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FOREWORD

British business must prepare for the Single Market, because our future prosperity depends on it. That is the message the Government is preaching. Business preparation means applying detailed information to the needs of specific sectors. That is why I warmly welcome the publication of this series of books on the detail of the Single Market. The industries they cover - financial services, food, IT, pharmaceuticals and biotechnology, and engineering - will all be vital in ensuring Britain makes the most of the Single Market.

Rt. Hon. Mrs Lynda Chalker
Deputy Foreign Secretary

1. INTRODUCTION

The European Commission's goal of establishing a single European market by 1992 has necessitated a programme of legislative measures to break down existing barriers to trade. An internal market made up of 12 countries, in which the free movement of goods, services, persons and capital is ensured clearly requires a framework of legislation which will maintain the stability of markets and the protection of consumers. Any company which is established in a European Community Member State or which does business with the European Community will be affected in some way by the Commission's programme of legislative measures.

The development of information technology has implications for every business sector in Europe. A sophisticated information market is seen as a prerequisite for the efficient operation of a single European market which will open up new opportunities for European industry, and is vital to maintain the competitiveness of European companies in the world market.

Technological change over the last decade has been rapid, and the overall trend is towards the integration of telecommunications, broadcasting and computer technologies. This trend was acknowledged by the European Commission when, in 1987, it published the Green Paper on the telecommunications sector. The Green Paper sought to raise issues and initiate actions to ensure that the European Community was well placed to take advantage of the technological revolution. As a result a number of legislative measures, research programmes and studies have been implemented.

The progress of information technology in the EC hinges on the development of the telecommunications sector which provides most of the network infrastructure upon which information systems depend. Community measures in the field of technical standardisation, and the coordinated introduction of Europe-wide advanced communications networks are intended to provide the basis on which the European information market can flourish.

This book provides a concise and accessible resume of the relevant legislation, research programmes and proposals for the establishment of a single European market for information technology. The development of the EC's policy, together with the implications of its implementation for the Community and third country markets are examined. The views from a number of major organisations which operate in the telecommunications, broadcasting and information services markets provide an insight into some of the factors influencing planning for 1992.

2. THE SINGLE EUROPEAN MARKET

When the Treaty of Rome was signed in 1957 it contained as a central goal the creation of a single internal market between the Member States of the European Community (EC). The objective was to remove within twelve years all restrictions on the free movement of goods, services and individuals by removing all frontier controls, taxation differentials and other forms of economic distortion. After initial successes, progress towards an internal market for European goods and services lost impetus for a number of reasons, both political and economic. It was against this background of inertia that the Commission formulated its most recent proposals for completion of the internal market by 31 December 1992.

ACHIEVING THE INTERNAL MARKET: 1957 - 1985

During the early years of the Community significant progress was made towards this goal with the achievement of a common customs tariff. This was successfully achieved eighteen months ahead of the twelve year schedule set out for implementation and was accompanied by the establishment of a single customs barrier applicable to all imports from outside the Community. Attention then focused upon the harmonisation of indirect taxation in a process of negotiation which resulted in the Sixth VAT Directive of 1977.

Despite these achievements, initial commitment within the Community to the goal of an internal market was lost due to a number of interrelated factors. The initial momentum of the Community had been absorbed by successive enlargements which doubled the number of Member States: the original six being joined by Denmark, Ireland and the UK on 1 January 1973, by Greece on 1 January 1981 and by Spain and Portugal on 1 January 1986, to produce a potential European market of 320 million people.

Economic recession of the late 1970s and early 1980s turned Member States economically inward and reinforced commitment to defending national markets against European competitors. Lack of confidence in the benefit of an internal European market ensured that the physical and technical barriers to intra-European trade remained firmly in place. During the oil crisis and years of recession, protectionist measures became more common as each Member State pursued what it perceived to be in its national interests.

At the Community level this protectionism was most obvious in the Council of Ministers, where ministers or their deputies directly represent the interests of Member State governments. After 1966 the whole process of Community decision-making was characterised by the need to reach unanimous decisions in the Council of Ministers. When agreements were reached they tended to be at the lowest common denominator of "national interests".

