commodities where no common organisation has yet been agreed ; certain taxes and other mechanisms can be needed in other commodity sectors. Clearly these requirements must be abolished through the development of the relevant parts of the Common Agricultural Policy. It would further require the automatic adjustment of agricultural prices in the case of monetary realignment, preferably within the EMS ; the setting-up of common organisations for agricultural products not so far covered, with the aim of removing the possibility of recourse to Article 46 ; and adaptation of other market organisations. Trade in steel too is subject to additional controls stemming from the Common Steel Policy and environmental policy (control of transport of dangerous and toxic wastes). Steps will also have to be taken to cope with the consequences for these policies of the elimination of internal frontier formalities.

Health

39. As regards health protection, the internal frontier posts are often used for making veterinary and plant health checks. These controls stem from differences in national public health standards, which give national authorities grounds for checking that imported products conform to national requirements. The Community has, therefore, set out to implement a programme for the harmonisation of essential health requirements, a technically complex and procedurally slow process. But even where there is harmonisation, internal frontier controls have not always been eliminated because Member States still insist on carrying out their own checks. Some steps have been taken to transfer inland the checks on veterinary and plant health certificates. But there are gaps in these measures: their general adoption will depend upon mutual acceptance by Member States that the checks on goods have been properly applied by the exporting State.
40. As a further early step towards the objective of abolishing internal frontier controls by 1992, all veterinary controls (live

animals and animal products) and plant health controls will have to be limited to the places of departure, and controls of veterinary and plant health certificates made at the places of destination (together with control of products if there are reasons to assume fraudulent or negligent practices).

41. To facilitate this, more common standards will have to be established for trade between Member States and for imports from third countries for those live animals and animal products where they are still lacking. Animal products conforming to these standards would receive a Community mark. In addition supervising authorities in the country of origin would have to check goods for consumption in other Community countries, in accordance with coordinated procedures. Mutual trust would be enhanced by the appointment of Community inspectors to check that controls were being correctly carried out. Furthermore, Member States should cooperate in fighting fraudulent practices in the Community framework, and rules of liability in cases of damage resulting from fraudulent or negligent practices would need to be established.
42. Certain import restrictions and quarantine measures would still be justified on grounds of protection of plant and animal health, in line with common standards. In order to harmonise as far as possible such restrictions, common policies designed to fight disease would have to be strengthened.
43. In order to meet the objective of 1992, a major effort at Community and at Member States level will be needed to achieve common levels and policies for veterinary and plant health and to align national standards to common standards as much as possible. To the extent that this can be achieved, the role of the veterinary and phytosanitary certificate could be drastically reduced and specific restrictions only needed for disease emergencies. For animal products, use of the health mark would be sufficient.

Transport

44. Other internal frontier controls are aimed at the carriage of goods and have to do either with the administration of transport policy or with safety requirements. Most intra-Community transport operations are subject to quotas, for which vehicles must carry transport authorisations. The authorisations and the books of record sheets are mostly checked at the frontier. If these controls are to be abolished, the transport quotas themselves must be progressively relaxed and abolished. Goods - particularly dangerous products - may also be checked for safety reasons. Moreover, vehicles are increasingly being checked at the frontier for compliance with national requirements; this is particularly true in the case of motor coaches. Systematic safety controls at internal frontiers will need to be eliminated. Road vehicles which enter a Member State would however remain liable to check under the same conditions as apply nationally to road vehicles. The adoption and proper enforcement of common safety standards would greatly facilitate this process.

Statistics

45. Systematic formalities are carried out for statistical purposes ; the statistics are required not only by the Member States but also by the Community. The introduction of the single administrative document will initially simplify frontier formalities, but additional harmonisation or elimination will be needed if the different statistical data are to be presented in a uniform way by 1992. Furthermore, statistical data will have to be collected not on the basis of documents accompanying goods, but from firms in the way that statistics on internal activities are collected at present. Modern methods of data collection, including sampling techniques, will help to ensure that accurate and comprehensive trade statistics can be compiled.

Conclusion and timetable

46. Given the technical complexities of the measures to be adopted and the major legislative task which will fall to Community institutions, the Commission intends that this work should be planned in two stages. In the first stage, the emphasis should be to shift, where possible by 1988, controls and formalities away from the internal frontiers. In the second stage, the aim would be to coordinate policies and approximate legislation so that the internal frontier barriers and controls are eliminated in their entirety by 1992.

III. CONTROL OF INDIVIDUALS

47. The formalities affecting individual travellers are a constant and concrete reminder to the ordinary citizen that the construction of a real European Community is far from complete.
48. Even though these controls are often no more than spot checks, they are seen as the outward sign of an arbitrary administrative power over individuals and as an affront to the principle of freedom of movement within a single Community.
49. This prompted the Fontainebleau European Council to give the Adonnino Committee the task of examining the measures to be taken to bring about "the abolition of all police and customs formalities for people crossing intra-Community borders". The Committee thought this aspect to be so important that it presented an interim report in March of this year.
50. The formalities in question are, in normal circumstances, of two different kinds : police checks relating to the identity of the person concerned and the safety of personal effects being carried; and tax checks relating to personal effects being carried. We concentrate here on the police checks. The removal of fiscal barriers and controls is covered in Part Three.

51. The Commission's efforts and initiatives in this area have been aimed at making checks at internal frontiers more flexible, as they cannot be abolished altogether until, in line with the concerns expressed by the European Council, adequate safeguards are introduced against terrorism and drugs.
52. Agreement has already been reached on the Commission's proposal for a common passport testifying to the individual's position as a citizen of a Member State. As an additional step towards abolition of physical controls the Commission has proposed the introduction of a means of self-identification which would enable the authorities to see at a glance that the individual is entitled to free passage - the Green Disc. This proposal is at present before the Council and should be adopted forthwith.
53. As noted in the introduction to this Part, police checks at internal frontiers are bound up with the legitimate concerns of the political authorities in the fight against terrorism, drugs and crime. Consequently, they can only be abolished as part of a legislative and administrative process whereby they are transferred to the strengthened external frontiers of the Community and cooperation between the relevant national authorities is further enhanced.
54. The Commission will at an early stage seek a commitment from the Member States that no new or more stringent controls or formalities affecting individuals are introduced at internal frontiers. The Commission will as a next step be proposing measures to eliminate completely by 1988 checks on leaving one Member State when entering another. This type of check has already been virtually abolished in practice at internal frontier crossings by road. This step would entail administrative cooperation between the police authorities and the information transmission networks to enable the police in the country of entry to carry out checks on behalf of the police in the country of departure. A system of this kind would provide continuing protection in the combat against terrorism. Moreover, such a system would not preclude security - as opposed to identity - checks being carried out in airports.
55. By 1992, the Commission wishes to arrive at the stage whereby checks on entry are also abolished for Community citizens arriving from another Community country. To this end, directives will be proposed concerning:
- The approximation of arms legislation; the absence of checks must not provide an incentive to buy arms in countries with less strict legislation. A proposal will be made in 1985 with the target of approval in 1988 at the latest;
 - The approximation of drugs legislation: proposals will be made in 1987, for adoption in 1989 ;
 - Non-Community citizens: the abolition of checks at internal frontiers will make it much easier for nationals of non-

Community countries to move from Member State to another. As a first step, the Commission will propose in 1988 at the latest coordination of the rules on residence, entry and access to employment, applicable to nationals of non-Community countries. In this regard problems may arise over the question of the change of residence of non-Community citizens between the Member States, and these will need to be looked at. Measures will be proposed also in 1988 at the latest on the right of asylum and the position of refugees. Decisions will be needed on these matters by 1990 at the latest;

- Visa policy: the freedom of movement for non-Community nationals, which visas provide, may undermine the agreements which Member States have with non-member countries. It will therefore be necessary to go further than the existing collaboration in the context of political cooperation and develop a Community policy on visas. This would need to strike the right balance between national foreign policy prerogatives and preserving the effectiveness of existing bilateral agreements. The requisite proposals should be made in 1988 for adoption by 1990. There will also be a need to fix common rules concerning extradition policy. The necessary proposal, to be made in 1989, should be adopted by 1991.

56. The adoption of these measures by the Council, accompanied by a redeployment of resources to strengthen controls at the external frontiers, and enhanced cooperation between police and other relevant agencies within the Member States, should enable police checks at internal frontiers to be eliminated by 1992.

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.

I. FREE MOVEMENT OF GOODS

60. Whilst the physical barriers dealt with in Part One impede trade flows and add unacceptable administrative costs (ultimately paid by the consumer), barriers created by different national product regulations and standards have a double-edged effect: they not only add extra costs, but they also distort production patterns; increase unit costs; increase stock holding costs; discourage business cooperation, and fundamentally frustrate the creation of a common market for industrial products. Until such barriers are removed, Community manufacturers are forced to focus on national rather than continental markets and are unable to benefit from the economies of scale which a truly unified internal market offers. Failure to achieve a genuine industrial common market becomes increasingly serious since the research, development and commercialisation costs of the new technologies, in order to have a realistic prospect of

being internationally competitive, require the background of a home market of continental proportions.

