

CONFERENCIA

CARLES A. GASÒLIBA

Reunió Anual de MIDSNELL INTERNATIONAL

BARCELONA 27-X- 1995

THE EUROPEAN UNION: THE INTERNAL MARKET AND THE CHALLENGE OF THE ECONOMIC AND MONETARY UNION

Presentation

January the 1st, 1993, represents the date of the completion process of the Domestic European Market, that is to say, the building of a space with no boundaries between the members of the European Union. In such a space, the free circulation of goods, people, services and capital is largely allowed.

The creation of an Internal Market has been the most important project of economic integration that has ever taken place. For seven years, the European Union has transformed twelve state markets still partitioned in many sectors into a single unity.

The Internal Market has not aimed at eliminating the differences in areas such as language, culture, identity or tradition. Instead, it has aimed at mutually recognizing the norms of each member state.

The building of the Internal Market has been a long and complex process which has involved the adoption of specific norms in a broad range of sectors. This adoption has been necessary to lift a whole series of barriers which fragmented the market.

The European Commission published its "White Book" in 1985, in which the initial programme to reach the steady lifting of such

technical, physical and fiscal barriers was presented. This programme foresaw the adoption of 280 proposals required to reach the Internal Market between 1985 and 1993. The main aims were the following:

1. The lifting of the physical borders, that is to say, the elimination of check-points between borders and physical restrictions for the mobility of people and goods.

2. The lifting of the existing technical borders in various economic sectors (the motor, food and building industries, among others).

3. The lifting of fiscal barriers in order to unify the tax rates and structures of certain payments and thus avoid distortions in commercial exchange among member states.

The new impulse given by the "White Book" was juridically recognized by the European Single Act, signed on February 1986. This Act established that the main goal for the European Union was the creation of the Internal Market.

We have to underline the fact that the advantages of the Internal Market have to be continually consolidated and developed. Indeed, the Internal Market is the basis for the next phase of the integration of the EU, the transition towards an Economic and Monetary Union (EMU).

The advantages of the Internal Market for companies

The Internal European Market is the largest industrialized market in the world. This fact has helped to strengthen the competitiveness of European companies. It allows the generation of greater production (with the consequent scale economies) as well as permitting access to bidding for public contract announced by the public authorities of other EU countries.

Thus, the companies have been able to reduce their production costs and to bring down the prices for the European consumer. Besides, the companies are able to compete more efficiently on the international markets, especially in the face of Japanese and American competitors who already benefitted from more integrated domestic markets.

We have to say that cost reduction has been achieved in many sectors of the economy. For instance, the suppression of transport controls at the borders (especially on the roads) has decreased the average time a truck would take to cross Europe by two days; consequently, the global expenses that such an operation generates have also been decreased.

Thanks to the Internal Market, companies are able to sell their goods and to offer their services in any country of the Union as easily as they would on their own market.

The restrictions in the movement of capital have been lifted. This

has made it possible for banks, companies and individuals to invest in foreign currencies and in whichever markets they prefer. Banks, investment and insurance companies can also operate all over EU territory from their own country (previously they could only operate in other countries if they had branches subject to local laws).

Instead of elaborating a whole series of European rules and standards, the Internal Market has established the general principle of mutual recognition of the national norms and regulations, which allows member states to accept the norms and standards of the other member states on the same basis as their own. This mutual recognition makes it possible for goods to be exchanged between states as long as they follow a unique norm, the norm of their own country.

On the other hand, the fact that, generally speaking, states recognize University degrees of other countries as equivalent to theirs allows mobility among liberal professionals and specialized workers. Such a mobility -despite the cultural and linguistic differences- is considered as a very valuable asset in relation to the establishment of a truly competitive European economy.

We have to say that large companies immediately adopted the benefits of the Internal Market, supporting the European Commission programme for 1992 (outlined for the first time in the "White Book" in 1985). In fact, companies progressively adapted their own financial, production and commercial structures even

before the elimination of the borders.

In order to support the Small and Medium-sized Businesses (the Spanish *PYME*) and in general to give support to companies, the European Commission has created information and assessment mechanisms. We have to highlight the Business Cooperation Network (BC-Net), which allows companies to confidentially seek commercial partners; the Enterprise Cooperation Office (the French *BRE*) which encourages cooperation among companies, and the Europartnership (*Europartenariat*) which brings European companies with trading objectives together twice a year.