The protection of national markets was reinforced by public aid to loss-making companies, and a reluctance to grant public procurement contracts to companies located in other Member States.

The continued use of barriers within the Community caused additional costs to be incurred in a number of areas:

- high administrative costs caused by national bureaucratic requirements;

- high transport costs due to delays at borders;

- high costs due to different national standards for goods;

- the duplication of work on separate Research and Developement (R & D) programmes;

- intervention by national governments, preventing open competition;

- national markets keeping costs artificially high and reducing choice for consumers;

- economic expansion limited by the inability to spread across borders.

By 1982 there was a growing realisation within the Member States that many of these problems were contributing to inadequate market performance in the Community, and that national economies could benefit from achieving a unified European market. The belief was that completion of the internal market would enable Europe to reverse the trend of falling demand and production which had caused the EC to fall behind the economic growth of the United States and Japan, and would allow European economies to compete more effectively. As national governments began to renew their commitment to the goal of an internal market the Commission, formally composed of 17 members appointed by national governments and acting in its capacity as initiator of Community policy, presented to the Member States its "White Paper on Completion of the Internal Market" in March 1985.

THE COMMISSION'S WHITE PAPER PROPOSALS

Lord Cockfield's White Paper envisaged that an integrated economy capable of adapting to changing economic circumstances could be achieved by increasing competition, reducing costs, increasing demand for Community products and ultimately causing a reduction in consumer costs. The Commission's intention was to create a single market which was both expanding and flexible, enabling resources to flow to areas of economic growth within the Community.

In embarking on the largest legislative programme in its history, the Commission proposed measures to remove intra-European barriers to the free movement of goods, services, labour and capital in the form of 300 draft directives to be implemented by 31 December 1992. The proposals concerned the removal of three types of barriers:

- physical barriers;
- technical barriers;
- fiscal barriers.

The 300 proposals have subsequently been reduced to 279 by the withdrawal of proposals no longer required and the grouping of others into single proposals. While some proposals were concerned with the elimination of differences in technical specifications, many others were more general in their impact upon whole sectors of economic activity. The White Paper also proposed complementary action in the fields of monetary capacity, social policy, economic and social cohesion and Research and Development. Those areas of Community activity not subject to proposals in the White Paper were agricultural policy, budgeting matters, monetary union, or the EMS (except indirectly in terms of monetary capacity). Overall, the White Paper had three objectives:

- unifying the twelve national markets into a single European-wide market;

- ensuring that the single market also becomes an expanding and growing market;

- ensuring that the market is flexible so that resources flow into areas of greatest economic advantage.

The intention was to remove all barriers between Member States since the Commission feared that the maintenance of any internal frontier controls could perpetuate the costs and disadvantages of a fragmented European market. In order to achieve this objective, the Commission adopted a new policy of harmonisation and mutual recognition of national laws.

Harmonisation and mutual recognition

The White Paper marked a significant departure from previous Commission attempts to progress towards a single European market, which had relied on the harmonisation of national laws and regulations at every level (Article 100 of the Treaty of Rome). The innovative element of the White Paper was contained in the form of the dual strategy of minimum harmonisation and mutual recognition.

While harmonisation was still envisaged for the standardisation of basic rules, a supplementary concept was that technical standards which differ between Member States should be mutually recognised in order to allow goods and services originating in another Member State free access into a national market. While acknowledging that the internal market cannot be completed by 1992 if the Community relies exclusively on Article 100 of the Treaty of Rome, the intention of the White Paper is that the role of harmonisation will decrease as new approaches lead to quicker and less problematic progress.

In terms of the decision-making capacity of the Community, the fact that harmonisation based on Article 100 requires a unanimous vote in the Council has delayed the adoption of draft directives. Even where Article 100 remains appropriate, the Commission view was that more flexible means of decision-making were necessary.

By extending the idea of mutual recognition to the provision of services, the Commission envisaged that Member States would adopt a procedure of home country control. This would involve the supervision of European-wide activities being the responsibility of an appointed authority in the Member State in which a company has its head office.