The need for a new strategy

61. The harmonisation approach has been the cornerstone of Community action in the first 25 years and has produced unprecedented progress in the creation of common rules on a Community-wide basis. However, over the years, a number of shortcomings have been identified and it is clear that a genuine common market cannot be realised by 1992 if the Community relies exclusively on Article 100 of the EEC Treaty. There will certainly be a continuing need for action under Article 100; but its role will be reduced as new approaches, resulting in quicker and less troublesome progress, are agreed. At least, as far as veterinary and phytosanitary controls are concerned, Article 43 makes possible qualified majority voting: the Council however has regularly used Article 100, which requires unanimity, as an additional legal base. The Commission does not think this position is justified. Where Article 100 is still considered the only appropriate instrument, ways of making it operate more flexibly will need to be found. 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.
62. The new strategy must be coherent in that it will need not merely to take into account the objective of realizing a common market per se, but also to serve the further objectives of building an expanding market and a flexible market. It must aim not simply to remove technical barriers to trade, but to do so in a manner which will contribute to increasing industrial efficiency and competitiveness, leading to greater wealth and job creation.
63. In principle, therefore, given the Council's recognition (Conclusions on Standardization, 16 July 1984) of the essential equivalence of the objectives of national legislation, mutual recognition could be an effective strategy for bringing about a common market in a trading sense. This strategy is supported in particular by Articles 30 to 36 of the EEC Treaty, which prohibit national measures which would have excessively and unjustifiably restrictive effects on free movement.
64. But while a strategy based purely on mutual recognition would remove barriers to trade and lead to the creation of a genuine common trading market, it might well prove inadequate for the purposes of the building up of an expanding market based on the competitiveness which a continental-scale uniform market can generate. On the other hand experience has shown that the alternative of relying on a strategy based totally on harmonization would be over-regulatory, would take a long time to implement, would be inflexible and could stifle innovation. What is needed is a strategy that combines the best of both approaches but, above all, allows for progress to be made more quickly than in the past.

The chosen strategy

65. The Commission takes into account the underlying reasons for the existence of barriers to trade, and recognises the essential equivalence of Member States' legislative objectives in the protection of health and safety, and of the environment. Its harmonization approach is based on the following principles :
- a clear distinction needs to be drawn in future internal market initiatives between what it is essential to harmonize, and what may be left to mutual recognition of national regulations and standards ; this implies that, on the occasion of each harmonisation initiative, the Commission will determine whether national regulations are excessive in relation to the mandatory requirements pursued and, thus, constitute unjustified barriers to trade according to Article 30 to 36 of the EEC Treaty ;
 - legislative harmonisation (Council Directives based on Article 100) will in future be restricted to laying down essential health and safety requirements which will be obligatory in all Member States. Conformity with this will entitle a product to free movement ;
 - harmonisation of industrial standards by the elaboration of European standards will be promoted to the maximum extent, but the absence of European Standards should not be allowed to be used as a barrier to free movement. During the waiting period while European Standards are being developed, the mutual acceptance of national standards, with agreed procedures, should be the guiding principle.
66. The creation of the internal market relies in the first place on the willingness of Member States to respect the principle of free movement of goods as laid down in the Treaty. This principle allows the Commission to require the removal of all unjustified barriers to trade. But it is not sufficient when barriers are justified under the Treaty. Similarly, there will be cases where the introduction of common standards, particularly in the high technology sectors, will encourage and increase the international competitiveness of Community industries.

Harmonisation - a new approach

67. Article 100 of the Treaty empowers the Council, acting unanimously on a proposal from the Commission, to legislate by Directive for the approximation of the laws, regulations and administrative actions of Member States which directly affect the establishment or the functioning of the common market. However, a number of shortcomings have been recognized in the procedures established for the implementation of Article 100.
68. The practice of incorporating detailed technical specifications in Directives has given rise to long delays because of the unanimity required in Council decision making. Henceforth, in those sectors

where barriers to trade are created by justified divergent national regulations concerning the health and safety of citizens and consumer and environmental protection, legislative harmonization will be confined to laying down the essential requirements, conformity with which will entitle a product to free movement within the Community. The task of defining the technical specifications of products which will be deemed to conform to legislated requirements, will be entrusted to European Standards issued by the Comité Européen de la Normalisation (CEN) or by sectoral European Standards in the electrical and building sectors such as CENELEC, UEAtc or RILEM, acting on qualified majority votes.

69. The Commission is taking steps to strengthen the capacity of these European Standards bodies and also, in the telecommunications sector, of CEPT. This is seen not only as a necessary adjunct to the "new approach", but as an essential ingredient in the gradual replacement of national standards by European Standards in all areas.
70. The Council generally should off-load technical matters by making more use of its powers of delegation as recommended by the European Council. Article 155 of the EEC Treaty makes express provision for this possibility and opens the way to a simplified legislative procedure. This procedure has already been used successfully in customs matters and with the adaptation of existing directives to technical progress. The encouraging results suggest that this procedure should be extended.
71. This general policy will put particular emphasis on certain sectors : these include information technology and telecommunications, construction and foodstuffs.
 - in the information technology and telecommunications sector, the Commission wants to establish specific rules which take account of the requirement for much greater precision and more rapid decision-making so as to ensure compatibility, intercommunication and interworking between the users and operators throughout the Community. This sector is usually the responsibility of public authorities and particularly the PTT'S. In this context it is important that this task be undertaken as much as possible on a common basis, and that the resulting specifications (and corresponding tasks and certification procedures) be mutually recognised from the start. Recent Commission proposals as well as the agreement concluded in July 1984 with CEPT have been in keeping with this tendency;
 - because of the existence of a wide range of products in the field of construction, the Commission will proceed to establish European codes concerning buildings in such a way as to ensure compatibility between components and the structures in which they will be used. The Commission considers that such action will of itself contribute to deregulation efforts;

- in the foodstuffs sector, Community legislative action has been concentrated, and will continue to be concentrated, on issuing "horizontal" directives governing the use of food additives, labelling regulations etc., where the essential need to protect the health and safety of consumers is involved. In line with the "new approach", and in line with the recommendations of the Dooge Committee, the Commission will propose more efficient procedures for the implementation of Article 100 harmonisation in this sector. This approach will be based on the principle of delegating to the Commission, advised by the Scientific Committee for Food, the task of drawing up and managing the more detailed and technical aspects of these directives, leaving the Council free to concentrate on the essential safety and health criteria which must be observed. To this end, the Commission will submit a communication to the Council and to the European Parliament before the end of 1985, and it will propose the extension of Directive 83/189/EEC to the food sector.

72. The Commission considers it essential that in all programmes designed to achieve a unified internal market, the interests of all sections likely to be affected e.g. both sides of industry, commerce and consumers, are taken into account. It further considers that such interests should be incorporated in the policy on the health and safety of workers and consumers. That is why arrangements have been made to ensure the participation of consumer representative bodies in the work of CEN and CENELEC ; and the Commission, with the assistance of the Consultative Consumers Committee, will take further steps to ensure that consumer interests are consulted.
73. Moreover, the Commission will review all pending proposals in order to withdraw such proposals as are considered to be non-essential or which are not in line with the new strategy.

Preventing creation of new obstacles

74. Experience shows that a State's membership of the Community is not always sufficiently reflected in the attitudes and outlook of its administrations. When Member State Governments deem new acts or regulations to be necessary for national purposes, they do not always or automatically, in drafting their national instruments, take account of the Community dimension or of the need to minimise the difficulties for relations between Member States. Opportunities are thus lost for making simple and inexpensive improvements.
75. In order to prevent the erection of new barriers, Directive 83/189/EEC now obliges Member States to notify the Commission in advance of all draft regulations and standards concerning technical specifications that they intend to introduce on their own territory. A standstill on adoption must then be instituted by the notifying Member State, during which the draft can be considered by the Commission and the other Member States in order to determine whether it contains any elements likely to create barriers to trade and, if so, to start remedial action under Articles 30 or 100.

76. This new "information" procedure which came fully into force on 1.1.1985, constitutes a major step forward and has already been successful in pre-empting a number of potential obstacles to the free movement of goods between Member States. It is necessary therefore that this procedure, which does not yet cover all industrial products, be extended to cover for example the food and pharmaceutical sectors. In the field of environmental protection a comparable improvement could easily be achieved by making obligatory the gentleman's agreement on notification which has existed since 1973.

Mutual recognition

77. Following the rulings of the Court of Justice, both the European Parliament and the Dooge Committee have stressed the principle that goods lawfully manufactured and marketed in one Member State must be allowed free entry into other Member States. In cases where harmonisation of regulations and standards is not considered essential from either a health/safety or an industrial point of view, immediate and full recognition of differing quality standards, food composition rules, etc. must be the rule. In particular, sales bans cannot be based on the sole argument that an imported product has been manufactured according to specifications which differ from those used in the importing country. There is no obligation on the buyer to prove the equivalence of a product produced according to the rules of the exporting State. Similarly, he must not be required to submit such a product to additional technical tests nor to certification procedures in the importing State. Any purchaser, be he wholesaler, retailer or the final consumer, should have the right to choose his supplier in any part of the Community without restriction. The Commission will use all the powers available under the Treaty, particularly Articles 30-36, to reinforce this principle of mutual recognition.
78. In the specific area of testing and certification procedures, a major initiative will soon be launched to bring about within the Community mutual recognition of tests and certification so as to avoid the wasteful duplication of tests which in some sectors is the rule rather than the exception. This initiative will involve the drawing up of common conditions and codes of practice for implementation by laboratories and certification bodies. These codes will be based on existing codes of Good Laboratory Practice and Good Manufacturing Practice which are already in wide use.
79. The net long term effect of adopting and implementing this new strategy will be to reduce the regulatory burden on enterprises wishing to operate on a Community wide basis. In those (henceforth more limited) areas where harmonisation of regulations will still be required, enterprises will only have to meet a single set of harmonised rules rather than 10 or 12 different sets in order for their products to enjoy free circulation throughout the Community. Similarly the application of the new approach to standardisation and the move towards the principle of mutual recognition in an increasing number of other areas will speed up the decision-making

process and avoid the need for a further layer of Community rules to be super-imposed on national rules.