Citizenship and the social effects of the Internal Market

The freedom to travel and to do business all over Europe as easily as in one's own country constitutes, for most of the Community's citizens, the most significant symbol of the Internal Market and of the European Union itself.

The right of citizens to dwell in another country is included, at present, in the European Union Treaty. In the same way, the Treaty allows these residents to vote in or even to run for European and local elections as candidates under the same conditions as citizens of their own country of residence.

On the other hand, the Internal Market has not incorporated all the aspects of social and work legislation. The members states - and not the European Union- are responsible for legislation in

matters such as taking on and laying off workers, as well as in relation to trade union legislation.

Nevertheless, in December 1989, the states and government leaders gathered at the European Council in Strasbourg to approve a solemn declaration on the social rights of workers: the Social Charter (or the Charter on Basic Social Rights of Workers).

We have to say that since those years, Community activity has undergone an evolution in this sphere. Among these statutory provisions, we have to point out that on September 22nd, 1994, the responsible EU Ministers for Social Affairs finally adopted Guidelines on Workers' Committees; they stated that transactional companies with 1000 or more workers in Europe and with a minimum of 150 in two member states, would have to create information and consultation mechanisms for their workers.

Fiscal Aspects of the Internal Market

The elimination of fiscal borders between EU member states is one of the most complex political tasks in the accomplishment of the Internal Market.

The fiscal harmonization pursued by the Community (understood not as a unification but as an approximation of legislation) has led to the building of a Community space without inner borders in which people, goods, services, and capital can circulate freely.

The fiscal policy of the Community does not seek to collect Community taxes. Its true aim is to create a truly operative Internal Market.

The Community fiscal approximation principally affects VAT and other special taxes which, by applying a different tax rate in each member state, made the existence of controls at the borders necessary. Such fiscal approximation also affects other areas such as, for instance, the fiscal regime to be applied to companies, since the divergencies which may exist among state regulations cause distortions in competence which is incompatible with the Internal Market working well.

The elimination of fiscal borders also contributes to increasing the transparency of the taxation systems of the member states and to reducing administrative expenses for the benefit of companies and citizens.

From a political point of view, fiscal approximation presents exceptional difficulties due to the fact that any modification in this field has a direct effect on the budgets of the member states, an effect which can be either positive or negative.

The Community fiscal approximation has not led to great transformations; however, thanks to the specific measures of approximation, to the pressure of Internal Market forces and to the liberalization of the circulation of capital, the European taxation system has progressively acquired a greater homogeneity.

The VAT transitory system (1993/1997)

The lack of harmonization of the consumer tax provokes that the fiscal pressure undergone by the products and services, as well as their prices, vary from one state to the other, directly affecting the exchanges between the member states.

After the full completion of the Internal Market in 1993, these fiscal borders in the consumption sphere disappeared thanks to the introduction of a new VAT regime. When the definitive VAT regime comes into force, the general tax principle of the state of origin will prevail; this will mean that the economic operators will have to pay the tax in the state where they have purchased the product or benefitted from the service; that is to say, as if it were an operation carried out within the very same state.

We have to note that the Community agreed on the establishment of a transitory period given the impossibility of gathering the required definitive conditions for the date foreseen for the completion process of the Internal Market. For this reason, since January 1st, 1993, the transitory regime came into operation; it advocated the principle of tax payment in the destination state and not in the product's state of origin.

However, the new regime introduced noticeable and relevant changes. First of all, it introduced a new notion, the notion of "intracommunity exchange". Thus, the concepts of import and

export are exclusively used in operations carried out with third countries. Secondly, the transitory regime introduces the elimination of controls at borders, thus allowing the elimination of a large number of administrative and customs formalities and of the delays that the latter imply (there has been a decrease of 60 million custom forms per year).

This elimination has brought about the need to establish close collaboration among the administrations of the various member states in order to keep a control on goods and to combat eventual frauds. In accordance with this, an information exchange computer system between the fiscal authorities has been created. This system permits the verification of the VAT identification number or the address corresponding to a fiscal identification number of any company established in a member state, and it also facilitates the exchange of information between fiscal administrations.

