

## **PRESS DOSSIER**

### **RHODES EUROPEAN COUNCIL DECEMBER 2 - 3 1988**

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## PRESS CONFERENCE OF MR DELORS PRECEDING THE EUROPEAN COUNCIL IN RHODES

28 November 1988

In order to understand what the European Council is all about I think we should bear in mind that a great deal of headway has been made in the last four years; and generally speaking the house is in a state of good order. The Heads of State and Government are not going to waste their time discussing matters which have been passed upstairs to them, on appeal so to speak, because the Ministers haven't reached agreement, or because there is a dispute between Council and Parliament about the budget, or because there is a lack of resources. That is not going to happen. The Community is on the move and it is in that rather new context that we should see this European Council.

As of now, the European Council has three essential tasks to fulfil: They are meeting in order to take stock of the construction of Europe; to give a new impetus, a stimulus in certain areas where they feel things aren't moving fast enough; and to set priorities within the existing Treaties. That's what they are going to do in Rhodes.

On the first point, taking stock of the progress made towards the building of Europe, they'll be discussing a progress report on the 1992 Single Market based on the Commission's report made under Article 8b of the Single Act. Of course the Commission will be providing over and above that an assessment of the degree of achievement of the other objectives of the Single Act - something which a number of countries will be calling for because they set great store by a striking balance between the drive towards the Single Market and the achievement of the other objectives provided for in the Single Act.

The second role of the European Council will be to stimulate the work of the Council and the Commission. When examining carefully how far we've got with the Single Market they will, I'm sure, come to the conclusion that there are two areas where Community Institutions should give priority treatment: the fiscal dimension of the large market, with the approximation of consumer taxes, or approximation of capital earnings taxes; and Citizen's Europe, where there is a certain amount of disappointment.

Thirdly, looking ahead to new initiatives, new guidelines; we have not yet received the letter from the Greek Prime Minister, but on the basis of what the Foreign Minister had to say and what has been said, it appears that these guidelines for the future should perhaps concentrate on audiovisual policy in Europe or, if Mr Lubbers raises the point again, the status of immigrants and refugees in our Community. I myself had proposed that the European Council should lay special stress on the exchange of young people. The ERASMUS and COMETT programmes have been a great success but I don't think this will be accepted as a point for discussion by the Greek Presidency. With regard to the Community's role in foreign policy I think the Heads of State and Government and the Foreign Ministers will concentrate above all on East-West relations. As you know, I as President of the

Commission have always set great store by the Community speaking with one voice. This has implications for our work within our areas of competence.

I think they'll also talk about the Middle East. Over dinner in the evening they will also discuss the bilateral contacts which Mrs Thatcher and Chancellor Köhl have had with Mr Bush and Mr Reagan.

## QUESTIONS

How a crisis can be avoided

In the last four years we have moved forward step by step and have avoided doctrinal squabbles and clashes. We have done more in the last three and a half years than we did in fifteen years of ideological confrontation between the functionalists, the federalists, the agnostics and the believers in what have you.

On Commissioners and their responsibilities

I have had no room for manoeuvre on the appointment of Commissioners. Either I heard about it on the radio or in the best cases I actually had a phonecall to give me the names. Now people should leave the Commission in peace to get on with its work and organize its working programme for the next four years. That is what I have said to a number of Heads of State and Government who have been rather insistent. Just let us get on with our work and decide how we're going to share out the jobs; also see what priorities we are going to submit to the Parliament for the next four years. There will be a debate in Parliament on our priorities for the next four years.

On the social dimension

On behalf of the Commission I made four commitments to the ETUC. First, harmonizing upwards working conditions, health and safety conditions, according to Article 118A of the Single Act. The texts are before the Council and Parliament, especially the framework directive on the use of machines by workers.

Secondly, since employers feel that it is useful to be able to use European Company Law for new companies a few months ago, with Lord Cockfield, we submitted an outline text to see what possible working basis there might be and we proposed three solutions for workers participation in companies. The Council have now given us their reaction and we will now prepare a Directive. This will be ready in a few months time.

Thirdly, I thought it would be a good idea to have a CHARTER OF RIGHTS for workers in the Community. This would show how we understand society and civilization, social dialogue and the rights of each individual on the labour market. I have asked the Economic and Social Committee to prepare a draft because I thought that body was a place where workers and employers were properly represented from all Member States.

The fourth commitment is to pursue social dialogue and indeed improve it, so as to take account of the hopes and expectations of everyone. On January 12 I shall be convening a Summit, as it were, a Tripartite Summit with employers and trade unions to see how we can really pursue this dialogue. Of course I have taken contact with Mr Marin on this, as necessary.

Consequently, I think that we have worked well on the social dimension in the last few months. We have not even completed all that was asked of us at the Hanover European Council since we were also asked for a comparative study of the rules applied in different Member States on conditions of work.

On the Community and the other Europe

I have often said publicly that in the years to come the Community, as it becomes more and more credible and attractive, will have to define precisely what its relations are with the other Europes: EFTA Europe, the Central Europe of the Eastern Bloc and then the orphans, Malta, Cyprus, Yugoslavia and Turkey. Over the next four years we have to think seriously about the relations we might have with such countries, in economic and financial terms and culturally, as well as in foreign policy terms.

On the meeting of the G7

I don't have any fears about the European Monetary System but I would nevertheless support what Mr Beregovoy and Mr Stoltenberg have suggested. I think it would be perfectly worthwhile to have the Group of 7 meeting, at the level of Ministers of monetary and economic and financial affairs. They will bring together their own views of what has happened over the last eighteen months, the period that has elapsed since the Louvre Agreements and then they'll have to look ahead to the prospects for the future. This means having a better knowledge of the intentions of the American Administration concerning their budget policy and their exchange rate policy. Personally I support this request for a meeting and I would hope that the results of the meeting will not become known. We don't want to disrupt the exchange markets.

On relations with Eastern Europe

I have expressed my concern about the risks of commercial outbidding between Western countries, but at a deeper level. This concern will be calmed if I had the feeling as a citizen that the Twelve countries that make up the Community would exercise a real influence on the development of East West relations. Some believe that we are having a real influence, I am a bit sceptical. In order to define a commercial relations and cooperation with COMECON countries we really need to know what the general context is.

I would like a wide ranging strategic discussion from twelve democracies who are both concerned by what is happening in the East at the moment but are also concerned not to drop their guard and to protect their ideals of liberty and make progress in this way towards peace.

#### Taxes on savings

I shall have to do a bit of homework over the Christmas holidays to try and find a solution. So far I have not come up with a solution which can secure the agreement of the Twelve and I am not the only one trying to find a solution. Lord Cockfield is working on it and so are our services. In fact they have done some excellent work but that is not enough to get all 12 countries to agree.

#### The Immigrant population

We'll be going into the matter in depth, bearing in mind the difficulties that have cropped up so far with regard to the right of asylum and many other issues. But this is a point which is only partially within the sphere of competence of the EEC and part of it would come under inter-governmental agreements. But it is certainly my intention when the next Commission gets to work to make a working proposal to cover all of the issues that are raised by immigrants, refugees, political refugees and the like within the Community, so that our democratic ideals can apply fully to them as well.

#### On the harmonization of value added tax

When the Economic and Finance Ministers discussed this last time informally, in Crete, I noted that the differences remained pretty deep as between two countries and the other ten. And I suggested that the Commissioner responsible, Lord Cockfield, might meet each Economic and Finance Minister to see what the real difficulties were. Lord Cockfield is at present doing this, meeting them all, and he will be giving a report on this at the end of December. On that basis the Commission can see where it can go, try to bring people a bit closer and try to do this as rapidly as possible. This dossier will not be left to one side by the Commission.

#### Young people

Because of the success in ERASMUS and COMETT we need encouragement from the European Council so that more human and financial resources can be earmarked for this and actually meet the demand.

In making this request I had two objectives, first to highlight the best achievement we have - a Citizen's Europe - and note the importance for researchers and students and even businessmen to be involved and to try to reach our first objective, which is that 10% of Community students could have a university course spread over different countries or perhaps have spent some time in a company in another Member State.

#### American refusal of a visa for Mr Arafat

As a European citizen I am surprised and disappointed. The Palestinian Movement has just taken in the view of the world as a whole a step forward.

#### Economic and monetary union

Everything has its own time and the Ad Hoc Committee hasn't yet finished its work. In the light of what you know about the economic and financial union, can this be done without a real change in the Treaty? Well the simple answer is no. When will all this be done - changes to the Treaty - that is an open question. I have stated the four basic positions of principle, concerning Economic and Monetary Union; the Committee is trying to take account of these basic points of view and of course we need a lot of good common sense in our work.

#### Role of national Parliaments

I said "be careful", in ten year's time 80% of economic legislation and perhaps social legislation too may come from the Community. So I said national Parliaments should be involved more in European work, that's all. I was just describing what I thought would happen. I wasn't expressing any desires or giving any political ideas. I believe that national parliaments should be brought more into the democratic process in preparing the texts and translation of texts into the various legislations. I think the whole thing has been misunderstood. That is perhaps my fault, but that's what I was saying. I wasn't saying anything new on European Institutions. For everything there is a season. The task now is to apply the Single Act in full.

### FOUR YEARS OF REVITALIZATION

In 1984 a lethargic Europe, which had become bogged down in domestic squabbles, decided to breathe new life into the unification process. It realized that, in the face of growing worldwide competition, this was the only alternative to decline. On the initiative of Jacques Delors, President of the Commission, a central target was fixed: creation of a unified economic area - a large frontier-free market - by 1992. This implied the preparation of back-up policies (aid to less-favoured regions, the social dimension, the environment, etc.) and the policies needed to make a success of the venture (research and technology, economic and monetary union, etc.). This brought a new dual driving force into being: increased competition, thanks to the removal of trade barriers, and increased cooperation, thanks to the implementation of flanking policies.

Four years later, the picture is extremely positive on the whole. As the Hannover European Council noted in June 1988, progress towards a single European market has reached the "irreversible" stage. The Commission is concerned, however, at the lack of progress on taxation and a people's Europe.

#### A three-phase strategy

The first step towards revitalization was taken in 1985 following the enlargement of the Community to include Spain and Portugal. It took the form of a White Paper detailing the steps to be taken to dismantle physical, technical and fiscal barriers. The paper adopted the approach advocated by Jean Monnet, defining a programme, a timetable and a method. But it also highlighted the link between the creation of a single market and the adoption of flanking policies.

The Milan European Council in June 1985 adopted this detailed programme and timetable and recognized the need for revision of the Treaty of Rome to make the Community's decision-making procedures more effective and more democratic. The Single Act, introducing far-reaching institutional reforms, was adopted six months later.

The Single Act is based on three principles: speeding up decisions, improving decisions and making decisions more democratic. Wider use of qualified majority voting has put an end to the constant efforts to secure unanimity, which frequently resulted in agreement on the lowest common denominator. The option which was always open to the Council of leaving it to the Commission to implement legislation on the basis of general rules has now become standard practice. Lastly, Parliament has become genuinely involved in the legislative process, largely as a result of the introduction of a second reading.

The Single Act then defines the objective and provides the institutional means of creating "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured" by 31 December 1992. But it also extends the scope of Community activities incorporating the following principles into the Treaty of Rome:

- the need to strengthen economic and social cohesion;
- the need to develop scientific and technological cooperation;
- the provision of monetary capacity with an eye to economic and monetary union;
- the harmonization of working conditions and the dialogue between management and labour;
- the need to protect the environment.

To ensure the credibility of this strategy, the Community had to secure financial resources commensurate with its new ambitions. This was achieved with the "Delors package", the third phase of the revitalization strategy, which was adopted by the Brussels European Council in February 1988. This means that the necessary decisions have been taken to adapt agricultural policy to new production patterns, to double the resources of the structural Funds to help the less-favoured regions, and to ensure stable and adequate financing.