Nuclear materials

80. Because of the special nature of nuclear material, transfers of such material between Member States are subject to specific conditions. In November 1984, the Commission proposed a revision of Chapter VI of the Euratom Treaty. Inter alia, this proposal would ensure both the unity of the internal nuclear market and the validity of such conditions under Community law.

II. PUBLIC PROCUREMENT

81. Public procurement covers a sizeable part of GDP and is still marked by the tendency of the authorities concerned to keep their purchases and contracts within their own country. This continued partitioning of individual national markets is one of the most evident barriers to the achievement of a real internal market.
82. The basic rule, contained in Article 30 et seq. of the EEC Treaty, that goods should move freely in the common market, without being subject to quantitative restrictions between Member States and of all measures having equivalent effect, fully applies to the supply of goods to public purchasing bodies, as do the basic provisions of Article 59 et seq. in order to ensure the freedom to provide services. Specific provisions seeking to terminate discriminatory practices in the supply of goods were laid down in Directive 70/32/EEC, whilst Directive 77/62/EEC intends to open the awarding procedures to Community-wide competition. Equally, as far as public works contracts are concerned, Directive 71/305/EEC coordinates the awarding procedures in order to make the awarding process transparent to potential bidders in the whole of the Community. Directive 71/304/EEC concerns the freedom to provide services in this field.
83. Statistics however indicate a minimal application of the Directives; less than 1 ECU in 4 of public expenditure in the areas covered by the co-ordination Directives is the subject of publication in the Official Journal and thus, even theoretically, of Community-wide competition.
84. The Commission will open discussions with Member States and through them with the awarding entities on the application of the Directives. Such discussions have to be based on detailed studies of the Directives' transposition and application in each Member State, concentrating on a number of key areas such as procedural details (splitting of contracts, use of single tendering), particular entities (Defence, Health, Regional Government), and products (computers, vehicles, medical equipment and supplies). In addition further action will be taken to improve the quality and speed of the publication of notices to tender and especially to

develop the electronic publishing system TED (Tenders Electronic Daily).

85. In order to stimulate a wider opening up of tendering for public contracts, there is a serious and urgent need for improvement of the Directives to increase transparency further. Priority should be given to a system of prior information ; to publication of the intention to use single tender procedures ; to publication of the awards of contracts ; and to improved quality and frequency of statistics. Moreover, in view of the high volume of contracts falling below the present levels of the threshold where the Directives apply, a review of these levels would seem appropriate. Besides, more visible action by the Commission in policing compliance with existing law will increase the credibility of the Community's efforts to break down the psychological barriers to crossing frontiers.
86. Four major sectors - energy, transport, water and (in the case of supply contracts) telecommunications - are at present not covered by Directives. Whilst it is clear that enlargement of coverage must be realised before 1992, additional action is required to take account of the fact that some of the awarding entities in these sectors fall under public law, while others are private bodies. Possible options are an approximation approach by way of Directives and/or a competition approach based on Articles 85, 86 and 90 of the EEC Treaty, sometimes combined with an initially more pragmatic approach, such as has been tried in the telecommunications sector. The Commission will submit proposals before the end of 1987.
87. Community-wide liberalisation of public procurement in the field of public services is vital for the future of the Community economy. Article 58 of the EEC Treaty fully applies but, at present, only construction contracts are covered by Directive 71/305/EEC ; the supply of goods may include incidental services only to the extent that the value of the latter does not exceed that of the products themselves. This limitation should be removed so that access to publicly financed service contracts such as the services associated with the construction industry are also opened up to suppliers from other Member States. There are also certain services in the new technology area (see paragraphs 113 - 123 below) which need a large market of continental dimensions in order to realise their full potential. An example would be data processing in all its forms, a sector where possible procurement policies have a major impact. Furthermore, the transformation of contracts to purchase into contracts for the supply of services is already having an impact on the coverage of the supplies Directive, mainly in the field of computers. The Commission will submit proposals before 1987 which should lead to Council action in 1988 by the latest.

III. FREE MOVEMENT FOR LABOUR AND THE PROFESSIONS : A NEW INITIATIVE IN FAVOUR OF COMMUNITY CITIZENS

88. The Commission considers it crucial that the obstacles which still exist within the Community to free movement for the self-employed and employees be removed by 1992. It considers that Community citizens should be free to engage in their professions throughout the Community, if they so wish, without the obligation to adhere to formalities which, in the final analysis, could serve to discourage such movement.
89. In the case of employees, it should be noted that such free movement is almost entirely complete and the rulings of the Court of Justice restrict the right of public authorities in Member States to reserve posts for nationals. Certain problems still exist, however, and the Commission intends to make the necessary proposals which will eliminate the last obstacles standing in the way of the free movement and residence of migrant Community workers. Furthermore the Commission will take measures in order to remove cumbersome administrative procedures relating to residence permits. The Commission has already submitted a proposal concerning the taxation of these workers and their families. The main problem in this case is the taxation of wage-earners who reside in one Member State and earn their income in another (this affects mainly frontier workers).
90. The Commission will also make further efforts to bring about the adoption and swift implementation of its proposal concerning the comparability of vocational training qualifications aimed at ensuring that vocational proficiency certificates are more easily comparable. In practical terms, this objective should be achieved by 1988 so that the second phase can be launched before 1990. This second phase would involve the introduction of an European "vocational training card", serving as proof that the holder has been awarded a specific qualification.
91. In the field of rights of establishment for the self-employed, little progress has been made, the main reason being the complexities involved in the endeavour to harmonize professional qualifications. However these endeavours have resulted in a considerable degree of freedom of movement for those engaged in the health sector. The European Council, owing to the hold-ups previously experienced in this sphere, indicated its desire to promote measures that would offer tangible improvements in the everyday life of Community citizens. In particular, during the meeting in Fontainebleau it called for the creation of a general system for the mutual recognition of university degrees. In line with the same philosophy, the Commission believes that there should be mutual recognition of apprenticeship courses.
92. The Adonnino Committee submitted a preliminary report in March this year which contains some guidelines on this subject, and the Commission has been requested to put them into concrete form.
93. For this reason, with the aim of removing obstacles to the right of establishment, the Commission - which approved the conclusions of the Adonnino report - will submit to the Council a draft framework

Directive on a general system of recognition in the course of this year. The main elements in this system will be : the principle of mutual trust between the Member States; the principle of the comparability of university studies between the Member States; the mutual recognition of degrees and diplomas without prior harmonization of the conditions for access to and the exercise of professions ; and the extension of the general system to salary earners. Lastly, any difference, notably as regards training, between the Member States would be compensated by professional experience.

94. Finally, measures to ensure the free movement of individuals must not be restricted to the workforce only. Consequently, the Commission intends to increase its support for cooperation programmes between further education establishments in different Member States with a view to promoting the mobility of students, facilitating the academic recognition of degrees and thus diplomas, and helping young people, in whose hands the future of the Community's economy lies, to think in European terms. At the end of this year, it will make new proposals on this subject, notably concerning a Community scholarship scheme of grants for students wishing to pursue part of their studies or the acquisition of relevant professional experience in another Member State.

IV. A COMMON MARKET FOR SERVICES

95. In the Commission's view, it is no exaggeration to see the establishment of a common market in services as one of the main preconditions for a return to economic prosperity. Trade in services is as important for an economy as trade in goods. The diversity of activities which can be classed as "services" and the fact that the providers of services seem unaware of their common interests in the sector are two of the reasons why their role and importance have been undervalued for so long. Another reason has been the fact that, in the past, many services were provided by industry itself whereas now there is a trend to create specialist companies or at least specialist units for service activities. Despite the provisions of Articles 59 and 62 of the Treaty, progress on the freedom to provide services across internal frontiers has been much slower than the progress achieved on free movement of goods. This is particularly regrettable, since in recent years specialisation and the rapid development of new types of services has done much to demonstrate the potential for growth and job creation in the service sector as a whole.
96. Two examples should suffice to illustrate this potential, and to point out the risk that the Community might lose ground to its main trading competitors if it fails to take sufficiently far-reaching action.
97. First, in 1982 market services and non-market services already accounted for 57% of the value added to the Community economy while industry's contribution has dropped to less than 26%. Secondly, a

comparison of employment prospects in the different sectors between 1973 and 1982 reveals that there has been a steady decline in employment in industry, which became even more rapid after 1979/1980. By contrast, over the same period, more than 5 million jobs were created in the Community's market services sector. This figure, while impressive in absolute terms, looks less so relative to the equivalent figures for the USA (13.4 million) and even Japan (6.7 million). Another cause for concern is that in the Community, unlike in our main competitors, this trend has tailed off since 1980 as a result of the recession.

98. Although freedom to provide services in the Community has been directly applicable since the end of the transitional period as the Court of Justice recognized in the Van Binsbergen judgement, firms and individuals have not yet succeeded in taking full advantage of this freedom.
99. For these reasons, the Commission considers that swift action should be taken to open up the whole market for services. This applies both to the new service areas such as information marketing and audiovisual services ; and to the so-called traditional (but rapidly evolving) services such as transport, banking and insurance which, if properly mobilised, can play a key supporting role for industry and commerce.