During the transitory period, VAT is charged in the destination country on all those intracommunity operations carried out by non-exempt passive subjects; it is also charged on purchases made between member states by passive subjects exempt from the tax or not subject to it (in case they exceed an amount fixed by each state). Also, VAT is charged on some specific Community operations of distance sale and the delivery of new cars to individuals or to organizations exempt or non subject to tax (in this case, the charge is imposed in the state where the vehicle has been registered).

Besides, with the lifting of fiscal controls at borders, minimum VAT rates were determined (normal and reduced tax rates). The states are free to fix them always as long as they are equal to or higher than the established minimum.

Therefore, from January 1st, 1993 until December 31st, 1996, the member states apply a normal tax rate of at least 15% which affects most products and services, and one or two reduced tax rates (not below 5%) basically for food products, water supply and cultural services, among others. In some cases, the introduction (transitorily) of certain reduced tax rates below the minimum 5% (hyper-reduced tax rate) and of certain taxes imposed at zero rate is also allowed.

We have to point out that the present VAT regime is the result of a provisional compromise and agreement. This agreement, although taking into account the elimination of border controls, still imposes VAT payment on a product in the country to which it is imported.

The EU governments have decided on a provisional agreement which allows them to prepare the full adoption of the VAT system and for tax collection in the single market. The definitive VAT regime in which the tax will have to be paid in the country where the goods have been produced instead of in the country where they are consumed, will be set up in 1997.

Special taxes on consumption

From 1993 onwards, travellers can freely purchase in other member states and take these goods to their own country without any procedure (as long as the goods are for their personal consumption).

In this sense, the entrance of unlimited amounts of wine, spirits and cigarettes for personal consumption is permitted without any control at borders.

In fact, the member states can establish quantity indices which may be used as a testing element, and above which they will be considered as being for commercial use (90 liters of wine, 110 liters of beer, 800 cigarettes, 200 cigars, among others). However, we have to say that any importation higher than these amounts is permitted as long as it can be proved that it is for personal consumption.

In relation to duty-free shops, which logically are opposed to the principles of the Internal Market, they will remain open during a transitory period until their closing on June 30th, 1999. Therefore, purchases can still be made at duty-free shops for a given period, provided they are within a limited value and quantity (a maximum per individual and/or traveller of 175 ECU's and 90 ECU's for minors), but also within a specified maximum limit for certain products.

The Internal Market has also benefitted the consumer in relation

to the purchase of new or second-hand vehicles, allowing the individual to purchase his/her vehicle in any member state even if he/she is not a resident there and as long as he/she respects the established statutory provisions in the Community regulations on this subject.

Corporate income tax

One of the important benefits of the Internal Market for the companies is the lifting of double taxation. In this sense, in July 1990 two Community guidelines related to the fiscal aspects of collaboration between companies were adopted. Thanks to the Guidelines on the Fiscal Regime to be applied to parent and subsidiary companies of member states, the risk that the profits which the foreign subsidiary companies distribute to the parent companies as dividends would be subjected to double taxation has been greatly reduced.

We have to point out the fact that progress has been made in the common fiscal regime applied to multiple taxation in the cases of mergers, fragmentations, assets contributions and exchange of shares between companies of the various member states and in relation to the lifting of deductions to be applied to the canons and interest payments carried out within a group of European companies. We have to mention also the progress made in relation to the clearance of company taxes in the case of losses undergone by subsidiaries and branches located in other member states.

The external dimension of the Internal Market

The creation of the Internal Market strengthens the importance of the Union as the first commercial power on a world scale (the commercial exchanges of the European Union reach 38% of the world total, compared with the United States' 10% and Japan's 9%). In fact, the Internal Market is a strong base which enables the Union to face its international responsibilities and to defend its commercial interests in the international sphere (especially through the World Trade Organization (WTO), which has succeeded the General Agreement on Tariffs and Trade, GATT).

The commercial policy of the EU has made it possible to reach commercial agreements with most of the countries and regional associations throughout the world. This explains the main role the EU has had in the last negotiations of the Uruguay Round to liberalize trade (which ended on March 1994).

This Community commercial policy has made it possible for countries which did not belong to the EU to benefit from the advantages of the Internal Market under the very same conditions as their own European rivals.

The Internal Market is open to the whole world under conditions of strict competition. In this sense, any goods which cross the external border of the EU have the same freedom of movement as the Community's own products. This means that the goods of third

countries have to comply with a unique set of rules (regardless as to whether they are from a single state or from the Community sphere) in order to have access to the national markets of all the member states; instead of having to adapt to a different rule for each country, as happened before.