#### At the service of competitiveness .....

The economic advantages of the overall strategy have been proved beyond doubt. A study of these was carried out by Mr Cecchini at the request of Lord Cockfield, the Member of the Commission with responsibility for the internal market. Using a survey of 11 000 industrialists, it quantified the high cost of the border controls which now divide the Community into twelve separate markets. It also calculated anticipated benefits

in terms of growth, job creation, economies of scale, enhanced productivity and profitability, the improvement of the conditions of competition, mobility of firms and employees, price stability and a wider choice for consumers. The gain in economic terms from the single European market has been put at ECU 200 000 million (1988 prices); GDP is expected to increase by 5% (cumulative effect over five or six years), and prices to fall by 6%. A positive impact on employment is expected in the medium term: some two million jobs should be created (or five million if the flanking policies are taken into account).

The mid-term review required by Article 8 b of the Treaty as amended by the Single Act, can therefore point to considerable progress in terms of both quality and quantity. By dint of regrouping some proposals and eliminating others, the Commission reduced the number of proposals required by the single market from 300 to 279 and has already forwarded 90% of these to the Council. The Council has adopted about 40% of them (if proposals approved on first reading are taken into account). Substantial progress has been made in relation to standards, services, the liberalization of capital movements, the opening up of public procurement, the mutual recognition of diplomas, and the Community transport market. Industrialists and financiers are well aware of the importance of the single market and are now incorporating it into their strategies.

#### ... but of Europe's citizens

Europe must be more than a free trade area plus a few financial transfers. Acceptance of this fact by the Single Act has led to policies to flank the single European market.

The policy on economic and social cohesion seeks to help regions which are lagging behind or are in the throes of industrial conversion to share in the general advance. Substantial resources (ECU 12 000 million in 1992) have been allocated to it, although the effort is still modest in terms of Community GNP (0.3%). But reform of the structural Funds should lead to better programming, greater concentration of assistance, and hence improved efficiency.

This policy should make it possible to reduce the number of derogations to single market rules and to limit them to the transitional measures needed to ease adjustment to the European pace.

The social dimension provided for by the Single Act widens the scope for the adoption of legislation to improve working conditions (particularly in the area of health and safety). The Hannover European Council laid down a series of principles in this regard. Steps taken on the social front must not lower the level of protection already attained in the Member States. On the contrary, they must work to everyone's advantage. The Commission has therefore presented six proposals for directives to the Council on health and safety at the workplace. It intends to propose a Community charter of fundamental social rights (this is being drafted by the Economic and Social Committee) and to step up the social dialogue at Community level.

Environment policy is designed to combat the dangers that threaten the environment, with particular reference to those arising from air and water pollution. Agreements on discharges of sulphur and nitrogen dioxide on implementation of the Vienna Convention on the Protection of the Ozone Layer, and on standards for car exhausts provide answers to some of the issues which are causing growing concern, perhaps in some countries more than others, and derive from a priority policy that is still hampering the continuing need for unanimity.

Research and technological development policy should enable us to avoid duplication and wasted effort. The Esprit, Race and Brite programmes have spawned inter-industry links and have helped to promote effective application of the new technologies in areas as varied as telecommunications, biotechnology, and high definition television.

Economic and monetary union is enshrined in the Single Act too. Following progress on the European Monetary System thanks to the Basel and Nyborg agreements in September 1987, which developed certain EMS mechanisms and strengthened multilateral monitoring of economic and monetary policies, a seventeen-member committee, chaired by Mr Delors, was given the task of proposing a series of steps towards the gradual attainment of economic and monetary union.

Only the balanced development of these six policies will enable Europe to make the most of the dynamism generated by the revitalization strategy. That is why the lack of progress on a people's Europe in terms of right of residence, simpler frontier formalities (which imply intergovernmental cooperation on drugs, arms traffic and terrorism) is a cause for concern as are the delays attributable to the tricky business of approximating indirect taxation - a prerequisite for open frontiers - or the difficulties of drafting of plant health rules.

But things are on the move. The Community, the world's leading exporter, a partner open to the world, has become a force to be reckoned with: for the Americans and the Japanese who are nonplussed by its new-found assertiveness; for the eastern bloc which recognizes it either through the interface of Comecon or, in the case of Hungary and Czechoslovakia, through direct cooperation agreements; and for its European neighbours who are keen to share in the Community's "renaissance".

At home, the Community has contrived not only to innovate and propose but also to manage (thanks to a revamped common policy, agricultural spending now represents less than 60% of Community expenditure and adoption of the budget is no longer acrimonious) and to ensure compliance with common rules without attempting to deal with matters that are best handled at national level.

Never before has the Community been so close to achieving the basic aim assigned it by Article 2 of the Treaty of Rome: "to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it".

## COMPLETING THE INTERNAL MARKET : AN AREA WITHOUT INTERNAL FRONTIERS

### THE PROGRESS REPORT

#### INTRODUCTION

1. At the European Council at Hanover in June of this year, the Heads of Government declared that progress towards the Completion of the Internal Market, the major objective set out in the Single Act:

"has now reached the point where it is irreversible, a fact accepted by those engaged in economic and social life".

It is the bounden duty of all the institutions of the Community to ensure that this is in fact so, and continues to be so to the very point of success.

2. What is at stake is the future prosperity of Europe, the standard of living of its citizens and the employment of its people. If anyone ever doubted the immense benefits that the integration of the European Market could bring, the findings of the Cecchini Study "The European Challenge. 1992: the Benefits of the Single Market" should dispel them. The prospect of a 5% growth in Community GNP, price reductions of 6% and 2 million new jobs. And if appropriate accompanying policies are adopted, a rise of 7% in GNP and 5 million new jobs, three years additional growth and a reduction of one third in the dole queues of Europe. What other policy could offer a tithe of this?

3. The completion of the Internal Market is also the foundation on which the other policies of the Community - as set out clearly and specifically in the Single Act - are based, namely cooperation in economic and monetary policy (economic and monetary union), social policy, economic and social cohesion, research and technological development, the environment, and European co-operation in the sphere of foreign policy.

In short, the completion of the Internal Market is not only the key to the Community's prosperity, it is the key to the Community's future. It is the key that will, and must, unlock the door.

4. It is not surprising that the policy has at long last caught the imagination of the people of Europe; not just the political leaders and the politicians, but the leaders and workers in industry and above all the ordinary men and women of Europe. We must not let them down. We must not disappoint their hopes and expectations.

5. The distinguishing marks of the Internal Market programme were first, as the Heads of Government recognised in Milan when the programme was first launched, that it was a "complete and effective" programme; and second, that it was set in a time frame. Both points are now enshrined in the Single European Act.

So far as the first is concerned, the Single Act defines the Internal Market as:

"an area without internal frontiers in which the freedom of movement of goods, persons, services and capital is ensured...".

So far as the second point is concerned, the Single Act says that all this is to be achieved:

"progressively over a period expiring on 31 December 1992".

6. The reason for setting the programme in a time frame was both to measure progress and impose discipline. To this end the Commission has published a regular annual progress Report. The Single Act takes up the same theme. It provides that:

"The Commission shall report to the Council before 31 December 1988 and again before 31 December 1990 on the progress made towards achieving the Internal Market within the time limit fixed in Article 8A" (viz by 31 December 1992)."

7. The date of 31 December 1988 marks the half-way point of the programme. It is therefore a crucially important point. The purpose of the Report is to enable the Council, on a proposal by the Commission, to ensure balanced progress in all the sectors concerned: but above all to take whatever measures may be needed to ensure the completion of the programme and its completion on time. Its importance can not be exaggerated. We have to maintain the confidence not only of ordinary people but also of industry. Industry is

beginning now to invest on the basis of a Europe wide market achieved by 1992. That investment will in itself provide a valuable stimulus to the European economy. We must ensure that the confidence of industry is not only sustained but reinforced.

## PART I : OVERVIEW

### A. THE POSITION GENERALLY

8. The original White Paper total of 300 proposals has been slightly whittled down to 279 by the elimination of a few proposals no longer required, and the grouping of others, partially offset by the addition of a small number of new proposals. The target set by the Commission last year, as a matter of internal administration, was that 90% of the proposals should be "tabled" by the end of the present year (31 December 1988). That target we expect to be met; and it will mean that by then the shape of Europe as it will be after 31 December 1992 will be clearly apparent virtually in all of its detail.

9. The Council has not done as well although progress is improving as the majority voting rules in the Single Act begin to bite. At present the Council has adopted one third of the total number of measures required; if one adds "common positions" - the stage of the co-operation procedure where the Council can be considered to have reached political agreement - the score rises to almost 40% (viz. 108 proposals out of 279). We would have hoped that by the year end the total, including common positions, might have reached 50%. But that figure looks unlikely to be achieved. This means that the Council has a great deal to do in the next two years. Although there are four years left before 31 December 1992, Member States must be given time to incorporate Community measures into national law to come into operation. Effectively this means that the Council must complete most of its work in the next two years.

That in turn will require a considerable acceleration in its striking rate. It is well to remember that the Council deals not only with White Paper measures but also measures not included in the 279. While these are important, and some e.g. those relating to the Customs Union can be said to have a bearing on the Internal Market, their inclusion in the total number of measures adopted by the Council can give a false impression of the rate of progress.

10. The co-operation procedure with the Parliament has in general worked well and the Parliament itself has played a helpful and constructive part. But two comments need to be made. First the Parliament has a "stock" of measures awaiting opinions. It is commendably reducing the back log,

and it is important that this should continue. Second, the co-operation procedure has itself certain defects that can only be overcome by constructive co-operation between the three institutions.

11. While, therefore, overall the positions can be regarded as satisfactory, progress remains patchy. In some areas it is very good; in others unacceptably poor. Comments on important individual areas appear below.

#### B. THE POSITION IN INDIVIDUAL AREAS

12. In some areas progress has indeed been good - particularly in relation to the removal of technical barriers to trade in goods and services and in the liberalization of capital movements. Indeed, of the Council's roughly 100 adoptions and common positions, some 70% relate to proposals linked to the technical barriers chapter of the White Paper. This progress can to a considerable extent be attributed to the carefully balanced mix of harmonisation, where essential requirements and basic rules are concerned, and mutual recognition where national legislation can be demonstrated to be directed to identical aims.

We can draw considerable satisfaction from the major advances made in several critical areas - advances which more than anything have given rise to the wide-spread feeling among economic quarters that the process is irreversible and that their planning and investment decisions must be based on the confident expectation that the programme will be completed on schedule. Details of progress in individual areas are to be found in Part II of this report, but it is worth highlighting here some of the major breakthroughs which have created the new momentum:

(a) As far as goods are concerned, the new approach to technical regulations and standards is in place and working. The major framework directives on pressure vessels, toys, construction materials and electromagnetic compatibility have been adopted or are close to adoption; and work is well advanced on the machine safety directive. Significant progress has also been made in food law;

(b) The service sector, previously the Cinderella of the Internal Market, is catching up fast. In the financial services in particular, important advances have been made or are ready to be made. For example, after years of immobility, the Council has at last

adopted the second (and far-reaching) non-life insurance directive. All the measures needed to create a European wide banking market have now been tabled (including the crucially important second banking coordination directive). Some have already been adopted. The rest are making good progress through the Council and the Parliament; on a less happy note, the Council has regrettably failed to adopt the Commission's proposal to liberalise audio-visual services, some Member States having preferred to divert valuable time and effort to seeking agreement on a Council of Europe Convention which could not in any sense be a substitute for a Community Directive;

(c) All the measures required for the complete liberalization of capital movements have also been adopted. The directive liberalizing long term capital movements is already in force. The directive liberalizing short term movements, down to and including bank accounts, has been adopted and generally comes into force in 1990; these directives need to be completed by measures, for which the Commission will soon be putting forward a proposal, in relation to fraud and tax avoidance;

(d) Work on public procurement, which accounts for such a significant proportion of economic activity in the Community, is now making good progress. Two new and important directives on public supplies and public works have been agreed in the Council; the excluded sectors proposals are on the Council table, as is the compliance directive; and the picture will be completed early in 1989 when the Commission tables its draft directive covering public procurement in the service sector;

(e) The directive providing for the mutual recognition of professional qualifications has every prospect of being adopted by the end of the year. At long last this will offer the citizens of Europe, with professional qualifications, opportunities to exercise their skills throughout the Community. The days when it took 18 years to reach agreement on a directive on architects or 16 on pharmacists are now a thing of the past.