"Traditional" Services

100. Of prime importance - because the Community has been depriving itself of the potential benefits for far too long - is the need to open up the cross-border market in the traditional services, notably banking and insurance and transport. The Commission would emphasize here that proposals necessary to open up these two sectors have already been made but still await Council's decision. The Council should, therefore, take the appropriate decisions as indicated in the timetable to be completed by 1990.

Financial services

101. The liberalisation of financial services, linked to that of capital movements, will represent a major step towards Community financial integration and the widening of the Internal Market.
102. The accent is now put increasingly on the free circulation of "financial products", made ever easier by developments of technology. Some comparison can be made between the approach followed by the Commission after the "Cassis de Dijon" judgements with regard to industrial and agricultural products and what now has to be done for insurance policies, home-ownership savings contracts, consumer credit, participation in collective investment schemes, etc. The Commission considers that it should be possible to facilitate the exchange of such "financial products" at a Community level, using a minimal coordination of rules (especially on such matters as authorisation, financial supervision and reorganisation, winding up, etc) as the basis for mutual

recognition by Member States of what each does to safeguard the interests of the public.

103. Such harmonisation, particularly as regards the supervision of ongoing activities, should be guided by the principle of "home country control". This means attributing the primary task of supervising the financial institution to the competent authorities of its Member State of origin, to which would have to be communicated all information necessary for supervision. The authorities of the Member State which is the destination of the service, whilst not deprived of all power, would have a complementary role. There would have to be a minimum harmonisation of surveillance standards, though the need to reach agreement on this must not be allowed further to delay the necessary and overdue decisions.
104. The implementation of these principles in the field of credit institutions (especially banks) is being pursued actively, in particular on the following lines :
- the standards of financial stability which credit institutions must live up to and the management principles which they must apply (concerning, for instance, their own funds, the solvency and liquidity ratios, the monitoring of large exposures) are being thoroughly coordinated ;
 - the rules contained in the fourth and seventh company law Directives on annual accounts and consolidated accounting are being adapted to the sector of credit institutions ;
 - furthermore, the conditions which must be fulfilled by institutions seeking access to the markets as well as the measures to be taken at Community level when it comes to reorganising or winding up an institution in case of crisis are being coordinated;
 - to name a more specific area, the Commission is working towards the mutual recognition of the financial techniques used by mortgage credit institutions and of the rules applying to the supervision of such institutions.
105. As regards insurance undertakings, directives adopted in 1973 (non-life) and 1979 (life) to facilitate the exercise of the right of establishment already coordinate rules and practices for the supervision of insurers and particularly of their financial stability. Moreover, close cooperation between supervisory authorities has been in existence for a long time. The ground is thus prepared for freedom of services across frontiers, which should therefore not present insurmountable problems, especially since the Directive of 11 May 1960 liberates capital movements with regard to premiums and payments in respect of all forms of insurance. It must nevertheless be noted that a Directive intended to facilitate the exercise of freedom of services in non-life insurance by spelling out the part to be played by the various supervisory authorities in cross-frontier operations has not yet

been adopted by the Council. It will furthermore be necessary in the near future to examine closely those aspects of freedom of services which are peculiar to life assurance.

106. In the securities sector, the coordination of rules applicable to undertakings for collective investment in transferable securities (UCITS) is aimed at providing equivalent safeguards for investors in respect of the units issued by UCITS, irrespective of the Member State in which the UCITS is situated. Once approved by the authorities in its home Member State, a UCITS will be able freely to market its units throughout the Community, without permitting additional controls to be introduced. Thus this directive would be an example of the principle of "home country control". Mutual recognition will be made possible by the coordination of the safeguards offered by the financial product in question.
107. Apart from the UCITS proposal, other work still remains to be done to ensure that securities markets operate satisfactorily and in the best interests of investors. Work currently in hand to create a European securities market system, based on Community stock exchanges, is also relevant to the creation of an internal market. This work is designed to break down barriers between stock exchanges and to create a Community-wide trading system for securities of international interest. The aim is to link stock exchanges electronically, so that their members can execute orders on the stock exchange market offering the best conditions to their clients. Such an interlinking would substantially increase the depth and liquidity of Community stock exchange markets, and would permit them to compete more effectively not only with stock exchanges outside the Community but also with unofficial and unsupervised markets within it.

Transport

108. The right to provide transport services freely throughout the Community is an important part of the Common Transport Policy set out in the Treaty. It should be noted that transport represents more than 7 % of the Community's g.d.p., and that the development of a free market in this sector would have considerable economic consequences for industry and trade. The recent decision of the Court in the case brought by the European Parliament against the Council for failure to act in the field of the common transport policy (Case 13/83) highlights the necessity of making rapid progress in this area.
109. In addition to the measures already mentioned in the context of the elimination of frontier checks in road haulage traffic, the completion of the internal market requires the following actions in the transport sector :
- for the transport of goods by road between Member States, the phasing out of quantitative restrictions (quotas) and the establishment of conditions under which non-resident carriers may

operate transport services in another Member State (cabotage) will be completed by 1988 at the latest.

- for the transport of passengers by road, freedom to provide services will be introduced by 1989.
 - for the international transport of goods by inland waterway, freedom to provide services where this is not yet the case will be introduced. Where necessary, conditions will be established under which non-resident carriers may operate inland navigation services in another Member State (cabotage). Both measures should come into effect by 1989.
 - the freedom to provide sea transport services between Member States shall be established by the end of 1986 at the latest, though with the possibility of a limited period for phasing out certain types of restrictions.
 - in the air transport sector, it is necessary to provide by 1987 for greater freedom in air transport services between Member States. This will involve in particular changing the system for the setting and approval of tariffs, and limiting the rights of Governments to restrict capacity and access to the market.
110. Implementation of common policy measures in the transport sector by the dates mentioned above will require decisions by the Council by December 1985 (air fares and some aspects of maritime transport) ; by June 1986 (remaining aspects in the aviation and maritime sectors) ; and by December 1986 (road haulage, inland waterways, coach services).
111. If the Council fails to make progress towards the adoption of proposed Regulations concerning the application of competition rules to air and to sea transport, the Commission intends to take Decisions recording existing infringements and authorising Member States to take measures as determined by the Commission according to Article 89 of the EEC Treaty.
112. All these measures form only part of the common transport policy which extends to other measures (e.g. state aid policy, improvement of railway financing, harmonization in the road sector, infrastructure planning and investment) which are not of direct relevance to the internal market but which are an essential element of this policy.

New technologies and Services

113. The development of new technologies has led to the creation and development of new cross-border services which are playing an increasingly important role in the economy. However, these services can develop their full potential only when they serve a large, unobstructed market. This applies equally to audiovisual services, information and data processing services and to computerized marketing and distribution services.

114. In addition, the Commission would stress that a market free of obstacles at Community level necessitates the installation of appropriate telecommunication networks with common standards.
115. In the field of audiovisual services, the objective for the Community should be to seek to establish a single Community-wide broadcasting area. Broadcasting is an important part of the communications industry which is expected to develop very rapidly into a key sector of the Community economy and will have a decisive impact on the future competitiveness of Community industries in the internal market.
116. In accordance with the Treaty objective of creating a common market for services, all those who provide and relay broadcast services and who receive them should be able, if they wish, to do so on a Community-wide basis. This freedom goes hand in hand with the right of freedom of information regardless of frontiers.
117. As a result of the development of broadcasting within essentially national frameworks, legal obstacles, actual and potential, lie in the path of those seeking to develop broadcasting activities across the borders of Member States. These obstacles consist mainly of different limitations on the extent to which broadcast programmes may contain advertising; as well as of the rights of owners of copyright and related rights to authorise retransmission by cable of broadcasts for each Member State separately. On the basis of the Commission's Green Paper, adopted in May 1984, on the establishment of the common market for broadcasting, especially by satellite and cable, a number of measures are necessary to realise a single Community-wide broadcasting area. As a first step towards this objective, the Commission will submit appropriate proposals in 1985. The Council should take a decision before 1987.
118. The information market is also undergoing far reaching changes as a result of the application of new information technologies. These changes are mainly due to :
- the almost exponential growth of the amount of information available ;
 - the growing speed with which new information becomes obsolete ;
 - the strong tendency of information to flow across borders; and
 - the application of new information technologies.
119. Information itself and information services are becoming more and more widely traded and valuable commodities, and in many respects primary resources for industry and commerce. The opening of the market for it is therefore of increasing importance. Moreover, the functioning of markets for other commodities depends upon the transmission and availability of information. As a commodity, however, it has unique and difficult properties.
120. The information market has been supported by a series of programmes decided by the Council on 27 July 1981 and 27 November 1984. The current one is due for mid-term evaluation in the course of this year. But a satisfactory internal market requires more. It

requires, as the European Council has recognized, a common policy and strategy within which a transparent regulation and transparent conditions can be built. The Commission has issued a general discussion paper on this subject and intends to follow it up with appropriate proposals and guidelines in the period 1985-1987.

121. The European marketing and distribution system will also undergo a thorough technological transformation. Home videotex will permit the ordering of products direct from the manufacturer, thus revolutionizing traditional distribution channels, while ensuring greater market transparency. These new technologies, which will bring in their wake a need for adequate consumer protection, could lead to increased commercial activity within the Community, particularly in the mail-order sector.
122. Electronic banking too will promote information and commercial transactions. The new payment cards (memory cards, on-line cards) will tend to replace existing cheques and credit cards. Although an agreement already exists on the compatibility of videotex equipment in the Community, there is no similar agreement for the production of the new cards.
123. The Commission intends to make proposals to help define common technical features of the machines used to produce the new payment cards, so that they can be identical throughout the Community. It will also seek to encourage, in conformity with Community competition rules, the conclusion of agreements at European level between banks, traders, producers and consumers on the compatibility of systems, networks linkage, user rules and/or rates of commission.