The EU has made access to the Community market available to foreign companies in some sectors (such as financial services and public contracts) as long as the reciprocity principle is respected; that is to say that Community companies should be treated in the same way in foreign national markets.

In this sense, the European Union negotiates agreements on mutual access to markets (in a bilateral or multilateral way) with those governments which have made such a request. Consequently, the Internal Market is enabling European companies to get access to foreign markets and non-Community companies to benefit from the advantages of the Internal Market.

We have to add that, for the complete efficiency of the Internal Market and of its external dimension (by means of the common commercial policy), an effective management of the external borders of the Union is also required.

A close collaboration between state administrations and the European Commission is necessary in order to prevent infractions in customs' regulations or with other requirements to access to the EU market (fraud, the protection of the right to intellectual

ownership -trademarks, designs and authorship rights- and, especially, forgery).

However, it is obvious that one of the most remarkable successes of the external dimension of the Internal Market has been the agreements between the European Union and the Member Countries of the European Free Trade Association (EFTA). These agreements, aimed at applying the Internal Market to all the Member Countries of the EFTA, made it possible to create the European Economic Space (EES) on January 1st, 1994.

We have to point out that these agreements became the final stage which enabled the quick adhesion of the three new member states of the Union (Finland, Sweden and Austria). In the same way, the observance of the Internal Market rules will be a key requisite for joining the Community for Eastern and Central European candidate states.

From the Internal Market to Economic and Monetary Union (EMU)

Economic and Monetary Union (EMU) and the creation of a single currency are the main reasons for the prolongation of the Internal Market, so that the former can function with full efficiency.

Despite the fact that some governments (especially the British and Danish) have still not committed themselves to the final phase of this process, we could say, generally speaking, that both

entrepreneurs and manufacturers all over Europe support the introduction of the single currency.

We have to note that the very same dynamism generated by the success of the programme to accomplish the Internal Market has been the base for deepening the general integration process of the European Union towards the Economic and Monetary Union (EMU). In fact, the very same idea of creating a single currency, which constitutes a logical extension of the Internal Market with its lifting of internal borders, has not still permitted the elimination of expenses incurred by the exchange of foreign currencies.

On June 1989, the heads of the EU States and Governments decided that the first phase of the EMU would start on January 1st, 1990. This phase started with the lifting of control on the movements of capital, taking into account the smooth tuning of the European Monetary System and of the Exchange Rate Mechanism (ERM), which permitted the inclusion of the Community currencies which were within the narrow fluctuation margins. Despite its slowness, the process towards Economic and Monetary Union has already begun.

The second phase also started within the pre-arranged term: January 1st, 1994. However, during that period the 1992 and 1993 monetary crises broke out and the economic recession worsened. This fact caused the deviation of the currencies in the European Monetary System and destabilized the economies of all member states.

At the beginning of the second phase (according to what is established in the European Union Treaty), the EU governments created the European Monetary Institute (EMI), precursor of the European Central Bank (ECB) and they also committed themselves to the careful preparation of the third phase.

During the second phase, all the governments are taking special care to avoid an excessive deficit in the domestic budgets. The countries that have a too high inflation rate and national debt will have to adopt measures aimed at reducing them until they reach the same level as that of the most stable EU economies.

We have to underline the fact that the first two phases of the EMU have not brought about great innovations in relation to economic and monetary policy. In fact, the great changes are expected to take place in the third and final phase of this process.

At the lowest point of the 1993 recession and after two important monetary crises, it seemed as if the terms originally agreed for reaching the third and final phase of the EMU would not be respected. It was established to begin in 1997 as long as at least seven member states fulfil the strict economic and monetary criteria established by the Maastricht Treaty, but that possibility have been dropped out given the small number of member states able to accomplish the Maastricht criteria in that year.

The EMU will come into force on January 1st, 1999, with the

participation of those member states which fulfil the required criteria, given that for that year the Maastricht Treaty does not require a given number of member states. It is said in the Treaty that the process to the EMU will be automatic and irreversible for the member states that accomplish the terms fixed in the Treaty.

It is clear that the criteria established by the Maastricht Treaty to enter into the third phase of the EMU are undoubtedly strict, and few EU countries could participate in the third phase if they were to be applied today.