In moving towards the principle of mutual recognition, the White Paper proposed to speed up the decision-making process and reduce the regulatory burden on companies wishing to operate on a Community-wide basis. This initiative will ultimately require a high level of information exchange and policy co-ordination between national supervisory authorities.

Removal of physical barriers

The Commission's White Paper embodied the belief that a complete internal market requires not only a simplification of harmonisation and mutual recognition of goods and services, but also the abolition of all internal frontier controls. Physical barriers at customs posts and immigration controls remain the most obvious restrictions. For industry and commerce these barriers impose an unnecessary burden in terms of border formalities and transportation costs which damage the competitiveness of goods.

While customs posts were abolished in the early years of the Community, border controls have been retained by Member States as a means of enforcing fiscal, commercial, health and security regulations. In an attempt to abolish all such frontier controls, the White Paper intended that Member States would replace border checks with other methods of control, improving co-operation and information exchange between national authorities.

Control of goods

In an attempt to eliminate border controls the Commission has sought a commitment from the Member States that no new controls on the movement of goods will be introduced. This is known as "standstill". This may be achieved by avoiding the duplication of controls on both sides of the frontier.

Commercial and economic policy

Article 115 of the Treaty of Rome stipulates that the Commission may deny a Member State the right to exclude quota products from free movement within the Community. On the basis of Article 115, the White Paper stressed that the abolition of national and regional quotas could be achieved by 1992 only if the Member States co-operate in renouncing frontier controls completely. However, the Commission acknowledges that there will be a continuing need for some form of control in limited areas, particularly until such time that all national protection measures and regional Community quotas can be abolished. In addition, the Commission has announced its commitment to honour all obligations to GATT.

The Commission further intends to step up the monitoring of exchange control measures which present a potential obstacle to payments for liberalised trades in goods, services or capital. By 1992 any remaining currency controls will have to be applied by means other than frontier controls.

Removal of technical barriers

The Commission envisages that, through the elimination of technical barriers, the internal market will develop its economic and industrial dimension by enabling industries to make economies of scale and become more competitive.

Manufactured goods

The traditional Commission strategy of seeking the adoption of harmonisation directives in order to remove technical barriers has in the past proved difficult. Therefore the White Paper emphasised that a genuine unified market could not be achieved unless mutual recognition of national standards and regulations in general replaces the systematic harmonisation of technical standards. Harmonisation of technical standards is retained only where necessary to ensure public health and safety; elsewhere mutual recognition becomes the norm. The general rule laid down in the White Paper is that if a product is lawfully manufactured and marketed in one Member State, there is no reason why it should not be sold freely throughout the Community.

The Commission considered that barriers created by different national products add extra costs and distort product patterns. As a result the maintenance of these barriers forces manufacturers to focus on national rather than European markets. This principle applies not only to the free movement of goods (as established by the Cassis de Dijon Case, where the Court of Justice ruled that a product manufactured and marketed in one Member State must be also allowed to compete elsewhere in the Community) but also to the free movement of individuals and the freedom to provide services.

Services

The Treaty of Rome established the principle that freedom to provide services should be available throughout the Community. Failure to implement this principle led the Commission to propose that a free market in services could be best achieved by mutual recognition of national regulations, underpinned by the harmonisation of basic rules. In setting out the Commission's intention to open up the whole market, including new markets such as information technology, traditional services such as the financial sector, and public procurement contracts, the White Paper gave formal recognition to the importance of freedom to provide services in the creation of an internal market.

The White Paper also contained the proposal that Community citizens should be free to engage in their professions throughout the Community without encountering national barriers to their movement. In order to achieve this aim, it is anticipated that the general system of mutual recognition will be applicable to national academic and professional qualifications.

Furthermore, the White Paper envisaged that the removal of internal borders would be accompanied by the strengthening of pan-European research and technology development programmes in order to prevent the duplication of resources caused by fragmented national research programmes.