V. CAPITAL MOVEMENTS

124. Greater liberalisation of capital movements in the Community should serve three aims.
125. First, the completion of a large internal market inevitably involves a financial dimension. The free movement of goods, services and persons must also mean that firms and private individuals throughout the Community have access to efficient financial services. The effectiveness of the harmonisation of national provisions governing the activities of financial intermediaries and markets would be greatly reduced if the corresponding capital movements were to remain subject to restrictions.
126. Secondly, it must be stressed that monetary stability, in the sense of the general level of prices and exchange rate relations, is an essential precondition for the proper operation and development of the internal market. In this regard, action to achieve greater freedom of capital movements would need to move in parallel with the steps taken to reinforce and develop the European Monetary System. Exchange-rate stability and convergence of economic policies help the gradual removal of barriers to the free

movement of capital; conversely, greater financial freedom leads to greater discipline in the conduct of economic policies.

127. Thirdly, the decompartmentalisation of financial markets should boost the economic development of the Community by promoting the optimum allocation of European savings. The task is to set up an attractive and competitive integrated financial system for both Community and non-Community business circles.
128. A number of Member States have had to make use of the protective clauses provided for in the Treaty (Articles 73 and 108(3)) to maintain or reintroduce restrictions on capital movements which are in principle liberalised under Community law. From now on the Commission's attitude towards the use of safeguard clauses will be governed by the following criteria :
- authorization to apply protective measures should be for a limited period;
 - measures should be continually reviewed and gradually abolished as the difficulties which originally justified them diminish;
 - agreement should be reached not to apply the protective clauses to capital movements which are so short term as to be classified as speculative and which are most directly linked to the free movement of goods, services and persons.
129. Generally speaking, however, capital now moves more freely in the Community than at the end of the 1970s. The United Kingdom removed all exchange controls in 1979 and the arrangements applied in Denmark now comply with the Community rules in force. In December 1984, the Commission authorised France, Italy and Ireland to retain, according to the above criteria, in varying degrees, restrictions on certain capital movements. These decisions took into account the measures taken on this occasion by the French and Italian authorities to relax such restrictions. These derogations have been renewed for a limited period.
130. Unlike the Treaty provisions relating to free trade in goods and services, the principle of freedom of capital movements does not apply directly. All progress towards such freedom involves an extension, by way of Directives, of the Community obligations last laid down in 1960 and 1962. The following two aims must be pursued in view of this extension :
- as an accompaniment to measures to coordinate the conditions under which financial intermediaries operate and thus to promote the development of a common market in financial services. To this end, a proposal for a Directive concerning the liberalisation of transactions in the units issued by collective investment undertakings for transferable securities is currently being discussed by the Council. A similar liberalizing proposal will be necessary in due course in the mortgage lending field;

- in order to adapt Community obligations to changes in financial techniques and so improve the arrangements for operations which have grown substantially in importance. Action will have to be taken at Community level to liberalise operations such as the issue, placing and acquisition of securities representing risk capital, transactions in securities issued by Community institutions and long-term commercial credit.
- 131. In addition to the responsibility which Community bodies have for creating and administering a legislative framework for the liberalisation of capital movements they will have to take action with a view to gradually liberalizing all operations of Community interest.
- 132. The Commission intends to step up its monitoring of any exchange control measures which, while not infringing Community obligations to liberalise capital movements, nevertheless constitute a potential obstacle to payments relating to normally liberalised trade in goods, services or capital. Following the "Luisi-Carbone" judgement of 31.1.1984, the Commission has already informed Member States about the limits to the controls which Member States may apply. From 1992 onwards, any residual currency control measures should be applied by means other than border controls.

VI. CREATION OF SUITABLE CONDITIONS FOR INDUSTRIAL COOPERATION

- 133. The removal of internal boundaries and the establishment of free movement of goods and capital and the freedom to provide services are clearly fundamental to the creation of the internal market. Nevertheless, Community action must go further and create an environment or conditions likely to favour the development of cooperation between undertakings. Such cooperation will strengthen the industrial and commercial fabric of the internal market especially in the case of small and medium sized enterprises, which are particularly sensitive to their general environment precisely because of their size.
- 134. In spite of the progress made in creating such an environment, cooperation between undertakings of different Member States is still hampered by excessive legal, fiscal and administrative problems, to which are added occasional obstacles which are more a reflection of different mental attitudes and habits. It is, however, the Commission's function to take steps to deal with any distortion of competition arising from the partitioning of markets by means of agreements on business practices or undisclosed aid from public funds. The Commission will also continue to apply competition rules by authorizing cooperation between undertakings which can promote technical or economic progress within the framework of a unified market.
- 135. The Commission will also seek to ensure that Community budgetary and financial facilities make their full contribution to the development of greater cooperation between firms in different

Member States. It will seek to guide future research programmes in this direction, both at the precompetitive research stage and at the stage of pilot or demonstration projects. The ESPRIT and BRITE programmes now underway have already had a very positive impact on European firms in terms of the opportunities for cooperation which they represent. The Regional Fund must also be enabled to contribute to greater cooperation between firms.

Creation of a legal framework facilitating cooperation between enterprises.

136. The absence of a Community legal framework for cross-border activities by enterprises and for cooperation between enterprises of different Member States has led - if only for psychological reasons - to numerous potential joint projects failing to get off the ground. The Community is now, for the first time, setting the stage for a new type of association to be known as the "European Economic Interest Grouping" that will be governed by uniform Community legislation and will make it easier for enterprises from different Member States jointly to undertake specific activities.
137. Also, it is worth noting that a Council decision is still awaited on the proposed statute for a European Company. The Commission is conscious that the creation of an optional legal form at Community level holds considerable attraction as an instrument for the industrial cooperation needed in a unified Internal Market. A decision on the proposed statute will clearly be needed by 1992. In the interim period, the Commission intends to concentrate on measures to approximate national laws and does not preclude the possibility of amending its European Company proposal in order to build on results achieved in discussions of approximation measures.
138. The small number of one-man businesses apart, enterprises are generally organised in the form of companies or firms, and the Community rule on non-discriminatory treatment applies to them when formed in the Community. This rule is of prime importance where the acquisition of shareholdings is concerned.
139. There is a case, however, for making better use of certain procedures such as offers of shares to the public for reshaping the pattern of share ownership in enterprises, since the rules currently in force in this sphere vary a great deal from one country to another. Such operations should be made more attractive. This could be done by requiring minimum guarantees, particularly on the information to be given to those concerned, while it would be left to the Member State to devise procedures for monitoring such operations and to designate the authorities to which the powers of supervision were to be assigned. A proposal will be made in 1987 and the necessary decisions should be taken by 1989.
140. As and when the internal market is developed further, enterprises incorporated in the form of companies or firms will become more and more involved in all manner of intra-Community operations, resulting in an ever-increasing number of links with associated

enterprises, creditors and other parties outside the country in which the registered office is located. To keep pace with this trend, a series of measures have already been taken or are under discussion aimed at coordinating Member States laws, especially those governing limited companies, which, in economic terms, constitute the most important category.

141. Admittedly, this approximation of legislation is designed to secure equivalent protection for those concerned but these are, to a very large extent, enterprises too. In point of fact, by improving the legal relationship between enterprises, the coordination of company law has at the same time improved cooperation between them.
142. Nevertheless, a company constituted under a specific national law does not enjoy the same facilities as a natural person when it comes to moving from one Member State to another. The traditional ways of setting up in another Member State involve the establishment of subsidiaries or branches, for which non-discriminatory treatment is expressly laid down in the Treaty of Rome. As things stand now, however, the legal position of branches set up by companies from other Member States is far from satisfactory throughout the Community. Thus, to the extent that certain matters affecting the corporate sector have already been harmonised, branches established in the Community and forming an integral part of an enterprise should also reap the benefits of such harmonisation under a legislative policy of deregulation. With this in mind, the obligation, say, to publish accounts relating only to the activities of a branch established in the Community should be dispensed with in all cases, provided a copy of the parent company's accounts is filed with the registration body responsible for the branch. A proposal will be made in 1986 to permit a decision by the Council in 1988.
143. If it is to satisfy the needs of a genuine internal market, the Community cannot concentrate simply on the arrangements for creating subsidiaries or branches in order to make it easier for enterprises to set up in other Member States. Enterprises must also be able to engage in cross-border mergers within the Community. This facility could constitute the last stage in a process of cooperation beginning, for example, with the straightforward acquisition of a shareholding. On the face of it, adoption of the Commission's proposal for a tenth Directive seems to pose fewer difficulties especially as it could, to a very large extent, settle the matter by reference to the rules already in force on internal mergers.
144. In practice, cooperation will result more often than not in the creation of a group of legally separate but associated enterprises. This development is already the subject of coordination in the field of consolidated accounts. However, is it possible to stop there? The fact is that the transparency of the group is not the only issue at stake. A fair balance must also be struck between the interests of the group as a whole and its members, especially minority shareholders and creditors of subsidiaries. However,

there are serious gaps in most Member States' legislation on the matter, which is still too closely modelled on the idea of company autonomy, an idea largely overtaken, it would seem, by the degree of concentration that now exists. Depending on the outcome of current consultations, the Commission is considering making a proposal to this end.