These criteria refer to price stability, public treasury, exchange rates and interest rates.

1. Price stability: the candidate countries for participating in the EMU will have to prove that their inflation is not higher than 1,5% of the inflation rates of the three EU countries with the lowest inflation rates during the year previous to the beginning of the third phase.

2. Public Treasury: the member states will also have to prove that their budget deficit does not exceed 3% of the GNP and that their national debt is below 60% of the GNP.

3. Exchange rates: the member states will have to keep their own currencies within the regular limits of the exchange rate mechanism of the EMS during the two years preceding the beginning

of the third EMU phase, without any devaluation during this period.

4. Interest rates: the candidate countries will also have to have long-term nominal interest rates which have to be below 2 points percentagewise in relation to the three EU states with the lowest interest rates .

The introduction of the single currency will be the culminating point in the accomplishment of the EMU. We have to say that, despite the fact that the Maastricht Treaty affirms that at the beginning of the third phase the Council will adopt the necessary measures to introduce the single currency, some monetary experts consider that it should be introduced after some transitional months. During this period, the national currencies would still exist but would be definitively linked together by means of the same exchange rate, thus allowing the capital markets to integrate and the EU interest rates to converge. In this sense, we have to point at the fact that the European Commission published on May 31st, 1995, the "Green Book on Transition Modalities Towards the Single Currency".

In fact, we should remember that the ECU has already been in existence for some years despite the fact that its use has been limited. It has been mostly employed in the framework of international finances. Nevertheless, citizens have been able to use it for non-liquid transactions (such as checks, bank transfers or deposits in savings accounts).

Governments and institutions, as well as EU multinational companies, chiefly use the ECU to issue loans on the international capital market, or for internal accounting in some large companies. It is also used for mutual payments between Central Banks of the EU.

Before the century ends, the citizens of the EU should be able to carry out their transactions with bank notes and money issued in single currency.

Finally, the Internal Market has not been a simple procedure towards full Economic and Monetary Union; it has also been the Union's base for facing its two big challenges before the year 2000.

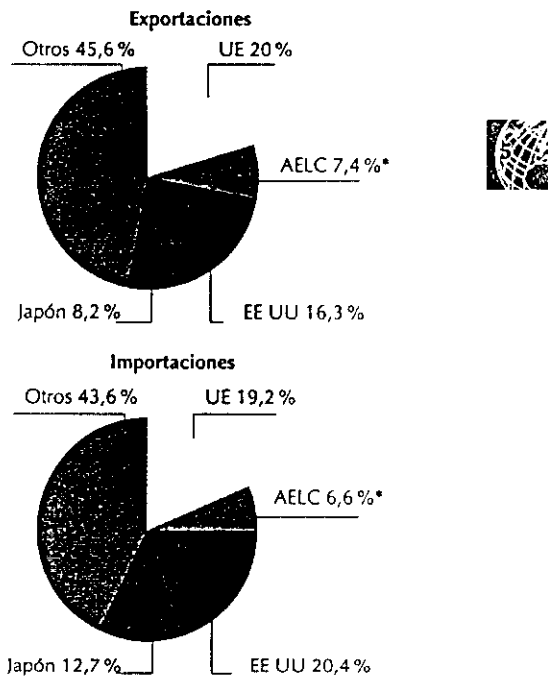
On one hand, there is the Inter-governmental Conference which will be held in 1996 to modify and update the European Union Treaty. On its agenda there are institutional reforms, the broadening of the Treaty's powers on the issues of defence and the strengthening of the Community's democratic structures.

All the same, the second challenge will be the next enlargement of the Union. After the Inter-governmental Conference, the negotiations aiming at the admission of Central and Eastern Europe countries will start. Thus, at the end of the 20th century it is possible that the Internal Market will include twenty-seven other countries.

Distribución del comercio mundial por áreas económicas

El comercio siempre ha desempeñado un papel importante en la historia de Europa y el comercio con el mundo sigue siendo hoy la fuente de nuestra riqueza. Aun dejando aparte el comercio entre sus países miembros, la Unión Europea es la mayor entidad comercial del mundo (Véase el cuadro). El comercio es lo que impulsa el crecimiento y crea empleos en la industria, el transporte, la investigación, la banca, los seguros y muchos otros sectores. La creación del mercado único ha liberado el comercio interno de la mayoría de los obstáculos. La UE desempeña un papel principal en las negociaciones dentro del GATT (Acuerdo General sobre Aranceles Aduaneros y Comercio) y la recién creada Organización Mundial de Comercio, que lo ha sucedido.