Removal of fiscal barriers

Since fiscal checks cause significant delays at the Community's internal frontiers, the Commission's objective is that all internal economic frontiers will be removed by 1992. The proposed removal of frontier controls has widespread implications for national indirect taxation, however differing levels of indirect taxation are incompatible with the goal of a single market since both VAT and excise duties enter into the fiscal price of goods and services. Building on the basis provided by the Sixth VAT Directive of 1977, the White Paper suggested three methods of removing fiscal barriers:

- Council agreement to intensify efforts to harmonise the VAT base and structure of excises, using existing Commission proposals as its basis;

- a Commission "standstill" proposal to ensure that existing differences in the number of VAT rates and the coverage of excises are not widened;

- a Commission proposal for target rates/norms, together with proposed ranges of variations. Member States would then have the option of moving indirect taxation towards the common rate immediately or in a series of shifts.

Further progress in the removal of fiscal barriers is likely to result from the abolition of fiscal frontier controls, while on a macroeconomic level the White Paper urged closer co-operation of the Member States within the European Monetary System (EMS).

IMPLICATIONS FOR INDUSTRY, COMMERCE AND INDIVIDUALS

The full implications of a Single European Market remain difficult to quantify. As the Commission has stressed, gains will only be achieved if the programme for removing all barriers to trade is fully implemented. However, the Commission remains optimistic of the potential for achieving substantial benefits.

Industry and commerce

The Commission's own report on the benefits of the completed internal market, "The European Challenge - 1992" (Paolo Cecchini, 1988), highlighted the potential for European industry to improve its competitiveness. The Cecchini Report predicted that the overall economic impact of an internal market for goods and services could amount to approximately 5 % of total EC GNP (ECU 200bn). In the completed internal market, costs and prices for intermediate goods would be reduced, while factors of production provide the opportunity to expand both within the Community and in third-country markets. The potential for expansion would be greatest in markets which have previously been fragmented.

However, this gain will not be felt immediately after the 1992 deadline has been reached. Despite the overall economic gain predicted in a Single Market, the Cecchini Report acknowledges that industry may experience a reduction in short-term profits due to a downward convergence of prices. It is in the long-term that the Commission predicts economic advantages. The stimulus of the completed internal market will create a new competitive environment, a scaling up of production, an increased efficiency and greater product innovation.

The Commission's projected scenario of an expanding European market starts from the assumption that the removal of physical, technical and fiscal barriers to trade will boost competition and act as a stimulus to the market. The Commission anticipates that the overall consequences will be:

- cost reduction as a result of economies of scale operating in both production and business organisation;

- greater efficiency within companies;

- new patterns of competition between industries and a reallocation of resources;

- increased innovation in research and development as new products and manufacturing processes are generated by new market conditions.

In the Commission's model of a Single European Market, increased industrial competitiveness would be the result of lower input costs as labour, capital, equipment and components are obtained at more competitive prices.

It is anticipated that industry and commerce will respond to a new competitive market environment by developing a greater concentration of business activities and reducing overheads. The exploitation of economies of scale would be applicable not only to production costs, but also to business organisation, research and development, marketing and finance. In all these areas a reduction in costs can be expected.

While large firms will seek opportunities to exploit economies of scale, Cecchini suggests that smaller firms will benefit directly from the removal of administrative regulatory burdens which will accompany the internal market programme. The flexibility of small firms would enable them to seize new opportunities in specialised sectors of a new market.

General economic growth

The direct reductions in costs and prices which the Cecchini Report has predicted would lead to increased growth in domestic and international demand. Specifically, projected mid-term economic gains have been highlighted as:

- a major relaunch of economic activity;
- a cooling down of the economy as consumer prices are deflated;
- a relaxation of budgetary and external constraints;
- a reduction in levels of unemployment.

Overall, it is anticipated that the stimuli of increased trade and heightened competition will lead to a reduction in the costs of large-scale production as existing capacity becomes better utilised and each industry is restructured to deal with new market forces.

Public procurement

The Cecchini Report pinpointed the liberalisation of procurement markets as an area which will have a much greater impact on the general economy than will the removal of customs barriers.

Significant potential exists for large reductions in purchasing and investment costs, since capital goods in particular would become cheaper under the pressure of foreign competition in a Single Market.