(f) After a long period of stagnation, the past two years have seen very significant steps towards the establishing of a genuine Community market in transport services. Three measures stand out. In December 1986, the Council agreed to liberalize maritime transport between Member States and with third countries. In December 1987, the Council adopted an extensive package of measures introducing much greater market openness and competition into European air transport. And in

June 1988, the Council agreed on the total abolition by the end of 1992 of road haulage quotas within the Community.

13. In other areas, however, progress has been disappointing, in some instances to the point of raising real concern. This is true in the field of plant and animal health, where both Commission and Council alike have fallen behind; but especially so in the fiscal area and in the great range of matters relating to "Citizens' Europe", and particularly the freedom of movement of individuals.

14. The critical issue in the fiscal field is the harmonization or approximation of indirect taxation. There is simply no way that the objectives of the Single Act - particularly the removal of the internal frontiers and the controls which go with them - can be achieved without removing the fiscal reasons for frontier controls. This in turn requires a substantial measure of approximation of indirect taxation, that is the lesson of more than 30 years' experience and no one has at any time produced a viable or even plausible alternative. Despite the remit given by the European Council at Milan in June 1985, reinforced by the terms of the Single Act itself, there has been great reluctance on the part of the relevant Council to face up to the issues involved; much time has been wasted in going over the same ground again and again and in re-examining so-called alternatives which have repeatedly been rejected as often as not by the Member States themselves.

At long last some progress is being made but it is essential that this progress should not only be sustained but accelerated. Time is now very short and further delay will only make more difficult the problems to be confronted on 31 December 1992 when the internal frontiers have to go.

15. Progress on Citizens' Europe has been almost as disappointing. The one bright spot has been the Council's agreement on the directive on the mutual recognition of diplomas (professional qualifications). But elsewhere little has been achieved. The draft directive on facilitating frontier procedures for travellers has made no progress; nor has the directive on the right of residence. The problems presented by the need to find alternative and preferably more efficient means of dealing with arms, terrorism and drugs are substantial. Unfortunately Ministers dealing with these problems still seem to be wedded to their present inefficient frontier controls rather than actively seeking out new and better ways of confronting these issues. Intergovernmental co-operation has an immensely important

role to play in this area, particularly in providing the indispensable strengthening of the external frontiers. For all these reasons new instructions from the highest level and a fresh political impetus are essential. There are two points we must stress. There is a great volume of evidence that present controls are largely ineffective. What we are looking for are better controls and we believe they exist. Second the Commission has never said that frontier zones should be "no go" areas for the enforcement agencies. If evidence or reasonable suspicion exists, of course an individual can be stopped or apprehended. But what must go is the routine, mindless interference with the great mass of ordinary innocent travellers going about their legitimate business.

16. In order to meet the requirement of the Single Act that the Internal Market should be completed "in a period expiring on 31 December 1992", it is essential that the European Council should give the clearest possible direction to all the specialist Councils and Ministers involved that they must stop trying to re-open the past and must now bend their undivided attention to solving the problems and ensuring that the objectives of the Single Act are met, and met on time.

#### C. INSTITUTIONAL ISSUES AND THE DECISION-MAKING PROCESS

17. When they became aware at Milan in June 1985 of the breadth and time frame of the programme to complete the Internal Market, the Heads of State and Government concluded, on the Commission's recommendation, that the ambitious target set could only be met if institutional changes were made which would speed up the decision-making process. The Single European Act, which came into force last year, introduced important improvements both to the way in which the Council takes its decisions and the European Parliament exercises its powers. In particular the voting rules for certain key Treaty articles (notably Article 100, but also Articles 28, 57.2, 59, 70.1 and 84) were amended as a result of the Intergovernmental Conference in December 1985 to allow for qualified majority voting to replace the previous unanimity rule. The Commission, while welcoming these institutional changes, expressed its disappointment at the time that some potentially important gaps remained unfilled.

18. After a slow start, due in part to the inevitable delays involved in the introduction as part of the Co-operation Procedure of a second Parliamentary reading for a large number of Internal Market proposals, these decision-making

changes appear to be providing good results. Majority voting or the availability of such voting has produced a marked acceleration in the rate at which the necessary decisions are being taken. The Commission draws encouragement from experience so far that both the Council and the Parliament wish to put the possibilities provided by the Single Act to the best use. For its part, the Commission, helped considerably by the European Court's judgement on the "hormones" case, has applied as far as possible the principle of the single legal base for its proposals, in order to avoid the addition of articles requiring unanimity.

19. Against this generally positive background, two less satisfactory elements need to be mentioned:

(a) although the Council has demonstrated the good use to which it has put the new voting possibilities under Article 100A, there is little sign of greater flexibility in Council discussions of Commission Internal Market proposals based on articles requiring unanimity. This is particularly important in the fiscal field where, as pointed out in paragraph 14 above, there is a need for real progress;

(b) one of the major decisions taken at the Luxembourg Intergovernmental Conference which drew up the Single Act was that there was a need for greatly improved decision-making procedures especially when dealing with what were essentially management issues: and there was general agreement that this required greater delegation of powers to the Commission. Despite this, the Council has given virtually no practical effect to the declaration made by the Member States in relation to the Single European Act that they would "give the Advisory Committee procedure in particular a predominant place in the interests of speed and efficiency in the decision-making process, for the exercise of the powers of implementation conferred on the Commission within the field of Article 100A of the EEC Treaty." It has shown instead a general preference for formulae which maintain the possibility for national governments to block implementing decisions or even to ensure that decisions cannot be taken at all. In the food law sector, the Council even goes so far as to reserve implementing powers to itself. Furthermore, the extreme positions being adopted in the Council discussions of banking matters are putting progress in this vital sector at risk. The Commission cannot believe that Heads of State and governments would view this as being in conformity with the letter or the spirit of the Luxembourg Intergovernmental Conference.

#### D. THE EXTERNAL DIMENSION

20. As 1992 draws closer and the present momentum is increasingly seen to be irreversible, the external dimension of the programme to complete the Internal Market has aroused growing interest and, to some extent, anxiety. The anxiety has come from two opposite poles: on the one hand, fears have been expressed in some quarters within the Community that the main benefits of the completed Internal Market with its 320 million consumers will flow to powerful and well-prepared third country enterprises better equipped than their Community competitors to take advantage of the new opportunities. At the other extreme, certain of the Community's trading partners, without having any concrete evidence to support their fears, have voiced uneasiness that the completed Internal Market is bound to be accompanied by measures designed to exclude or at least disadvantage third country interests.

21. Since the Commission firmly believes that both these extreme views are both misguided and dangerous, it made its position clear on the matter on 19 October 1988. This position is based on the following key principles:

(a) The Internal Market will be beneficial both to European companies and to non-Community firms that will no longer have to deal with the national physical and technical frontiers it is to abolish. In addition, the economic growth expected from the completion of the Internal Market will have favourable economic consequences, both for the Community and for its trading partners. It will strengthen the Community's position as the world's leading trading power and as the one with the greatest stake in preserving and enhancing a liberal multilateral system;

(b) The Internal Market programme involves no weakening of the Community's commitment to respect its international obligations. Where international commitments, whether multilateral or bilateral, exist, they will be honoured. In sectors where no multilateral rules exist, the Community, making use of its powers at international level, will endeavour to reinforce and enhance the multilateral system. The Uruguay Round negotiations currently provide us with such an opportunity both to improve the existing arrangements and to introduce liberalizing measures in areas where no international rules yet exist; we would only hope

that our trading partners will take so clear and forthright a view of their International obligations;

(c) Pending implementation of the multilateral agreements under negotiation, it would be premature - in fields not yet subject to international obligations - for the Community automatically and unilaterally to extend to third countries the advantages of the internal moves towards liberalization. Those third countries, from whom it is reasonable to expect comparable liberalisation, will benefit to the extent that a reciprocal and mutual balance of advantages is attained in the spirit of GATT; in furtherance of this policy the Commission has written such provisions into its proposals for a 2nd Banking Coordination Directive and for a Directive extending the rules of public procurement to the hitherto excluded sectors;

(d) On a somewhat different subject completion of the internal market will require the removal or modification of a number of long standing national measures relating to imports which require the maintenance of internal border controls. The consequences of abolition where this is appropriate are now under examination in the various sectors concerned. Anyhow, the net result is bound to be a reduction in the current level of protective measures.

#### E. GENERAL MEASURES

22. Part II of this report gives details about the individual White Paper proposals and their progress.

It does not deal in depth with progress in the policy areas listed with the completion of the internal market in the Single Act. The President of the Commission may wish to cover this point at the European Council itself. It does, however, touch on some other areas, such as consumer protection and energy policy which, while not forming part of the internal market programme itself, nevertheless are related to it.

23. One general point does, however, need to be particularly stressed. It is not enough for the necessary measures to be adopted; they must also be transposed into national law, where appropriate, and fully implemented in the Member States. At the present stage, with few of the White Paper Directives yet in force, it is too early to express a

considered view on whether there are likely to be real problems of implementation ahead. However, the large number of cases the Commission has had to open against the Member States for non-respect of existing legislation and Treaty principles and the failure - in some cases on a very disturbing scale - of some Member States to implement Court judgements do not give cause for complacency. In the period ahead it will be up to the Commission to keep a strict check on the effective application of internal market measures, and to alert the political authorities if the objectives of the internal market are called into question when the commitments undertaken come to be implemented. The principle of mutual recognition between Member States implies a strengthened vigilance by the Commission of the actions of Member States. This responsibility will be in addition to that already exercised by the Commission in monitoring the application of the Treaty. Derogations need a special mention here. Article 8C of the Single Act allows for a limited use of derogations to provide certain Member States with some extra time to adapt to the pace of change. The Commission will remain sensitive to the thinking that gave rise to Article 8C and to other potentially difficult situations, while maintaining the general principle that derogations should be temporary and kept to a minimum.

#### OVERALL ASSESSMENT

24. As this report shows, there is cause for satisfaction and encouragement in what has been achieved in the three and a half years since the White Paper on the Completion of the Internal Market was presented to the Milan European Council in June 1985. We could not then have been confident that by now such an irreversible momentum would have been generated nor that the widespread feeling would have taken root both within and outside the Community that our far-reaching objective will be achieved - and achieved on time. But the report also shows that many difficult problems involving controversial areas remain to be solved. The Community cannot allow itself to duck these problems or be tempted to lower its ambitions by watering down the definition of an "area without internal frontiers". The Cecchini report makes it clear that to achieve the full economic benefits of the completed internal market frontier controls must be removed completely: any pretext for retaining a frontier control for a specific purpose, even if arguments could be advanced to support it if looked at in isolation, will preserve or create the machinery for interrupting the free flow of goods, services, capital and people which the Single Act commits us to achieving. Equally it will become increasingly difficult - in political terms - to explain to the citizens of Europe why such effort is being made to enable goods to move freely across frontiers while no such equivalent effort is made for people.