Intellectual and industrial property

145. Differences in intellectual property laws have a direct and negative impact on intra-Community trade and on the ability of enterprises to treat the common market as a single environment for their economic activities.
146. It will be necessary, as a first step, to reach a decision on the Community Trademark proposal and on the proposal approximating national trade mark laws. Considerable advantages will flow from this which will enable undertakings to adapt their activities to the full scale of the Community by making it possible for them to obtain on a single application one trade mark covering all the Member States. In order to allow the Community trade mark system to be adopted by the Council, the Commission will make the necessary supplementary proposals (i.e. the rules implementing the regulation; the fees regulation; the siting of the Community Trade Mark office and its working language; the rules of procedure of the Boards of Appeal). The Council should decide on these matters by 1987.
147. The picture has recently been further complicated by the need to adapt existing trademark systems to technological change in a number of areas including computer software, microcircuits and biotechnology. In order to create a firm legal foundation for investment in new techniques, the systems must be adapted in a convergent manner so that these changes will not weaken an already imperfect intellectual property market.
148. In the patent field, the Luxembourg Convention on the Community Patent signed in 1975 which will offer important advantages to industry, has not yet entered into force. The Commission favours a solution whereby the Convention enters into force immediately, at least amongst those Member States who are in a position to ratify it.
149. The Commission accordingly intends to propose to the Council measures concerning patent protection of biotechnological inventions and the legal protection of microcircuits, the latter as a matter of urgency, in 1985. In addition, problems in the field of copyright and related rights will be examined in a consultative document to be published in 1985 with a view to establishing priorities. In this context, the introduction of a Community framework for the legal protection of software will be given particular attention.

Taxation

150. The Commission intends to publish, by the end of 1985, a White Paper on the taxation of enterprises in the Community. This will serve the purpose of fitting the various proposals already pending before Council into a general framework. It will also be an opportunity for assessing the need for further common action in this field. There is, indeed, a widespread feeling in private enterprise in Europe that our fiscal environment for risk capital and for innovation compares badly with that of our major competitors.
151. In the meantime the Commission will urge the Council to complete ongoing work on a group of proposals which aim at removing obstacles to cooperation between European firms (on tax treatment of parents and subsidiaries, on taxation of mergers and on avoidance of double taxation), and to give high priority to harmonizing indirect taxes on transactions in securities as well as to the proposal which will allow wider use of carry forward and backward of losses in all Member States.

VII. APPLICATION OF COMMUNITY LAW

Infringements

152. The Community's political and legislative efforts to create an expanded home market for the people and the industries of the Community, will be in vain if the correct application of the agreed rules is not ensured. Unfortunately, under the pressure of economic crisis, Member States have not always withstood the temptation to yield to protectionist measures, and the large volume of complaints that the Commission has received has prevented it from dealing with them within a reasonable period. There is no reason why Member States, whose Heads of State and Government are committed to the completion of the Internal Market, should not expect and welcome the knowledge that the Commission will carry out its duties of enforcing the rules that make such a completion possible, even if such enforcement is likely sometimes to affect them directly and individually.
153. Of the total number of complaints received by the Commission, some 60 %, i.e. on average 255 each year, relate to Articles 30-36 of the Treaty, but because of the lack of resources it can, in a given year, settle only one hundred cases. The resulting delays and backlogs benefit the infringing States, impede systematic action, lead to political and economic disequilibria of infringement proceedings, and frustrate the confidence of industry as well as that of the man in the street. Measures have to be taken to remedy the situation.
154. Moreover, the Commission will continue its general action of improving and rationalising its internal procedures in order to correct violations rapidly and effectively. It will closely combine

its actions of prevention and cure, and it will consider the possible introduction of sanctions ; and will explore all possibilities for interim measures to suspend the enforcement of any national legislation which manifestly infringes Community law.

Transparency

155. Elimination of unjustified trade barriers is traditionally done on a case-by case basis by individual infringement proceedings. Given the practical shortcomings of piecemeal proceedings, the Commission will have to take more systematic action, by publishing general communications setting out the legal situation particularly in regard to Articles 30 to 36 for the whole of an economic sector or in relation to a particular type of barrier. These communications would serve as a guide for public authorities regarding their obligations, as well as for Community citizens regarding the rights which they enjoy.

156. The Commission intends to publish before 1988 communications on motor-cars, foodstuffs, pharmaceuticals, and chemical products as priority sectors. The Commission will gradually establish a definite link between its proposals for harmonisation of laws and its communications setting out the impact of Articles 30 to 36. In any case, it is understood that, in the event of approximation lagging behind the agreed schedules, the Council's inaction cannot relieve the Commission of its obligation to take whatever measures are necessary to ensure free movement of goods within the Community under conditions which are consistent with the aims of the Treaty and the deadline of 1992.

Competition policy and state aids

157. A strong competition policy will play a fundamental role in maintaining and strengthening the internal market. It will contribute to an improved allocation of resources and to reinforcement of the efficiency and competitiveness of European companies. As the Community moves to complete the Internal Market, it will be necessary to ensure that anti-competitive practices do not engender new forms of local protectionism which would only lead to a re-partitioning of the market.

158. In this context, it will be particularly important that the Community discipline on state aids be rigorously enforced. There are tendencies to spend large amounts of public funds on state aids to uncompetitive industries and enterprises. Often, they not only distort competition but also in the long run undermine efforts to increase European competitiveness. They represent a drain on scarce public resources and they threaten to defeat efforts to build the internal market. As the physical and technical barriers inside the Community are removed, the Commission will see to it that a rigorous policy is pursued in regard to state aids so that public resources are not used to confer artificial advantage to some firms over others. An effective Community discipline will make it possible to ensure that available resources are directed away from

non-viable activities towards competitive and job creating industries of the future.

159. The Commission is drawing up an inventory of state aids and will publish by 1986 a report setting out the implications for future state aids policy.

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 judgements 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 traveller 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.

Commercial Traffic and Value Added Tax

171. The starting point must be the 14th VAT Directive and the system of postponed accounting which shifts the accountancy procedures for VAT from frontiers to inland tax offices. The strongest point in favour of the 14th VAT Directive is that it embodies a tried and proven system, operated by Belgium, the Netherlands and Luxemburg, and previously by Ireland and the United Kingdom. For a variety of reasons, none of them convincing in the Commission's view, the Directive has not yet been adopted by the Council, and this despite the fact that the system it incorporates has the solid backing of practical experience behind it. Adoption of the 14th VAT Directive would unquestionably represent a valuable step forward in simplifying procedures and speeding the flow of commercial traffic. It would not, however, result in the complete abolition of frontier controls since documentation would still have to be provided at the frontier and Member States would still wish to retain the power to check movements of goods as a protection against fraudulent transactions which would deprive them of revenue.
172. If, therefore, frontiers and with them frontier controls are to be abolished, a satisfactory Community procedure will need to be found by which sales and purchases across borders would be treated in exactly the same way as similar sales and purchases within the borders of the Member States. In other words, the sale would be taxable in the hands of the vendor and the VAT incurred by the purchaser would be deductible irrespective of the Member State in which it has been charged. It would then be necessary to set up a Community "Clearing House System" to ensure that VAT collected in the exporting Member State and deducted in the importing Member State was reimbursed to the latter. Computerisation of procedures will play an important role in this context.

173. In principle the Clearing House System described above would create a situation for taxable persons within the borders of the Community identical to that which exists within the borders of the individual Member States. But in practice the present widely divergent rates and coverage of VAT would expose the system to the risk of heavy and systematic fraud and evasion. Apart from other devices it would be all too easy for traders in high rate Member States to obtain supplies from low rate Member States and omit them from their records. Not only would this be a loss of revenue, but such practices would result in serious distortion of trade between low rate and high rate Member States. No one would pretend that fraud and evasion do not occur at present and would not continue even if tax rates and coverage were approximated. But the scale on which it could occur after the abolition of frontier controls without approximation would be unacceptably large.
174. Furthermore, the Clearing House System could not deal with the problem of the small trader not registered for VAT who could legitimately shop across the border and would do so where significant differences in taxation and corresponding differences in prices existed.
175. The only conclusion that can be drawn from this analysis is that no means exists of removing the frontier controls and thus the frontiers if there are significant tax and corresponding price differences between the Member States.

The Individual Traveller

176. The fact that tax levels vary greatly from one member State to another results in considerable differences in prices and creates a powerful incentive for people living in high tax countries to cross the border and shop in low-tax countries. It needs to be remembered that many land frontiers in the Community cross heavily populated areas. The Benelux countries, France and Germany come together in a geographical knot where cross-border shopping is easy and increasingly customary. Similar active cross-border shopping trade is found between Denmark and Germany and between the adjacent areas of Ireland and Northern Ireland.
177. It would not be possible without the introduction of a whole range of new and offensive controls to discriminate between "genuine" travellers and those who crossed frontiers to go shopping. It has equally already been recognised that it is unacceptable to attempt to collect tax from every individual traveller carrying dutiable goods in however small quantities. For these reasons, and to facilitate travel within the Community, a system of "travellers' allowances" has been developed. First adopted in 1969, they now stand at goods worth 280 ECU plus modest prescribed quantities of cigarettes and alcoholic drink. Because of the problems of cross-border shopping, increasing difficulty has been experienced in obtaining the agreement of Member States to even modest increases in the travellers' allowances. While an increase to 350 ECU may be agreed shortly, this is below what even in the present circumstances the Commission and the Parliament would consider to be reasonable.