Individuals

The aim of the internal market programme itself goes much wider than the removal of barriers to trade in the Community. The Commission anticipates direct benefits to the individual in terms of:

- health and safety at work;
- rights of employed persons;
- education;
- travel;
- consumer goods.

The Commission has consistently stressed the importance of the parallel goal of social cohesion. The Commission's intention is to create Community-wide provisions on health and safety at work in order to safeguard employees.

A developing single European market will require a flexible and mobile labour market capable of providing the resources for sustained economic growth. The Commission has proposed that this objective may be achieved by ending restrictions on the free movement of workers and by ensuring freedom of establishment for the professions throughout the Community. This would be achieved by mutual recognition of professional qualifications by the Member States.

Employment opportunities of a single market will be accompanied by job losses in other sectors as a restructuring of European market gathers momentum. Attempts to alleviate economic and social disparities will be coordinated by a Community social policy.

New programmes for educational exchanges in the form of ERASMUS (educational exchanges) and YES (Europe for Youth) are designed to strengthen social links between the peoples of the Community.

Travel opportunities for individuals will improve as a result of the removal of border controls, the removal of transport monopolies, an end to artificially high fares and the provision of health care to individuals throughout the Community.

For consumers, the Commission anticipates that the benefits of the internal market will accrue from a reduction in prices, an increase in product choice and an improvement in quality. Open competition created by the internal market programme will ensure that the consumer will no longer experience large variations in prices between countries.

3. THE SINGLE EUROPEAN ACT

At the Luxembourg European Council meeting of December 1985, the Member States adopted all the main proposals contained in the Cockfield White Paper. In urging the Council of Ministers to work within the Commission's 1992 deadline, the heads of state of the twelve Member States embodied the Commission's proposals for completion of the internal market in the Single European Act (SEA). The Act is "single" in the sense that, after early discussion, it was decided to include in one Act provisions both to complete the internal market and to bring European Political Cooperation formally within the Treaty of Rome.

In providing the first major revision of the Treaty of Rome since 1957, the Single European Act reflects a renewed desire among the Member States to prevent the economic fragmentation of the Community. However, the SEA goes beyond a declaration of intent to achieve economic integration by embodying a political commitment by the Member States to progress towards the goal of a much closer European Union.

The SEA provides both a legal framework and a political commitment by Member States to achieve implementation of draft directives considered necessary for completion of the internal market by 31 December 1992. Furthermore, in acknowledging the economic, social, regional and environmental implications of a single market in Europe, the SEA has provided for progress not only in terms of the removal of barriers to the free movement of goods, services and individuals, but also in associated areas likely to be affected by the internal market programme.

The White Paper had highlighted the institutional and economic problems which the Community faced. The Single European Act now provides a new impetus for progress in these areas and set new policy objectives for the Member States. In an attempt to ensure that the 1992 deadline is adhered to, the SEA amends the Treaty of Rome by:

- introducing new policy objectives for the Community;

- streamlining the decision-making process in order to provide an institutional framework capable of carrying through the Commission's programme for completion of the internal market;

- introducing other institutional reforms.

The Single European Act was ratified by nine Member States on 17 February 1986. Denmark later signed after a national referendum on 27 February. Greece did not ratify the Act until January 1987 and, following a Supreme Court ruling, Irish ratification was received after a referendum in June 1987. The SEA finally came into force on 1 July 1987.

Policy objectives

The SEA introduces new policy objectives for the Community in five main areas:

- formal recognition of the EMS and ECU (monetary capacity of the Community);

- social policy;

- economic and social cohesion;

- research and technological development;

- environmental policy.

The Commission holds responsibility for policy initiation and is anxious to see the adoption of its draft proposals within the self-imposed timescale. In this capacity it has deliberately refrained from attaching different priorities to draft directives in an attempt to prevent the progress of those proposals considered less urgent being hindered.

Monetary capacity

The SEA requires that Member States "shall take account of the experience acquired in co-operation within the framework of the European Monetary System (EMS) and in developing the ECU".

It further stipulates that where economic and monetary policy necessitates institutional changes, unanimous approval will be required by the Member States after prior consultation with the Monetary Committee and the Committee of Governors of the Central Banks.