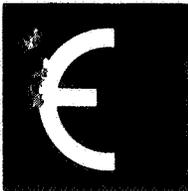
25. The large number of decisions that remain to be taken need to be taken within the next 2 years if Member States are to have time to transpose them into national law and make the necessary adjustments before the end of 1992. A further impulse is needed now. The European Council at Hanover already singled out a number of key sectors on which attention should focus. This report has identified three major areas on which new instructions and new attitudes are essential: fiscal matters; animal and plant health questions; and the free movement of people. And the time has also come for the European Council to give real meaning to its declaration at the time of the Luxembourg Intergovernmental Conference concerning the delegation to the Commission of greater and more efficient powers of execution.

#### THE PROSPECT AHEAD

26. The Single Act requires a further report in 1990 and provides a final opportunity for review in 1992 itself "to allow the Council to act before the end of 1992". That may be when the final - possibly even heroic - decisions have to be taken to ensure that the Internal Market is completed and completed on time. But we cannot wait until then. We must reaffirm our commitment now; we must build upon the Declaration at Hanover that "this major objective (of completing the Internal Market) has now reached the point where it is irreversible"; we must ensure that when the 1992 report is made it is a catalogue of achievement not a confession of failure; that we can stride confidently ahead into the new Europe which awaits us.

27. All the Community Institutions have their part to play in this unfolding drama: the Commission, the Parliament and the Council. It is vital that they all approach their task in a Community spirit, in a willingness to put the Community interest above their own national interests and above their institutional ambitions. The framework we have for action and achievement is far from perfect. It offers too many opportunities to the hesitant, the faint at heart and those who would pursue narrow interests and limited objectives.

But we have to rise above this. If we cannot have a perfect mechanism, we must compensate for this by strength of will. What is at stake is the future of Europe. Not sterile arguments based on a past which has long since disappeared. The Commission is the guardian of the Treaties. But we are all the guardians of the future of Europe. The people of Europe expect us to deliver. We must do no less.



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Brussels, 9 November 1988

**Half way to 1992:  
The Commission takes stock<sup>(1)</sup>**

The Commission today adopted the half way progress report on the completion of the internal market requested by the Single Act. This report which represents the legacy of this Commission in one of its most important policy areas will be considered by the European Council meeting at Rhodes on 2 and 3 December next.

Lord Cockfield, Vice-President of the Commission, presenting the report said that the overall position was satisfactory. Indeed, the Commission's report finds considerable cause for satisfaction in what has been achieved in the 3 1/2 years since the White Paper was published. In particular it points to the irreversible momentum that has been established and the wide spread feeling both inside and outside the Community that the objective will be achieved and on time. But the report also points out that progress has been concentrated mainly in the area of technical barriers, whilst the picture on physical and fiscal barriers looks less healthy. "We have been more successful so far at creating the conditions for free movement of goods, services and capital, than at securing free movement for the citizens within the Community."

**The score sheet**

The original White Paper total of 300 proposals has been slightly whittled down to 279 by the elimination of a few proposals no longer required, and the grouping of others, partially offset by the addition of a small number of new proposals. The target set by the Commission last year, as a matter of internal administration, was that 90% of the proposals should be "tabled" by the end of the present year (31 December 1988). That target we expect to be met; and it will mean that by then the shape of Europe as it will be after 31 December 1992 will be clearly apparent, virtually in all of its detail.

(1) COM(88) 650

The Council has not done as well although progress is improving as the majority voting rules in the Single Act begin to bite. At present the Council has adopted one third of the total number of measures required; if one adds "common positions" - the stage of the cooperation procedure where the Council can be considered to have reached political agreement - the score rises to almost 40% (viz. 107 proposals out of 279 as of the beginning of November).

The report also notes that the Council is making good use of the new voting procedures introduced by the Single Act and that the cooperation procedure with the Parliament has in general worked well with the Parliament itself playing a helpful and constructive part. But the cooperation procedure has itself certain defects that can only be overcome by constructive cooperation between the three institutions.

#### Good progress on eliminating technical barriers

70% of the directives and measures adopted by the Council relate to proposals linked to the technical barriers' chapter of the White Paper.

As far as goods are concerned, the new approach to technical regulations and standards is in place and working. The major framework directives on pressure vessels, toys, construction materials and electromagnetic compatibility have been adopted or are close to adoption; and work is well advanced on the machine safety directive. Significant progress has also been made in food law.

The service sector, previously the Cinderella of the Internal Market, is catching up fast. In the financial services in particular, important advances have been made or are ready to be made. For example, after years of immobility, the Council has at last adopted the second non-life insurance directive. All the measures needed to create a European-wide banking market have now been tabled. Some have already been adopted. The rest are making good progress through the Council and the Parliament. The Council's failure to adopt the Commission's proposal on audio-visual services is, however, highly regrettable.

All the measures directly required for the complete liberalization of capital movements have also been adopted. The directive liberalizing long term capital movements is already in force. The directive liberalizing short term movements, down to and including bank accounts, has been adopted and generally comes into force in 1990. A gap still remains and will be filled when the Commission shortly produces its proposal to deal with potential fiscal evasion.

Work on public procurement, which accounts for such a significant proportion of economic activity in the Community, is making good progress. Two new and important directives on public supplies and public works have been agreed in the Council; the excluded sectors' proposals are on the Council table, as is the compliance directive; and the picture will be completed early in 1989 when the Commission tables its draft directive covering public procurement in the service sector.

The directive providing for the mutual recognition of professional qualifications will be adopted by the end of the year. At long last this will offer the citizens of Europe, with professional qualifications, opportunities to exercise their skills throughout the Community.

After a long period of stagnation, the past two years have seen very significant steps towards the establishing of a genuine Community market in transport services. Three measures stand out. In December 1986, the Council agreed to liberalize maritime transport between Member States and with third countries. In December 1987, the Council adopted an extensive package of measures introducing much greater market openness and competition into European air transport. And in June 1988, the Council agreed on the total abolition by the end of 1992 of road haulage quotas within the Community.

#### Areas which have fallen behind

In three main areas, however, progress has been disappointing. This is true in the field of plant and animal health, where both Commission and Council alike have fallen behind. The second is the fiscal area, where the Council only recently began to discuss seriously the Commission's proposals which are well over a year old by now. And the third is the complex of problems surrounding the free movement of people.

The critical issue in the fiscal field is the harmonization or approximation of indirect taxation. There is simply no way that the objectives of the Single Act - particularly the removal of the internal frontiers and the controls which go with them - can be achieved without removing the fiscal reasons for frontier controls. This in turn requires a substantial measure of approximation of indirect taxation. That is the lesson of more than 30 years' experience and no one has at any time produced a viable or even plausible alternative. Despite the remit given by the European Council at Milan in June 1985, reinforced by the terms of the Single Act itself, there has been great reluctance on the part of the relevant Council to face up to the issues involved.

The extent to which the "Citizens Europe" concept has failed to strike a chord in the Council is symbolised by the fact that neither the directive on facilitating frontier procedures for travellers nor the directive on the right of resident have made real progress. Ministers dealing with these problems still seem to be wedded to their present inefficient frontier controls rather than actively seeking out new and better ways of confronting these issues. In this area, where intergovernmental co-operation has an immensely important role to play, new instructions from the highest level and a fresh political impetus are essential. There are two points we must stress. There is a great volume of evidence that present controls are largely ineffective. Second the Commission has never said that frontier zones should be "no go" areas for the enforcement agencies. If evidence or reasonable suspicion exists, of course an individual can be stopped or apprehended. But what must go is the routine, mindless interference with the great mass of ordinary innocent travellers going about their legitimate business. It is becoming increasingly difficult - in political terms - to explain to the citizens of Europe why such effort is being made to enable goods to move freely across frontiers while no such equivalent effort is made for people.

### Conclusion

Today's report has confirmed the Hanover European Council's conclusion that progress towards completing the internal market can now be considered irreversible, due mainly to the remarkable progress on removing technical barriers. The report has, however, also identified three major areas on which new instructions and new attitudes are essential: fiscal matters; animal and plant health questions; and the free movement of people. At the same time, the Commission also makes the point that time has come for the European Council to give real meaning to its declaration at the Luxembourg Intergovernmental Conference concerning the delegation to the Commission of greater and more efficient powers of execution.

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Brussels, July 1987

**EUROPE WITHOUT FRONTIERS**

**The Commission's blueprint for eliminating the  
necessity of fiscal controls at frontiers.**

A single market in which people would be free to go where they like, to buy what they like without having to fear the taxman at the frontier. No customs checks, no fiscal controls. It is true that the Customs' Union was completed in 1968, but frontiers remain. It is chiefly because of the differences between indirect taxation rates - VAT and excises - applied by Member States that checks at border crossings are justified. The Single European Act calls for the creation of a single internal market, an area of economic activity totally free of internal borders. The Commission's White Paper has spelled out the detail of this project and the approximation of indirect taxation within the Community is a fundamental requirement for this purpose. This will be one of the most delicate tasks to fulfil because of the role of indirect taxation in national budgeting.

VAT and excise duties brought close enough within Europe to make frontier checks unnecessary. Two VAT rate bands - a standard rate, and a lower one for basic necessities - and a set of common excise duties. A 5-6% margin of manoeuvre in each case for the Member States. For business a simplification of trade with other Member States. The Commission were asked by the heads of government to propose such a plan. That is what the Commission have now done. The dialogue with the Member States on what is a key ingredient of the programme to abolish controls at internal frontiers can now begin.

The Commission's mandate was not to create an upheaval of national taxation systems but to devise, on the basis of existing situations, a recipe for approximation which could guarantee the best possible fiscal environment for economic operators while at the same time disturbing as little as possible national fiscal policies.

The proposals embody a considerable degree of flexibility to enable Member States to decide within the margins provided: the general principle followed has been that of causing the minimum disturbance for the maximum number of Member States. In addition the view expressed in the White Paper of 1985 that there may be a need for derogations to meet cases of particular difficulty is reaffirmed as a matter of importance particularly to those Member States applying zero rates.

Fiscal approximation is the key to the abolition of internal frontiers. As long as there are internal frontiers and controls the internal market will not be complete. The most direct and immediate benefit will accrue to industry and commerce as the administrative costs of fiscal frontier formalities disappear and as the time spent in transporting goods is reduced. Relieved of these costs, business in the Community will become more competitive both in the internal market and internationally. This in turn should increase marketing potential and new opportunities for economies of scale in the manufacturing process.

But the main beneficiary will no doubt be the citizen of Europe who will be able to travel and go after his business in the Community without meeting any obstacles at internal borders.

#### The White Paper provided the strategy

The White Paper on completing the Internal market presented the Community with a clear and vital choice:

"Europe stands at the cross-roads. 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.

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 resources to the maximum advantage; and it would fail to satisfy the aspirations of the people of Europe."

The Commission's White Paper on completing the Internal market laid down a comprehensive programme for creating a Europe without frontiers by 1992. Europe's stagnation and relative decline over the past decade or more have been in considerable measure due to the fact that the countries of the European Community, for all their common heritage and common interest, remain a fragmented economy, divided into a dozen separate markets. It is to create a single economic base, a single home market of 320 million people, that the Community has determined to complete the integration of its Internal market by 1992. Only such an integrated, undivided Europe can offer the benefit of the sort of single large home market on which the performance of our most successful competitors is based.

The Commission's White Paper was endorsed by the heads of State and government at Milan 1985 and has since been universally accepted as the foundation for a rebirth of European aspirations. The Single European Act establishes as a legal commitment the objective of "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured". That means a Community without internal frontiers - not fewer or simpler frontier controls, but no divisive frontiers at all.

The present controls at the internal frontiers of the Community are used by Member States to enforce a wide range of policies. Much the most important of these is fiscal policy. If we are to abolish the internal frontiers which at present divide us, it is vital to deal with fiscal frontiers and the underlying reasons for their existence. This is something which has been accepted ever since the founding of the Community and was most recently reaffirmed in the Single European Act itself.