Cuota en el mercado mundial en 1993



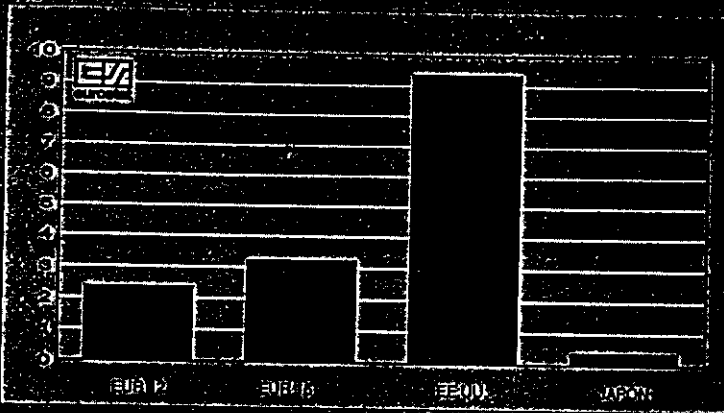
* En 1992, la AELC estaba formada por Finlandia, Islandia, Liechtenstein, Austria, Noruega, Suecia y Suiza. A partir de 1995, Austria, Finlandia y Suecia son miembros de la UE.

Fuente: Eurostat (Comercio exterior, estadísticas mensuales).

	Superficie (1000 km²)	PIB 1993 (1000 millones de ECU)	PIB/habitante 1993 (ECU/habitante)
Alemania	357	1.631	20.097
Austria	84	155	19.453
Bélgica	31	180	17.849
Dinamarca	43	115	22.253
España	505	408	10.434
Finlandia	338	71	14.110
Francia	544	1.068	18.640
Grecia	132	76	7.406
Irlanda	69	40	11.334
Italia	301	847	14.584
Luxemburgo	3	10	26.859
Países Bajos	42	264	17.268
Portugal	92	72	7.323
Suecia	450	159	18.256
Reino Unido	244	807	13.887
Unión Europea	3.235	5.909	15.951
Japón	372	3.600	28.300
Estados Unidos	9.372	5.400	21.500

Superficie de la UE, EE. UU. y Japón, 1993 (1.000.000 km²)

La superficie



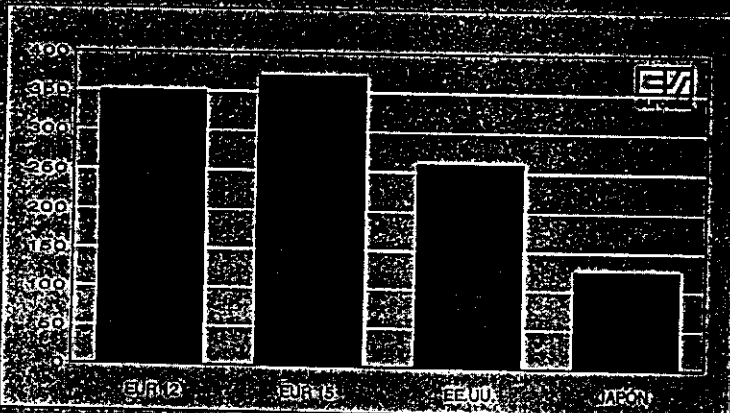
Debido a la adhesión de tres nuevos Estados miembros a la Unión Europea, el territorio de esta se ha incrementado en un 37%. En la Unión ampliada, el país con mayor superficie sigue siendo Francia, seguido por España. Cabe señalar que los Estados Unidos eran cuatro veces mayores que la Europa de los Doce y siguen siendo casi tres veces mayores que la Unión Europea de los Quince. El territorio de Japón ya solo representa el 11,7% de la Europa de los Quince, frente al 18% de la Europa de los Doce.