178. The very existence of travellers' allowances, their modest amounts and the disproportionate difficulty in obtaining agreement to limited increases all demonstrate that it would be impossible to dismantle the fiscal frontiers unless there were a considerable measure of approximation of indirect taxation.

Excises

179. As far as the individual traveller is concerned, the position in relation to excises does not greatly differ from that relating to VAT. This analysis concentrates therefore on the considerations affecting commercial traffic.
180. At present, so far as the trade is concerned, goods subject to excise duties are usually kept in bonded warehouses under control of the authorities, the tax being suspended. The tax is then charged when goods are taken from the bonded warehouse for consumption, that is, delivered to a distributor, or direct to a customer. When goods are exported, they are usually exported "in bond" i.e. duty is suspended and cancelled after proof of export. This in itself requires a check at the frontier. Correspondingly, checks are made and the potential liability is duly established at the point of entry into the importing country. Unless the goods are imported into bond, duty then has to be paid. Alternatively, the goods may be received into a bonded warehouse and duty is then charged in the importing country only when the goods are about to go into consumption, i.e. when they are delivered from the bonded warehouse to a distributor or direct to the customer. While this system ensures that tax is charged only in the country where the goods are ultimately consumed, and at the rates of tax chargeable in that country, it presupposes the maintenance of existing thorough frontier formalities.
181. It already open to the Council to produce the first simplification of existing frontier procedures by adopting the directives on common structures for the excises which are already before it. A further streamlining could be achieved by linking national systems of excise suspension. Goods could then go from their place of production or from a bonded warehouse in the exporting country and, with a minimum of control, cross the frontier to a bonded warehouse in the importing country. The excise due would not be calculated and charged until the goods were taken out of "bond" in the country of destination. But though this system would indeed simplify controls at the frontiers, it would not in itself mean that they could be abolished.
182. If frontier controls were dismantled while the present wide differences in excise taxation persisted, the system would be exposed to fraud and evasion. This situation would allow excised goods to be routed through a bonded warehouse in a low rate country, taken out of "bond" there and shipped on for consumption in a high rate country. There would also be a strong incentive for those traders in high rate countries who were not covered by the bonded warehouse system to obtain their goods in low rate countries. The only way of dealing with these problems would be to impose frontier controls, the very thing we are seeking to abolish.

183. We conclude that there is no way of removing frontier controls for goods subject to excise duties whilst the present significant differentials in coverage and rates continue to exist.
184. Whether from the point of view of commercial traffic or of the individual traveller, we conclude that the removal of frontiers together with the associated controls will require for practical reasons not only the setting up of a Community Clearing House System for VAT and a linkage system for bonded warehouses for excised products, but also a considerable measure of approximation of indirect taxes. We wish to make it clear that complete harmonization, which has come to imply absolute identity in every respect, is not essential and for this reason we should now use the term "approximation".

II. APPROXIMATION

185. The first question that has to be answered is how close does approximation have to be. The short answer is that it must be sufficiently close that the operation of the common market is not affected through distortions of trade, diversion of trade and effects on competition. In this connection, American experience is instructive. In the United States there are no fiscal frontiers as such, nor is there complete harmonisation of retail taxes as between the individual states. American evidence therefore suggests that some variations can be accommodated; but, in order to take account of market forces, these need to be limited in scale, with differences of upto 5% even between neighbouring states co-existing without undue adverse effects. Transposing this experience into the Community context would suggest a margin of $\pm 2\frac{1}{2}$ per cent either side of whatever Target Rate or Norm is chosen. In the case of VAT, this would be a very significant degree of flexibility. Thus, for example, if the Norm for the standard rate were $16\frac{1}{2}$ per cent, actual rates adopted by Member States could be in the range of 14 per cent to 19 per cent. These figures are inserted purely as an illustration although as a matter of interest the range of 14 per cent to 19 per cent encompasses the standard rates imposed by six of the nine Member States with VAT. In the case of excises, the indicative range of $\pm 2\frac{1}{2}$ per cent would be less significant as excises frequently account for a large proportion of the retail price.
186. Retail markets are often tolerant of quite significant differences in retail prices. Distance, convenience, service, image and a host of other factors enter into consumer choice; price is only one. But where competition is severe, prices do tend to move to a common level. In such circumstances minor differences in tax levels tend to be absorbed by the trade, leaving the ultimate retail price to the consumer little affected. The pressures thus exerted on the trade will be transmitted to government. Thus market forces will themselves create pressures to achieve a degree of approximation and in one case have already done so in the Community.

The Broad Picture

187. It will require a great deal of statistical and econometric work before specific proposals can be put forward. Much of this work can only be done by or in association with Member State administrations. Indeed it would be surprising if many Member States had not, as a matter of routine, already made such studies. This White Paper therefore confines itself to a general analysis which will enable the broad picture to be seen and leave the detailed studies to be undertaken as part of the preparatory work on the draft directives which will be required.
188. Table 1 sets out the total yield of indirect taxation, subdivided into VAT and Excises, as a proportion of GDP in each of the Member States in 1982.
189. The point which emerges immediately is that for most Member States there are no very significant differences from the average in the total yield of indirect taxation.

TABLE 1 - Indirect taxation as percentage of the GDP (1982)

Per cent	VAT	EXCISES		VAT AND EXCISES
		total	Big five(1)	
Belgium	7.67	2.39	2.29	10.06
Denmark	9.84	5.87	3.27	15.71
Germany	6.34	2.70	2.58	9.04
France	9.19	2.22	2.12	11.41
Ireland	8.22	8.91	7.63	17.13
Italy	5.48	2.84	2.72	8.32
Luxembourg	6.04	4.24	3.75	10.28
Netherlands	6.83	2.36	1.92	9.19
United Kingdom	5.22	4.58	4.35	9.79
Weighted EC Average (2)	7.05	3.63	3.37	10.68

(1) Tobacco products, beer, wine, spirits and mineral oil products
 (2) Excluding Greece, where the necessary statistics were not available

190. Looked at in this way approximation presents a manageable budgetary problem for most Member States and it would not seriously disturb the existing relationship between direct and indirect taxation. The exceptions are Denmark and Ireland both of which rely heavily on indirect taxation and where the present level measured as a percentage of GDP is 50 per cent or more above the Community average.

191. When one looks at the yield of the VAT and of the excises separately, bigger differences appear. In the case of the VAT a preponderance of Member States have a yield around 6 per cent of GDP (i.e. within the range 6 per cent +/- 1 per cent) but four States have yields higher than this, of which two exceed 9 per cent. In the case of the excises, there are five Member States with yields between 2 per cent and 3 per cent of GDP, three Member States with yields of around 5 per cent and one member State, Ireland, with a yield of no less than 8.9 per cent.
192. To sum up, the problem in most Member States is not so much the total yield of indirect taxation but the composition of that yield - the division between VAT and the excises and within the excises the differences in tax burden between different sectors and different products. But given adequate time and flexibility for spreading the change over a period of years, and given the necessary political will, the approximation could be realized and it could be handled with no greater difficulty than many Member States have encountered in determining their domestic tax policy.

Value Added Tax

193. There are three questions to be addressed in the case of VAT :

- (1) the common base or coverage;
- (2) the number of rates; and
- (3) the level of the rate or rates, and particularly of the main or standard rate.

All these issues are interlocking : the extent of the coverage has an important bearing on the number of rates; and the level of rates is linked both to the number and to the coverage.

194. The 2nd VAT Directive introduced the main principles and the 6th VAT Directive went a long way to fill in the necessary details of a common VAT base in the European Community. In some areas it was not possible, however, to achieve unanimity. As a result certain gaps were left to be covered by subsequent directives, and a number of derogations were included.
195. Three of the supplementary directives stemming from the 6th Directive have already been adopted by the Council (the 8th Directive concerning arrangements for the refund of VAT to taxable persons established in another member State; a directive on VAT exemptions for final importation of certain goods; and the 10th Directive on VAT on the hiring out of movable tangible property).
196. Eight other draft Directives are still pending before the Council. Together with three forthcoming proposals they aim at carrying forward the work of achieving the common VAT base. After their approval the main outstanding problem in this area will be the remaining derogations. They will have to be tackled by subsequent proposals. The principal areas where substantial differences in coverage still exist are: food; second-hand goods; fuel and transport; and the treatment of small traders and farmers. Some of the most important derogations are connected with zero-rating of food and other goods and services in Ireland and UK. This is why

VAT coverage is as low as 35 per cent of private consumption in Ireland and 44 per cent in the United Kingdom whereas most Member States cover about 90 per cent. The high rates of tax imposed in Ireland and the comparatively low yield in the United Kingdom are both a reflection of this restricted coverage. A move towards a more uniform basis would therefore be helpful in both these respects.

197. Table 2 shows the rates of VAT in force in the Member States as at 31 March 1985.
198. As far as the number of rates is concerned, seven out of the nine Member States at present impose VAT at a reduced rate or rates in addition to the standard rate and three of these also impose a higher rate. This would suggest that a common system would be likely to have more than one rate. Nevertheless, despite the present predominance of multiple rate systems, there are strong arguments in favour of a single rate.

TABLE 2 - POSITIVE RATES OF VAT IN MEMBER STATES (1): As at March 1985

VAT Rates				
	Lower	standard	higher	VAT as per-centage of GDP
Belgium	6 and 17	19	25 (2)	7.67
Denmark	-	22	-	9.84
Germany	7	14	-	6.34
France	5.5 and 7	18.6	33.3	9.19
Ireland (3)	10	23	-	8.22
Italy	2 and 9	18	38	5.48
Luxembourg	3 and 6	12	-	6.04
Netherlands	5	19	-	6.83
United Kingdom(3)	-	15	-	5.22

(1) Greece has not yet introduced VAT.