The European Council had asked the ECO/FIN Council to examine the fiscal chapter of the White Paper. This led to a report which concluded that fiscal approximation was indeed necessary, as the Commission had said, if fiscal frontiers were to be abolished. But the Member States were not able to decide whether the measures envisaged by the Commission were ultimately acceptable to them until full details of the measures as a whole were available. Only when they could see clearly

- the financial, budgetary, economic and social consequences of the measures for them, and
- the practical consequences for both the economy and individuals and the national budget entailed by the clearing mechanism,

would each of them be in a position to weigh up the advantages and disadvantages.

### The Commission meets the challenge

The Commission has now tabled a detailed package of proposals on rates and rate structure of indirect taxation which make it possible for the dialogue with Member States and the European Parliament to go forward.

The Commission has taken as its starting point a snapshot of the existing wide spread of indirect tax rates and structures in the Community. It has then confined itself to setting out the minimum changes which must be made to that picture in order to achieve a sufficient degree of fiscal approximation. The Commission plan is therefore - and that must be clearly understood - not an attempt to design an ideal fiscal system for the Community, but a blueprint for abolition of fiscal frontiers. It is in that spirit that the Commission has tried to find the most practical possible solutions; and it is in that spirit, and taking possible problems of adjustment into account, that they are presented and must be studied. That is the job which the Commission was asked to do.

#### \* VAT

Most Member States with the exception of Denmark and the United Kingdom currently apply at least two VAT rates. Setting aside zero rates the lowest rate applicable in early 1987 was 1% (Belgium) and the highest rate was 38% (Italy). In theory, the easiest solution would be to retain a single rate but in practice this is unrealistic and would entail unacceptable consequences for several Member States. On the other hand, common sense says that a multiple rate system would be almost unmanageable. The only real choice is therefore between a system with two rates or a system with three rates. The Commission chose two rates: a standard rate and a reduced rate.

#### Number of rates

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- a standard rate
- a reduced rate, for items of basic necessity, namely:
  - . foodstuffs
  - . energy for heating and lighting
  - . water
  - . pharmaceuticals
  - . books, newspapers and periodicals
  - . passenger transport.

### Rate levels

- standard rate: between 14% and 20%
- reduced rate: between 4% and 9%

Member States would be free to fix their national rates at any point within these 5/6 percentage point margins. However, in view of the inclusion of certain sensitive sectors, such as the cultural sector, the Commission recommends that Member States fix the applicable rate in the lower half of the band for reduced rates.

### Zero rates

The proposal that items of basic necessity should be charged at a reduced rate follows the position adopted in most Member States. Zero rates are applied extensively only by two Member States but for them are a matter of importance. The Commission has always recognized that derogations may be necessary to meet cases of particular difficulty and this was stated in the White Paper itself. This is a matter where only the Member State itself can judge the effect of the proposals on their own particular circumstances and the next step must therefore rest with them. The Commission has deliberately left the door open. It is for the Member State in the first instance to decide whether having regard to all the implications they would wish to go through this door. The Commission would then have to proceed from there.

### \* Excises

Here again the Commission has been guided by the concern to create as little disturbance as possible to national fiscal systems while at the same time offering evenhanded solutions. The problems are more complex than for VAT because the taxation base as well as the rates vary between Member States. Also VAT is calculated on the price of goods including the excises and it is therefore not possible to envisage the same flexibility for excises as for VAT without risking to explode the VAT bands mentioned above. Thus the Commission has made specific proposals for each product. In addition it has taken into account a number of non fiscal requirements such as for instance the fight against cancer in the case of tobacco excises.

#### Alcoholic drinks

#### Amounts in ECU

Alcohol for beverages (per hl of pure alcohol)	1 271
Intermediate products (per hl)	85
Wine (per hl) (average 11% vol)	17
Beer (per hl) (average 12.50 plato)	17

Manufactured tobaccos

Cigarettes (specific excise per 1000)	19.5 ECU
ad val + VAT (In % of retail price)	52% - 54%
Cigars and cigarillos	
ad val + VAT (In % of retail price)	34% - 36%
Smoking tobacco	
ad val + VAT (In % of retail price)	54% - 56%
Other manufactured tobacco	
ad val + VAT (In % of retail price)	41% - 43%

Mineral oils

Petrol, leaded, and medium oils used as road fuel per 1000 l	340 ECU
Petrol, unleaded per 1000 l	310 ECU
Liquidified petroleum gas (LPG) per 1000 l	85 ECU
Diesel (gas-oil) per 1000 l	177 ECU
Gas-oil for heating purposes and medium oils used as fuel other than road and aviation fuel	50 ECU
Heavy fuel oil per 1000 kg	17 ECU

\* A clearing mechanism

The clearing mechanism will ensure that Member States which are substantial exporters will not unduly lose out because VAT is collected in the Member State of final consumption. It involves a central account to which Member States will pay or from which they will draw according to whether they are net exporters or net importers. It will be based on the normal VAT returns from traders and not add any new administrative burden.

For excise duties, no such system is needed, since these are not charged until the goods are released from bond, normally in the country in which they are to be sold to the final consumer.

\* Timetable

Community rates for VAT and the excise duties should enter into force no later than 31 December 1992. Member States will be free to work towards these rates in the intervening period. The Commission will monitor this progress and report periodically to the Council.

The Commission also puts forward a Convergence Proposal which replaces the standstill proposal currently before the Council. This proposal, which covers both the VAT rates and the main excise duty rates, aims to ensure that Member States do not diverge between now and 1992 from the overall objective.

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The Commission has tried to keep possible adverse effects of approximation for Member States revenue and budgetary flexibility to a minimum, but the path to abolition of fiscal frontiers in 1992 will be an easier one to tread for some Member States than for others. Some aspects may cause extreme difficulty in some cases. The Community as a whole - the Member States and the Commission working together - will have to find ways, including the possibility of derogations where these can be justified, of easing the path for those of its members for whom the implementations of the proposals could pose political, social or budgetary problems. A major element of flexibility lies in the fact that Member States will be free to determine their own path to 1992 and the pace at which they travel along it. The Council and the Commission will monitor the pattern of progress and may propose solutions to difficulties which might arise.

The overall budgetary and macro-economic effects of these proposals are difficult to estimate with any certainty. Member States will need to be involved in evaluating them, but one may note already that a number of factors such as elasticities of demand, the fact that in low taxation situations traders might seek higher profit margins, the potential for increased transfrontier trade as well as for new patterns of consumption will be of relevance.

It is also important to note that the Commission is aware of the serious difficulties which the implementation of these proposals might create for some Member States because of differences in economic development. The Commission confirms its willingness to consider appropriate solutions either in the form of derogations of a temporary nature which will not call into question the principle of the integrality of the internal market and more particularly the abolition of internal frontiers, or through making use of Community policy instruments designed to reduce regional imbalances in the Community.

I. **The present situation concerning VAT and excises requires border controls**

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a) VAT In Member States

	Reduced	Standard	Increased
Belgium	1 and 6	19	25 & 25+8
Denmark	-	22	-
France	2.1 & 4 5.5 & 7	18.6	33 1/3
Germany	7	14	-
Greece	6	18	36
Ireland	2.2 & 10	25	-
Italy	2 et 9	18	38
Luxembourg	3 et 6	12	-
Netherlands	6	20	-
Portugal	8	16	30
Spain	6	12	33
United Kingdom	-	15	-

b) Excises in ECU

	D	GR	F	GR	IRL	I	L	NL	U	SE	P
<b>1. ALCOHOLIC BEVERAGES</b>											
1.1 Excise duty charged on 1 Hl of average wine	32.59	157.44	20.32	3.30	0.00	278.84	0.00	13.29	33.30	154.32	0.00
1.2 Excise duty charged on 1 Hl of pure alcohol	1051.78	3498.66	1178.28	1168.82	47.86	2721.78	230.35	841.91	1298.09	2483.36	308.90
1.3 Excise duty charged on 1 Hl of average beer	10.20	56.86	6.56	2.93	10.27	81.45	16.96	4.90	20.00	48.75	2.57
1.4 Excise duty charged on 1 Hl of average intermediate product	61.00	292.39	70.44	5.70	1.97	404.32	9.66	41.00	63.31	286.00	0.00
<b>2. MINERAL OILS (2)</b>											
2.1 Excise duty charged on 1000 litres of standard petrol	260.94	472.50	255.77	368.74	348.81	361.50	557.34	208.75	340.33	270.69	253.87
2.2 Excise duty charged on 1000 litres of road diesel	122.51	236.25	213.29	190.49	106.38	279.08	177.62	100.18	108.83	228.92	123.51
2.3 Excise duty charged on 1000 litres of heating gasoil	0.00	236.25	8.11	53.21	108.66	48.04	177.62	0.00	43.66	15.36	38.42
2.4 Excise duty charged on 1000 kg of heavy fuel-oil	0.00	265.62	7.24	24.63	93.12	10.28	6.77	2.33	14.64	11.20	0.69
2.5 Excise duty charged on 1000 litres of LPG	0.00	163.46	159.61	137.74	39.65	222.39	95.85	20.97	0.00	1353.43	27.42
<b>3. CIGARETTES</b>											
3.1 Specific excise duty charged on 1000 average cigarettes	2.49	77.49	27.27	1.33	0.61	48.94	1.83	1.72	25.99	42.75	0.69
Ad-valorem excise duty plus VAT as a % of the retail price of cigarettes	66.36%	39.25%	43.79%	71.04%	60.42%	33.61%	68.64%	63.55%	35.73%	34.04%	51.94%
											64.82%

Notes  
 (1) This represents the effective average excise rate on wine in Germany calculated according to the respective quantities of still wine (which is not subject to excise) and sparkling wine (which is subject to excise) consumed.  
 (2) In calculating averages account has been taken of partial or total refunds of excise to certain users which result in a lower effective rate than the normal rate quoted.

## II. Other Indirect taxes

Other Indirect taxes within the Community, such as taxes on the registration of vehicles, on the purchase of houses, stamp duties on transactions and documents, entertainment tax, etc. also vary considerably from Member State to Member State. Those variations can be such as to cause distortions of competition and deflection of trade. But they do not impede the free movement of goods in the sense that the differences between them do not give rise to controls of formalities at frontiers. The Commission actively pursues cases in which such indirect taxes breach the rules of the Treaty, but does not consider their approximation to be a necessary part of the abolition of fiscal frontiers.

## III. Zero rates

It has always been an accepted part of Community policy that zero rating, except in the case of exports, was a temporary measure which would disappear with the completion of the Internal Market. This was clearly stated in the second VAT Directive adopted in 1967 and restated in the Sixth VAT Directive adopted in 1977.

The zero rating of supplies generally acknowledged as basic necessities rests upon considerations of social policy; though it is a less efficient way of achieving such objectives than measures more closely targeted towards those in need. Only two Member States have followed such policies to any significant degree; the other Member States have successfully accommodated themselves to a broadly based concept of the VAT without the extensive use of zero rating. This has been achieved by direct compensation of disadvantaged groups through the social security system and welfare payments, thus directly benefiting the groups primarily affected in a more cost-effective way than is achieved by a fiscal price subsidy.

Zero rating, by giving a price advantage to the products of one Member State, distorts competition within the Community; this is particularly true when applied to supplies which feed through into industrial and commercial costs. Finally, it needs to be remembered that, for any given yield of revenue, zero rating in one area must inevitably lead to a higher overall rate of tax elsewhere; if, in a two-rate system, 50% of consumer expenditure is exempted by zero rating, the rate of tax elsewhere necessarily has to be twice what it would have been if there had been comprehensive coverage.