Superficie de los Estados miembros, 1993 (miles de km²)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EU12	A	FIN	S	EU15
Superficie	31	43	357	132	515	541	39	301	9	29	32	241	233	34	38	150	3.235

Población de la UE, EE. UU. y Japón, 1993 (millones de habitantes)

La población



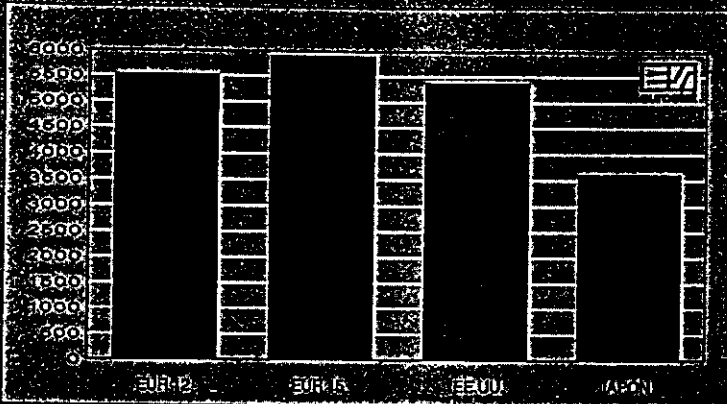
Debido a la baja densidad de población de los nuevos miembros de la UE, el número de residentes de la Europa de los Quince se incrementa únicamente en un 6,2% con respecto a la Europa de los Doce. En la Unión ampliada, el país más poblado sigue siendo Alemania, seguido por el Reino Unido e Italia. La población de la Europa de los Quince supera en un 43% a la de EE. UU. y es tres veces más elevada que la de Japón.

Población de los Estados miembros, 1993 (miles de habitantes)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EU12	A	FIN	S	EU15
Población	10.085	5.189	81.180	10.962	39.141	57.327	3.561	58.038	398	15.290	39.877	58.168	348.676	7.991	5.066	8.719	370.452

PIB de la UE, EE. UU. y Japón, 1993
(miles de millones de ecus)

El producto interior bruto



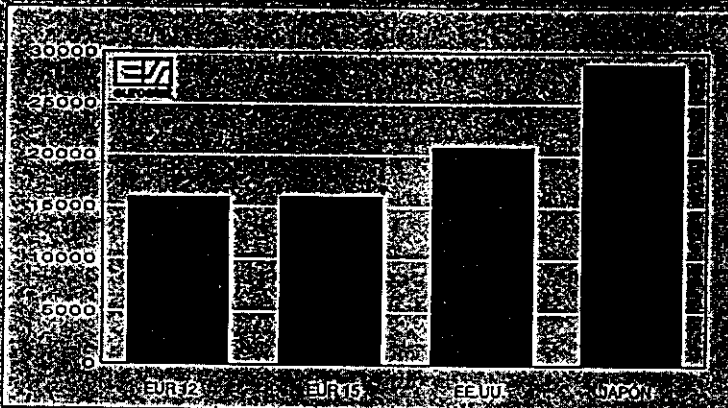
El PIB de la Unión de los Quince se ha incrementado en alrededor del 7 % con respecto al de la Unión de los Doce. La incorporación de Alemania en el PIB de la Unión ampliada es de casi el 28 %. Los nuevos Estados miembros aportan al PIB de la Unión una contribución que va del 1,2 % (Finlandia) al 2,7 % (Suecia). En 1993, la Unión Europea de los Quince habría tenido un PIB superior en alrededor del 10 % al de Estados Unidos y del 24 % al de Japón.

PIB de los Estados miembros, 1993 (miles de millones de ecus)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR12	A	FIN	S	EUR15
PIB	1800	1155	15315	767	10921	10990	404	273	07	2540	729	2173	5722	1593	716	1592	59033

PIB por habitante de la UE, EE. UU. y Japón, 1993
(ecus por habitante)

El PIB por habitante



Con la ampliación, la media del PIB por habitante de la Unión se ha incrementado en casi un 1 %. A este respecto, Austria y Suecia se sitúan claramente por encima de la media de la Unión (con índices del 22 % y el 11 % respectivamente), mientras que el PIB por habitante de Finlandia es inferior en un 12 % a dicha media. La ampliación no modifica la proporción entre el PIB por habitante de EE. UU. y de Japón y el de la UE.

PIB por habitante de los Estados miembros, 1993 (ecus por habitante)

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR12	A	FIN	S	EUR15
PIB por habitante	17.849	22.253	20.097	7.406	10.434	18.640	11.334	14.584	26.859	17.268	17.323	19.887	15.840	19.353	14.110	18.256	15.951

IV