(2) An additional luxury tax of 8 per cent is charged on certain products.

(3) Ireland and the United Kingdom apply zero rates to a wide range of goods and services.

199. As regards the level of rates, it is of more than passing interest that approximation within a range of 14 per cent to 19 per cent for the standard rate (i.e. a Norm of 16 1/2 per cent +/- 2 1/2 per cent) would encompass six of the nine Member States which have a VAT. A range of 15 per cent to 20 per cent (a norm of 17 1/2 per

cent +/- 2 1/2 per cent) would encompass five Member States out of the nine. It must be stressed that these are only illustrative examples : specific proposals must await more detailed study. The Commission will in due course publish the results of these studies as a basis for further discussions.

Excises

200. In the case of the excises, Member States have fairly common coverage as regards the excise duties on manufactured tobacco, alcoholic beverages and hydrocarbon oils. The main exception is wine. No duty is charged on wine in Italy or Greece, it is charged only on sparkling wine in Germany and only on imported wine in Luxembourg. Likewise certain hydrocarbon oil products are exempted from duty in some Member States: for example, heavy fuel oil in Belgium, domestic heating oil in Belgium and Luxemburg, and lubricants in Belgium, France and the Netherlands.
201. In view of the large number of excisable products (for example 28 alcoholic beverages, 7 mineral oils) it is not practicable to show all the rates for the Member States. Table 3 does, however, give a representative picture of comparative excise duty levels in the Community.

TABLE 3 - EXAMPLES OF EXCISE DUTIES IN MEMBER STATES - AS AT MARCH 1985

ECU per	20 cigar- ettes	1 Litre of beer	1 litre of wine	0.75 lit of 40% spirits	1 lit of premium petrol	Revenue from these excises in per cent of GDP (1)
Belgium	0.73	0.13	0.33	3.78	0.25	2.29
Denmark	1.96	0.65	1.35	9.58(2)	0.28	3.27
Germany	1.02	0.07	0.00	3.43	0.23	2.58
France	0.31	0.03	0.03	3.37	0.36	2.12
Greece	0.28	0.22	0.00	0.16	0.29	n.a
Ireland	1.14	1.14	2.74	7.84	0.36	7.63
Italy	0.57	0.18	0.00	0.75	0.49	2.72
Luxembourg	0.54	0.06	0.13	2.54	0.20	3.75
Netherlands	0.74	0.23	0.33	3.79	0.28	1.92
United K.	1.25	0.70	1.60	7.70	0.29	4.35

(1) 1982 figures

(2) estimated average

202. For cigarettes the rates vary from 0.28 ECU per packet of 20 (Greece) to 1.96 ECU (Denmark). The striking feature of the figures for beer, wine and spirits is that in each case the heaviest taxation is to be found in Denmark, Ireland and the United

Kingdom. Since the excise duties represent an extremely high proportion of the retail price (up to 69 per cent for cigarettes, 52 per cent for petrol), such wide discrepancies in excise taxation are bound to have significant effects on market prices and hence on the markets themselves.

III. THE COMMISSION'S PROPOSALS

203. The broad approach must now be for the Council to agree that ways must be found to ensure that the adjustment that will be required when internal frontier controls are abolished in 1992 is not too abrupt and that the interim period be put to the best possible use. A good start would be provided by Council agreement to intensify efforts at completing work on the VAT base and the structure of the excises, mainly on the basis of proposals already presented by the Commission. Simultaneously the Commission will put forward a standstill proposal to ensure that existing differences with respect to the number of VAT rates and the coverage of excises are not widened.
204. A next step which we would hope could be taken in 1986 will be for the Commission to present Target Rates or Norms together with proposed ranges of variation. Member States will then have the option of moving a given indirect tax immediately or in a series of shifts towards the common rate band. During the same period further consideration will need to be given to existing derogations which have distorting effects on the Internal Market to see whether they need to be continued. The administrative arrangements necessitated by the new proposals will need to be put into place.
205. The following paragraphs set out the specific measures the Commission proposes should be taken together with reasonable target dates. VAT and excises are examined separately and in turn.

Value Added Tax

206. Work on the common VAT base should now be taken forward by the approval of proposals already presented by the Commission to the Council. They cover subjects like works of art, antiques and used goods, the import of second hand goods by final consumers (including the problem of double taxation) and the temporary importation of goods other than motor cars etc; and some limited moves towards abolition of derogations provided for in the 6th VAT Directive.

There are eight draft directives involved. Considerable work has already been done by the Council on a number of the draft directives and they should all be approved by the end of 1986.

207. Three proposals will be presented by the Commission in 1985, dealing with the special schemes for small businesses, for flat-rate farmers and for passenger transport. These should then be approved in the course of 1986.

208. While this work is proceeding in the Council, the Commission will, in the course of this year, put forward proposals for a "standstill". It will not be possible at this stage to define this in terms of rates, but provisions should be adopted which will exclude the proliferation of VAT rates in Member States, or the widening of the gap between VAT rates, since this would make subsequent adjustment more difficult.

209. Work on the next decisive stage, the approximation of rates, would commence after the Commission had presented the proposals. These will cover :

- the rate structure, i.e. whether the common VAT system has one, two or even more rates; if more than one rate is to be adopted the proposals must indicate which goods and services should be charged at each of the rates;
- the Target Rate(s) or Norm(s), i.e. the central rate or rates, together with the permitted ranges of variation around them.

The proposals for the rate band or bands should be accompanied by a standstill provision, under which Member States would undertake not to move away from, but only towards, the common goal.

210. On the basis of these proposals, the necessary adjustment of rates can then go forward. Member States would have a period of some years, following the adoption of the directives, in which to complete approximation by the end of 1992.

211. During the same period outstanding problems on the coverage of VAT will need to be resolved. They include VAT derogations with distortive effects, such as significant differences in taxation between Member States of the same goods or services. The Commission will put forward the necessary proposals as soon as it is clear what the future objectives for rates will be as these are decisive factors in assessing the risk or extent of distortion.

212. The final element on the VAT side will be the new arrangements for treating sales and purchases across borders in the same way as those within Member States, with the sale taxable in the hands of the vendor and the VAT incurred by the purchaser deductible irrespective of the Member State in which it had been charged. The only formality which would be required of the taxable purchaser would be to include the deductible VAT in the box in his tax return which corresponds to his supplier's Member State. A Clearing House System would have to be set up between the Member States so that the VAT collected in the exporting Member State and deducted in the country of import could be credited to the latter. With modern information technology such a Clearing House System would not demand heavy resources. But it would require mutual confidence between Member States' VAT collecting authorities. The Clearing House System could be brought into operation before the process of rate approximation had been completed. This would achieve a decisive simplification for commercial transactions before the full new tax structure came into force by the end of 1992.

Excises

213. In the case of the excises, Council negotiations on the structure of the duties on alcoholic drinks are now far advanced, and a package solution should be achieved before the end of 1985. Next in line, for approval before the end of 1986, will be the excise structure for mineral oil products, and the third stage of the common cigarette duty structure. The relevant proposals are already before the Council. The next step will be for the Commission to table proposals for the final stage of the cigarette duty structure and for a common structure for the excises on other manufactured tobacco. These proposals should in their turn be approved in the course of 1987.
214. In framing proposals for common rates it is necessary to look at the VAT and excises together. The reason for this is that high yields from VAT often tend to be counterbalanced by low yields from the excises and vice versa. In short the figures to be adopted for the excise rates are dependent to some extent on the rates adopted for VAT. The two sets of proposals must be presented together. The Commission proposals for excise rate bands will therefore be presented alongside the similar VAT proposal during 1986. There will be a proposal for a rate band for each of the excises to be retained (tobacco products, beer, wine, intermediary products, spirits and mineral oil products). These will need to be accompanied by a "standstill", whereby Member States would undertake to avoid moving away from the common bands.
215. During the subsequent period up to the end of 1992, Member States will need to carry out the adjustments required to the coverage of their excises and the approximation of rates. The changes in coverage will include the extension or introduction of a wine excise in some Member States and the abolition or reduction of all excises other than the common ones, where these would create distortions in the operations of the Common Market. Examples are excises on tradeable goods, such as coffee or tea.
216. Finally, it will be necessary to introduce a system to link together the bonded warehouse systems in individual Member States in order to allow intra-Community transactions in excised goods to take place without frontier controls. Proposals for such a linked system will be tabled as the approximation of rates goes forward. It will be possible for this to be done separately for each group of excises, probably with mineral oils, where present deviations are smallest, as the forerunner.

Enforcement

217. It is not, of course, enough simply to pass Community legislation. One must also ensure that the rules of the Treaty and of the derived legislation adopted under it are implemented and enforced. In the fiscal as in the other spheres, pursuit of infringements of the existing Community law must go hand in hand with positive legislative measures. The Commission has a duty not only to propose legislation under Article 99 of the Treaty, but also to seek respect of the principles of non-discrimination laid down in Article 95. It will continue to carry out that duty as an essential

element of the drive to eliminate all barriers to the completion of the Internal Market.

Derogations

218. It has already been made clear in the Introduction to this White Paper that the Commission recognises that the approximation of indirect taxation will give rise to considerable problems for some Member States ; and that as a consequence it may be necessary to provide for derogations. There are areas of considerable political sensitivity which may have to be accommodated in this way. Nevertheless it is in the general interests of the Community that such derogations should be kept to the minimum.

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.