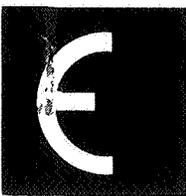
**EXAMPLE: In 1993, if you buy a car in the EEC, what VAT is applicable?**

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After 1992 all Member States will, under the present proposals, charge VAT on cars at rates between 14% and 20%. Cars, like everything else, will bear VAT at the rate which is in force in the country in which they are sold, regardless of the make or origin of the car.

If, after 1992, France charged VAT at 20% and Germany charged VAT at 14% any car (whether German, French or of any other origin) would be taxed at 19% if bought in France and at 14% if bought in Germany.

This means that, on each national market all cars will be charged to VAT at an equal rate. After 1992 however, the internal market will mean that a Frenchman can buy a car - or anything else - in Germany, pay VAT there, and return to France with it. If that Frenchman is a private individual, he will undergo no further VAT formalities. (He may, of course, have to pay registration taxes etc. in France, which may or may not differentiate between types or sizes of car, but such taxes do not involve controls at frontiers.) If the Frenchman is a taxable person, e.g. a motor dealer, he will reclaim in France as input tax the VAT which he paid (at German rates) on his purchase in Germany; and he will then charge the French rate of VAT on his sale of the car in France. The clearing mechanism will ensure that the French Finance Minister receives from Germans the input VAT which was reimbursed by France to the dealer, but which was in fact paid by the dealer to the German authorities (this will not, of course, happen in relation of individual transactions but will compensate for the sum of such transactions for the two countries as a whole).



**INFORMATION • INFORMATISCHE AUFZEICHNUNG • INFORMATION MEMO • NOTE D'INFORMATION  
ΠΛΗΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ • NOTA D'INFORMAZIONE • TER DOCUMENTATIE**

Brussels, 19 October 1988

**EUROPE 1992 : EUROPE WORLD PARTNER**

1992 Europe will be a "EUROPE WORLD PARTNER". This is the conclusion of the policy debate carried out by the European Commission on the external dimension of the 1992 single market. In the words of LORD COCKFIELD and MR DE CLERCQ, "the European Community is embarked upon the most important "quiet revolution" since it was set up in 1958. This operation will call for a mighty effort on the part of the Community Member States and the outcome should be to accentuate the Community's position as the world's leading trading power. As such, the Community will seek a greater liberalization of international trade : the 1992 Europe will not be a fortress Europe but a partnership Europe."

The Hanover European Council noted that "the internal market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries, and must negotiate with those countries where necessary to ensure access to their markets for Community exports. It will seek to preserve the balance of advantages accorded, while respecting the unity and the identity of the internal market of the Community", and it is on the basis of this approach that the Commission is finalizing its strategy for external economic and commercial policy. It has confirmed the principles which will determine its external economic policy in the 1992 context and also the approach which will adopt for its implementation, i.e. on a case-by-case basis.

**THE PRINCIPLES**

- 1992 will be of benefit to Community and non-Community countries alike

The single market will be of benefit not only to European companies but also to companies from non-Community countries, points out the Commission. What the single market will mean is that there will be only one frontier instead of twelve, that rules, standards, tests and certification procedures will be either uniform or equivalent, and that economies of scale will be possible thanks to the existence of a market of 320 million consumers. The completion of this single market will also give a major boost to the Community economy, a boost which will have favourable repercussions both inside and outside the Community.

**- 1992 will not mean protectionism**

All the relevant economic data demonstrate that it would be absurd for the Community to lean towards protectionism.

As the world's biggest exporter accounting for one fifth of world trade (United States : 15%; Japan : 9%) as highly dependent on international trade (since exports represent 10% of its GNP compared with 5% in the case of the United States), the Community has a fundamental stake in the existence of free and open international trade.

Like its trading partners, the Community will apply vigilantly the instruments of commercial policy which it has at its disposal.

**- The Community will meet its international obligations**

The development of the Community's external economic policy in the run-up to 1992 will take place in harmony with the Community's existing international obligations, whether multilateral (GATT, the OECD, etc.) or bilateral (EFTA, Lomé, the Mediterranean countries, etc.).

**- 1992 must help strengthen the multilateral system on a reciprocal basis**

Each step in Community integration is accompanied by a move to greater liberalization of the multilateral system. For 1992 as for the other steps, the Community's aim is to strengthen the multilateral system in accordance with the concept of balance of mutual benefits and reciprocity. These are two internationally accepted principles of trade policy both in GATT and in the OECD. The experience of the GATT shows that in those multilateral negotiations designed to liberalize market access, progress is achieved because all the participants exchange "concessions" so everyone achieves a balance of advantages from the negotiations.

In sectors where there are no multilateral rules, the Community will endeavour to obtain greater liberalization of world trade through the negotiation of new international agreements. The Uruguay Round negotiations provide an opportunity here which the Community will seize. It would be premature, however, to grant non-member countries automatic and unilateral access to the benefits of the internal liberalization process before such new agreements exist. Non-Community countries will benefit to the extent that a mutual balance of advantages in the spirit of the GATT can be secured. The Community may thus have to negotiate bilaterally with its partners in order to obtain satisfactory access to their markets.

In other words, the Commission reserves the right to make access to the benefits of 1992 for non-member countries' firms conditional upon a guarantee of similar opportunities - or at least non-discriminatory opportunities - in those firms' own countries. This means that the Community will offer free access to 1992 benefits for firms from countries whose market is already open or which are prepared to open up their markets on their own volition or through bilateral or multilateral agreements.

**- What does this reciprocity not mean ?**

It does not mean that all partners must make the same concessions nor even that the Community will insist on concessions from all its partners. For example, it will not ask the developing countries to make concessions that are beyond their means. Nor does reciprocity mean that the Community will ask its partners to adopt legislation identical to its own. Nor does it mean that the Community is seeking sectoral reciprocity based on comparative trade levels, this being a concept whose introduction into United States legislation has been fought by the Community.

## SPECIFIC ASPECTS

A number of objectives which are internal to the Community have been set in the Single Act and it is only natural that this programme should lead to the extension and strengthening of the common external policy. This will be reflected not only in the harmonization of import rules but also in an extension of Community rules to sectors in which the single market had not hitherto been attained.

The Commission has paid particular attention to certain aspects of the external dimension of the single market as a means to setting out guidelines for finalizing policy in these fields on a case by case basis.

### 1. - External effects of the removal of physical frontiers

The establishment of the internal market will result in the removal of the remaining disparities in import and export arrangements. At present there are certain quantitative restrictions in the Member States of the Community affecting mainly East European countries and Japan and also involving the national quotas under the textile agreements or the GSP (generalized system of preferences). Completion of the single market will mean the removal of quantitative restrictions and will require unified import rules in respect of non-Community countries.

It is possible, however, that in a number of sensitive spheres, national measures will have to be replaced by Community measures. If this proves to be the case, the Community will adopt these measures in line with its international obligations and following discussions with its partners. These measures would not result in a higher level of protection than exists at present.

### 2. - Removal of technical barriers

#### \* Standards and certification

The removal of technical barriers to trade, irrespective of whether these involve technical rules, standards, tests or certificates, will be done by harmonization or by mutual recognition.

As for mutual recognition of technical rules, any product which is introduced on the Community territory, as long as it satisfies the legislation of the importing country, and is admitted on its markets, will be entitled, as a matter of principle, to the benefit of free circulation throughout the Community. In the case of harmonization, European standards bodies (CEN, CENELEC, etc.) operate systematically on the basis of work done at international level. Where necessary, the harmonized technical rules would be established respecting the GATT rules. However, for tests and certification, the Community will negotiate mutual recognition agreements where needed.

#### \* Public procurement

For sectors covered by the GATT code, 1992 will mean that the European subsidiaries of foreign firms will have the same access as European companies. Suppliers not established in the Community will still be subject to the GATT code, which lays down that the signatories accord one another non-discriminatory reciprocal access.

The 1992 programme nevertheless provides for the opening-up of sectors not covered by the GATT code (water, transport, energy and communications). In these sectors, the Community is prepared to negotiate with its partners access to the advantages of the internal market in order to ensure a balance of benefits.

**\* Free movement of capital**

The Directive adopted by the Council embodies the principle of an "erga omnes" liberalization of capital movements.

**\* Services**

The completion of the internal market is intended to eliminate the existing fragmentation of Community markets in services. Whenever Community rules do not exist in this field, the Community will seek to arrange access for firms from non-member countries on the basis of a reciprocal opening-up of the market in those countries.

The Community considers that four sectors are worth looking at in greater detail :

**- financial services**

The second banking Directive being discussed by the Council provides for the possibility of reciprocity for newcomers. However, there can be no question of depriving the subsidiaries of foreign firms already established in Community Member States of the rights they have acquired.

**- transport**

There are currently numerous bilateral agreements between Member States and non-member countries. The possibility of progressively replacing these bilateral agreements by Community agreements should be explored in the light of progress in the common transport policy.

**- telecommunications**

The Commission will propose that the reciprocal agreements which have been and continue to be negotiated by the Member States should be analysed and conclusions drawn for action at Community level.

**- information services**

Information services will benefit directly from the single market, since those currently sold in a single Member State will have access to the entire Community market. The Commission will examine the extent to which common external arrangements could be set up to establish provisions on market access.

**\* Competition :**

Completion of the internal market will be accompanied by a strengthening of competition policy, and in particular tighter control of state aids. Cartels, agreements or abuses of a dominant position which have an effect in Community territory will come within the scope of Community law.

**\* Take-overs**

Should any Community rules on take-over bids be drawn up, the possibility of including provision for obtaining comparable conditions for Community firms in the non-member country concerned should be considered in cases where a firm from a non-member country is the purchaser.

December 1988.

## **RELATIONS WITH THE EASTERN EUROPEAN COUNTRIES HISTORIC BREAKTHROUGH**

Relations between the European Community and Eastern Europe, long limited in scope, have seen major developments in recent years. Diplomatic relations have been established with the Soviet Union, Hungary, Czechoslovakia, the German Democratic Republic, Poland and Bulgaria. At the same time, formal relations have been established separately with the Council for Mutual Economic Assistance (CMEA)<sup>(1)</sup>.

A trade agreement has been signed with Hungary and one with Czechoslovakia is on the point of being signed. Negotiations are continuing - with varying degrees of progress - with Romania, Poland, Bulgaria, the GDR and the Soviet Union.

### **Background**

Back in 1974, the Community proposed the conclusion of individual trade agreements with the CMEA countries and indeed all the state-trading countries. Most of them ignored the proposal. However, over the years, economic links were built up with these countries, leading to textile agreements with Bulgaria, Hungary, Poland, Romania and Czechoslovakia, voluntary restraint arrangements with the same countries for steel exports and specific agreements on agricultural matters.

Talks on a more far-reaching cooperation agreement have been under way since 1981. In that year, Mr Haferkamp, Member of the Commission with special responsibility for external relations, sent a letter to Mr Lukanov, Chairman of the CMEA Executive Committee, indicating the Community's willingness to resume talks. The earlier talks, which started in 1974, had broken down because the CMEA insisted on including trade provisions in the agreement and setting up a joint committee to oversee all bilateral relations, whereas the Community wanted to conduct bilateral relations and relations with the Council in parallel.

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(1) The CMEA, also called COMECON, has ten members : the USSR, the GDR, Poland, Czechoslovakia, Hungary, Romania, Bulgaria, Mongolia, Cuba and Vietnam.

This position did not change. Replying to a letter from Mr Vyatcheslav Sytchov, the CMEA Secretary, in June 1985, Mr Willy De Clercq, Member of the Commission with special responsibility for external relations, set out the following principles :

- the "twin-track concept", i.e. the development and normalization of relations with both the CMEA and its member countries, with priority on the latter ;
- differentiation, i.e. tailoring the treatment for each individual Eastern European country to its specific characteristics and situation. In September 1985, Mr Sytchov agreed to this approach and in January 1986 Mr De Clercq sent a letter proposing the normalization of relations and the negotiation of bilateral agreements to each of the European members of the CMEA.

### **The breakthrough**

#### **Bilateral relations**

Significant progress has been made in the normalization of relations between the Community and its Eastern European neighbours since 1985.

In April 1987, talks on a trade and cooperation agreement with Romania opened ; they continued in July and October, resumed on 18 January and 21-22 November this year but the two positions remain far apart.

In June 1987, negotiations started up with Hungary and concluded with an agreement on 30 June this year. The main provisions concern the abolition by 1995 of all discriminatory quantitative restrictions on Hungarian products in return for a Hungarian guarantee not to discriminate against Community products and for better facilities for Community businessmen. The agreement was signed on 26 September.

Talks with Czechoslovakia on trade in manufactures opened in July 1987 and concluded on 19 October this year with an agreement that is likely to be signed by the end of the year.

Exploratory talks have also started with Poland, Bulgaria, the Soviet Union and the GDR.

Moreover, diplomatic relations were established with the Soviet Union, the GDR, Bulgaria, Czechoslovakia and Hungary on 10 August and with Poland on 16 September.

#### **Relations with the CMEA**

Talks got under way in September 1986 with a view to the adoption of a joint declaration on the establishment of formal relations between the two organizations and the creation of a framework for future cooperation. The two sides managed to overcome the problems concerning this declaration, including the problem of the Community's territorial clause, which recognizes West Berlin as belonging to the Community. The joint declaration was initiated in Moscow on 9 June, discussed by the European Parliament on 16 June, adopted by the Council on 22 June and signed in Luxembourg on 25 June, so opening the way for increased cooperation in future.

## **EXTERNAL RELATIONS - 1985-88**

### **Main specific activities**

#### **1. EASTERN EUROPE: A HISTORIC BREAKTHROUGH**

- Establishment of diplomatic relations with the Soviet Union, Hungary, Czechoslovakia, the German Democratic Republic, Poland and Bulgaria.
- Establishment of parallel official relations with the CMEA.
- Conclusion of agreements with Hungary and Czechoslovakia providing, inter alia, for improved access to those countries' markets for Community firms.
- Preparation of agreements with other Eastern European countries.

#### **2. GATT : LEADERSHIP IN STRENGTHENING THE FREE TRADE SYSTEM**

- Inauguration of the Uruguay Round at Punta del Este.
- Dynamic instigator and active participant in the negotiation process.

#### **3. COMMERCIAL POLICY : AN OPEN EUROPE, BUT NOT A DEFENCELESS ONE**

- Many successes under the GATT dispute settlement procedure (semiconductors, etc.).
- A firm line against unfair trading practices (anti-dumping, anti-subsidy).
- Effective implementation of the NCPI (Indonesia - Intellectual property).
- A firm response to the illegal and discriminatory activities of non-Member States (United States - citrus fruit/pasta products; South Korea - Intellectual property).
- Launching of an export promotion policy (trade missions, fairs and exhibitions, OECD agreement on mixed credits).

#### **4. UNITED STATES : NEGOTIATIONS AND A FIRM STANCE**

- Guaranteed access to the United States market for our exports.
- Firm resistance to protectionist tendencies (Trade Bill, Textiles and Footwear Bill).
- The satisfactory settlement of numerous disputes (consequences of the accession of Spain and Portugal, iron and steel, citrus fruit/pasta products, canned fruit).
- The Commission's decisive role in keeping the way open for a negotiated solution (Airbus).

5. JAPAN : THE FIRST FRUITS OF A CONSISTENT POLICY

- Halt of the increase in the Community's trade deficit and the beginnings of a reversal in the trend.
- Progress in the removal of obstacles blocking access to the Japanese market through negotiations by sector (cars, pharmaceutical products and medical equipment) and through activities in GATT (panel on wine and spirits).
- Encouragement of the presence of Community businessmen in Japan (ETP and EXPROM programmes).
- Gradual diversification of bilateral relations beyond trade aspects (Industry, energy, research, telecommunications, culture).

6. EFTA : TOWARDS A EUROPEAN ECONOMIC SPACE

- New political drive to implement the Luxembourg Declaration : concrete results (research and development, removal of non-tariff barriers, simplification of customs procedures).
- Clarification of the approach to Community-EFTA relations (speech by Mr De Clercq at Interlaken confirmed by the Council's statement of February 1988).

7. RESTRUCTURING: EXTERNAL BACK-UP MEASURES

- Textiles: negotiation of a new multifibre arrangement (mid 1987) and the conclusion of 26 bilateral agreements in that context.
- Steel: negotiation of arrangements regarding imports of steel from certain non-Member States.

8. A STRONGER INTERNATIONAL PRESENCE

- Economic summits: presence of the Commission at all meetings, full participation in the debates and recognition of its contribution.
- CSCE: more active participation of the Commission.
- The opening of new Commission Delegations (Beijing, Brasilia, Mexico, Jakarta, Oslo, etc.), accreditation of Commission representatives at the highest level.
- The external dimension of the single market: formulation of a general approach.
- South Africa: complementarity of Community action and political Cooperation (restrictive measures and positive measures).

## THE ERASMUS PROGRAMME : A GENUINE SUCCESS

### 1. INTRODUCTION

1. With the completion of the Internal market by 1992 and the adoption of the Single European Act a new phase in the building of Europe is beginning and new aims for a People's Europe are becoming apparent.

The academic world cannot stand aside. On the contrary, cooperation between European universities, already encouraged by the Commission under the 1976 education action programme, will be called on to make a significant contribution to the development of a People's Europe.

By promoting the mobility of students and teachers within the Community, the ERASMUS programme is foreshadowing the completion of the single market and preparing the men and women who will be active in it tomorrow.

### 2. THE ERASMUS PROGRAMME COVERS FOUR FIELDS OF ACTION:

- the institution and implementation of a "European university network";
- the grant of direct financial aid to students who pursue a course of study at a university in another Member State;
- measures to promote the mobility of students and teachers by the academic recognition of diplomas obtained and of periods of study carried out in another Member State;
- a series of supplementary measures to promote the mobility of students and teachers.

The results obtained during the first two years the ERASMUS programme has been in operation have confirmed the steadily growing interest of universities and of students in increased cooperation between the universities and in greater mobility. The total volume of financial aid requested for the academic years 1987-88 and 1988-89 (137 million ECU) was three times larger than the total budget available (41.2 million ECU).

As part of the setting up of a European network of inter-university cooperation, 1 091 interuniversity cooperation programmes received financial aid. 948 of the programmes involve student exchanges.

3. Some 16 000 students carried out periods of integrated studies ranging from three months to a year in another Member State. As with the inter-university cooperation programmes, the volume of applications for grants was three times larger than the available budget.

4. The success of the ERASMUS programme has likewise been confirmed by the enthusiastic welcome it has received from higher education teachers and administrators, as can be seen from the growing number of applications for study visit grants. The aim of these grants is to enable university staff to spend time teaching or studying at universities in other Member States. It is both encouraging and promising that the number of applications from Member States so far under-represented in inter-university cooperation programmes has risen appreciably. In 1988-89, 1 267 visit projects will enable over 2 600 teachers to go to another Member State.

5. Finally, the ERASMUS programme includes measures aimed at promoting university mobility through academic recognition of diplomas obtained and periods of study carried out in other Member States. A major step forward in this area was the completion of the work preparatory to the launch of a pilot scheme for the setting up of the European Credit Transfer System (ECTS) for the 1988-89 academic year. The ECTS is an innovative approach intended to promote academic recognition for students who pursue their studies in another Member State. A call for applications addressed to universities wishing to participate in the pilot phase of the ECTS was published in the 27 July 1988 issue of the Official Journal of the European Communities. This project has attracted considerable interest among Community universities. The Commission will choose the 80 universities to take part in the project in the following five fields: business management, history, medicine, chemistry and mechanical engineering.

## II. ASSESSMENT OF THE ERASMUS PROGRAMME

In view of the huge interest which the programme has aroused since it was adopted in June 1987, the Commission deemed it appropriate to take stock of the experience gained so far in its implementation. Given the importance of this move for the programme's future development, the Commission felt it was essential to obtain the views of the ERASMUS Advisory Committee.

The Committee met at the University of Nancy from 28 to 30 September 1988 to discuss the major aspects which have emerged from the programme's first two operational years and draw conclusions for an appropriate assessment of its achievements.

The meeting confirmed the extremely broad interest induced by the programme in the academic world. The members of the Committee agreed that for the first time the ERASMUS programme had caused the universities to regard inter-university cooperation at European level as a fundamental factor in their strategy for institutional development. The importance attached to the European university network as the main pillar of the programme's long-term development was likewise reaffirmed.

### 1. Inter-university Cooperation Programmes

The Advisory Committee likewise stressed the need to amend the calendar for the allocation of financial aid for the Inter-university Cooperation Programmes by switching from an annual to a multiannual framework as regards both the European university network and student grants. It was the general opinion that this measure was the only way of guaranteeing an in-depth and long-term commitment on the part of the universities concerned. It was felt that a more balanced representation of academic disciplines within the programme would be highly desirable. At present, the relatively limited number of programmes receiving support (1 091) inevitably meant restricted scope for participation and that participation was concentrated on such well-defined fields as modern languages and business management.

A broad consensus emerged in favour of a critical assessment of the parameters by which available appropriations for student grants were allotted to the individual Member States. In particular, the Committee felt that it was essential that each Member State be allotted a reasonable minimum grants in proportion to the interest shown by the students of the country in question.

It was noted that implementation at national level of the criteria for the allocation and sharing out of the grants laid down by the Council Decision had given rise to significant problems. In most Member States, for example, the amount allocated by the national agencies to individual students had been very small so far. This was closely linked with the considerable differences between the systems for allocating national grants existing in the Member States, so that it was not always possible to make national and ERASMUS grants complement each other in a satisfactory manner.

## 2. Balanced participation

The Committee also reaffirmed the importance it attached to achieving a balanced participation in the ERASMUS programme by all the Member States and all the regions of the Community. Although considerable progress had been made in this field, specific information campaigns to achieve this aim were still needed.

## 3. Preparation and reception of students

The Committee also had an in-depth discussion of arrangements for the reception and linguistic preparation of students. Its members unanimously agreed that it was essential to ensure that all students embarking upon a period of study in another Member State received a thorough linguistic and cultural preparation. Thought had not to be given to ways of ensuring that the less widespread Community languages were more widely taught and of improving the language skills of students not specializing in languages. The related question of the need to provide satisfactory reception arrangements for students without relieving them of all personal initiative was also thoroughly discussed. It was agreed that the aim continued to be as complete an integration as possible of the student in the institution which received him.

## 4. Budget situation

A degree of disappointment was felt by the Committee over the fact that available resources had proved insufficient to meet the applications for assistance, of which only one in three could be approved, although most applications exhibited all the necessary guarantees of quality. Furthermore, a close scrutiny of the grants awarded showed that two applications out of three were related to preparatory visits related to the drawing up of new cooperation agreements. This finding, combined with a number of other pieces of information, showed that, even in the short term, the number of applications for aid would double. In this context, the Commission is eager to stress the initiative of the European Parliament, which in the first reading of the 1989-90 budget proposed that the resources allocated to the ERASMUS programme be increased by 10 million ECU, thus raising the sum available for 1989-90 from 45 million to 55 million ECU.

### III. PROSPECTS

The meeting of the Advisory Committee made it possible to define more clearly guidelines for assessment of the ERASMUS programme, an assessment which is of major importance for the Commission with regard to the programme's development and adaptation in the coming years. In the short term, it will tend to concentrate on the programme's operational aspects: preparation of the reports on the working of the programme called for by the Council Decision of June 1987 and possible adaptations of the Decision itself, which will have to be proposed where that proves necessary. In the long term, it will tackle the question of the ERASMUS programme's educational impact. The Commission's aim in drawing up proposals for adaptation of the Decision - which will be put before the Council during 1989 and put into effect during the 1991-92 academic year - is to make the programme work more efficiently and substantially increase the number of students participating in the programme in all the Member States.

One of the effects of the ERASMUS programme has been to highlight the serious problems of linguistic preparation facing participants. The Commission will therefore submit to the Council in the near future a "lingua" action programme relating to the teaching of foreign languages in the Community.

The Commission's proposals regarding the second phase of the ERASMUS programme, which it will submit to the Council in 1989, will be concerned with the inclusion in the programme of certain categories of students thus far excluded, improvement of the cultural and linguistic preparation of students and a recasting of the parameters by which appropriations available for student grants are allocated to the individual Member States, so as to take account of the degree of interest shown by the students of the Member State in question. More generally speaking, an extension of the programme is seen as indispensable in the light of the prospects opened up by the completion of the internal market in 1992 and the central part which education and training must play in that process. It is of primary importance that the ERASMUS programme be able to respond realistically to the growing demand for inter-university cooperation and for mobility on the part of student and teachers, a demand largely stimulated by the increased economic and social cohesion which is emerging at Community level.

At present, there are some 6.5 million students in the Community, some 16 000 of whom have taken part in exchanges under the ERASMUS programme in 1987 and 1988. However, it is not merely a matter of increasing the programme's volume at Community level. If we are to achieve the Commission's declared aim, which has received the support of the European Parliament, of enabling a minimum of 10% of students, from 1992 onwards, to spend a period of integrated studies in another Member State in the course of their initial training, considerable efforts are needed in each Member State on the part of the universities, but also on the part of student welfare departments and the national authorities.

December 1988

## COMETT: MORE THAN 1700 PROJECTS

The response which the COMETT programme (cooperation between university and industry in training for technology) has had throughout the Community since its launch in January 1987 has been considerable: more than 1700 projects have been submitted to the Commission in response to three invitations to tender (two in 1987 and one in 1988): 486 and 552 respectively in 1987 and 693 in 1988.

In many cases, each submission included several projects; for instance: the establishment of a university-enterprise training partnership (UETP), under Strand A of COMETT, and the launch of a joint continuing education project (Strand C); or the organization of one or more intensive courses (Strand C) in conjunction with a multimedia training project (Strand D). The 1713 submissions contained 4247 projects overall, 1271 of which sought to organize transnational placements in industry for more than 10 000 students (Strand Ba).

Not only do these projects extend across national boundaries, they all (UETPs included) involve a great number of partners: universities, undertakings, professional organizations and, often, local authorities. It has been found that, on average, six organizations from at least three Member States take part in a COMETT project and that a total of some 1500 universities and 5000 companies have expressed specific interest in the programme.

The 126 UETPs set up in the Community under Strand A of COMETT are the programme's core. Whether they cover a region or a sector of industry, these "training consortia" and the European network which coordinate them are the foundation on which COMETT will grow. More than 500 applications for the setting up of UETPs were submitted to the Commission in response to the three invitations to tender in 1987 and 1988.

Under Strand B - transnational placements in industry for students and transnational fellowships for senior industry personnel and university staff - the Community has provided financial support for more than 2200 students and 130 fellowships. COMETT's limited financial resources prevented the Commission from granting its support to the 9000 placement applications and 750 fellowship applications received.

Strands C and D of COMETT - continuing training projects and joint training initiatives based on multimedia systems - have from the start met with considerable success. More than 1100 projects under Strand C and 500 under Strand D were submitted to the Commission, which, owing to financial limitations, was able to approve only 234 and 89 projects respectively.

Overall, the projects submitted to the Commission in 1987 and 1988 amounted to 360 million ECU as against 37.5 million ECU made available to the Commission during the same period for financing such projects.

In July 1988 the Commission adopted a communication to the Council in which the content and functioning of COMETT II are explained. The Commission requests for COMETT II a budget of 250 million ECU for the period 1990/94, a level of funding it considers necessary in order to match the economic and social challenges which the programme faces. It will be recalled that the Community had requested 80 million ECU for the first phase of COMETT (1986-89) and that the Council, in its decision of 24 July 1986, approved an estimated budget of 45 million ECU.

The Commission proposes that the second phase of the Programme should be a deepening and broadening of COMETT I. A deepening in two senses: first, by aiming the operations proposed more specifically at the changing requirements of enterprises and sectors for advanced qualifications and training; second, by specifically supporting COMETT projects involving university and enterprise partners in peripheral regions of the Community.

The broadening of COMETT would be achieved by opening-up the programme to cooperation with university and industrial partners in non-Community European States as well as with international organizations.

#### Principal features of COMETT II

The Commission proposes to :

- retain Strands A and B and amalgamate Strands C and D into one Strand entitled "Joint Continuing Training Projects and Multimedia Distance Training". Close interaction will be ensured with the DELTA programme.
- give priority to joint continuing training projects and multimedia distance training in strategic areas within the Community's R & D Framework Programme and within the main manufacturing and services sectors for the application of these technologies, including the fields of industrial and social management of technology, special attention being accorded to projects involving small and medium-sized enterprises.
- support the balanced development of COMETT II throughout the Community by according attention to COMETT projects associating industries and/or universities in peripheral regions and, in certain duly justified cases, to support COMETT projects of a national dimension on condition that, in the second phase, such projects acquire a transnational dimension.
- accept the principle of limited preparatory grants aimed at establishing the conditions for the launch of projects in the full sense of the term.
- introduce a clause whereby Community funding of university-enterprise training partnerships (UETPs) would be progressively reduced.
- retain a Strand for "Complementary measures", focused on the analysis of the conditions which would contribute to the implementation of the Programme and implement a process of continuing assessment.

Roughly speaking, the Community contribution for the proposed measures would be as follows:

1. for the UETPs, 70 000 ECU maximum for the first year, subsequently 60 000 ECU and 50 000 ECU respectively for the following two years, subject to an overall ceiling of 50 % of actual operational costs. It is proposed to grant support from 1990 to 150 UETPs so as to reach an overall figure of 250 UETPs in 1992.
2. for transnational placements, the Community contribution would be, as in COMETT I, of a flat-rate nature. It would amount to an average of 5 000 ECU per person for placements of medium duration (6 to 12 months) and 25 000 ECU per person for the long-duration placements linked to the implementation of industrial projects. For the grants intended to promote the mobility of university and enterprise staff, the Community contribution would be a maximum of 15 000 ECU per person. Within COMETT II, it is proposed to implement 13 500 medium-duration placements, 350 long-duration placements and 1 000 university and industry fellowships.

3. for joint continuing training projects and multimedia distance training projects, the Community contribution would be limited to 50 % of eligible operational costs. It is estimated that this contribution will not exceed 30 000 ECU for an intensive course and 500 000 ECU for a European continuing training programme involving five partners from at least two Member States and lasting a minimum of two years. It is planned to provide support for the implementation of 550 intensive training courses and the launch of 170 European continuing training programmes.
4. for the "Complementary Measures", including the assessment and the logistical and technical support for the management of the programme, the funding will not exceed 4.5 % of the overall budget estimated as necessary for the implementation of COMETT II.



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ΠΛΗΡΟΦΟΡΙΑΚΟ ΣΗΜΕΙΩΜΑ · NOTA D'INFORMAZIONE · TER DOCUMENTATIE**

Brussels, 16 November 1988

**EUROPE TO PREPARE 21st CENTURY'S TELEVISION<sup>(1)</sup>**

The Commission adopted today a proposal presented by Vice-President K.H. Narjes and Commissioner C. Ripa di Meana for a Council decision which is expected to considerably accelerate the coordinated introduction of High Definition Television (HDTV) in Europe. The draft decision requests the Commission to prepare an Action Plan for the introduction of HDTV. HDTV is the first step into the third TV age. As colour TV transformed the viewing experience compared with simple black and white pictures, HDTV will bring change which is equally dramatic: bigger and wider screens, clearer, brighter and more colourful pictures. Compact disc quality sound. That is the promise. This will happen in the early 1990s and the impact on the world-wide consumer market place is expected to be colossal.

"HDTV is the most important challenge for both the consumer electronics and the programme industry in Europe" said Vice-President Narjes. "This new medium will offer remarkable new opportunities for economic growth and employment but also for the presentation of subjects related to the European identity in an attractive form. Europe is able to learn from the past", Mr. Narjes said. "A conflict like the one on PAL and SECAM, dividing Europe in the 60ies and early 70ies will not occur again".

The proposed HDTV decision is a further step in the Commission's effort to mobilise all the relevant actors in the field, combining the technological, financial, regulatory and diplomatic potential Europe can bring into the game.

It has been estimated that the market for HDTV equipment in the US alone will reach a figure of between \$ 26 and 52 billion in the ten years after the launch of services. Equivalent estimates for Europe, Japan and the rest of the world could multiply these figures by a factor of about three.

The scale and potential impact of this new technology make it of strategic importance. Because of these strategic implications Europe opposed a Japanese proposal for a world standard of HDTV material. This proposal was tabled at the 1986 CCIR meeting and was at that time supported by the US. The European opposition was based on the fact that the proposed Japanese standard was incompatible with all existing standards, whether for the cinema or for TV. If adopted globally it would have required the wholesale abandonment of existing TV equipment - in broadcasters production studios and transmission facilities as well as at the level of the individual home with TV sets, videocassette recorders and associated software. Successful imposition of this standard would have brought considerable competitive benefits to Japanese industry.

The Japanese/US proposal not being accepted by the CCIR in 1986 an additional period of study (4 years) was agreed in order to identify a new production standard suitable to all parties. This additional study period has allowed European industry time to develop and demonstrate an alternative HDTV system based on its philosophy of compatibility and evolution. The necessary work has been undertaken within the framework of a EUREKA project and was successfully demonstrated in Brighton in September 1988. This system is based on the existing MAC/packet family of standards developed in Europe for use with Direct Broadcast Satellites. The Commission's initiative comes in time: a few weeks ago only the US have decided also to go for the compatible and evolutive approach.

The proposed Council decision is expected to mark a major turning point in the debate about HDTV: to date activity in Europe has concentrated on Research and Development and on the setting of standards. As the focus moves now more to the commercialisation phase the draft decision articulates the need for a clear and comprehensive strategy leading to the launch of HDTV services.

The broad lines of this European HDTV strategy are proposed to be elaborated as four objectives, two of which relate to the consolidation of gains already made (particularly on technology and standards). The other two objectives relate to the creation of appropriate framework conditions for the coordinated Europe-wide introduction of the new system. These would include promotional efforts to prepare for professional and consumer acceptance of the European HDTV system both in Europe and in the rest of the world. The execution of a programme of this nature would require some mechanism which could take the form of a "Groupement européen d'Intérêts Economique", comprising industry, some governments and the Community, represented by the Commission. This mechanism is proposed to be institutionalised as of 1 July 1989.

The Commission's proposal also supports the idea of co-funding fixed and mobile HDTV studios.

Finally the Commission proposes the development of a Strategy and Action Plan for the progressive launch of HDTV services in Europe throughout the 1990s.

In fact, for the Commission, the programme factor remains of prime importance. As Carlo Ripa di Meana recently declared "we intend to make every effort to develop European production, for the purpose of promoting the European dimension and identity, taking into account authors' and viewers' interests".

Such an Action Plan will involve the commitment of terrestrial broadcasters, satellite TV stations, and cable operators together with the regulatory authorities to provide the necessary infrastructure to transmit HDTV programmes throughout Europe as well as the commitment of the programme providers to present their offerings in this new format.

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