

Past, Present and Future of the Single Market of the EU

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Abstract

The Single Market is one of the most important undertakings of the EU. Its establishment has officially started in 1957 with signing the Treaty of Rome which provided a suitable basis for creating the European Economic Community (EEC). The major aim of the EEC was to establish a common market based on the “four-freedom” in order to create a proper basis for a balanced, long-term sustainable economic development. Since 1957, the Single Market went through several changes. The EU member states prepared several action plans and strategies in order to continuously develop it. Irrespectively of that, the institution of the Single Market can not be considered as a completed process. Although, it provides significant advantages both for EU companies and citizens, it always has to be improved for being able to adjust to the continuously changing global environment.

This paper analyses the history, development and the economic effect of the Single Market.

Key words: European Economic Community, four freedoms, EU Single Market

1.1. History of the Single Market

Based on the results achieved on the field of the establishment and development of the Single Market, it can be said that the Single Market is one of the greatest achievement of the EU. Although, its establishment was not a simple issue, it ensures significant advantages both for EU citizens and enterprises.

Although, March 25th, 1957 can be considered as the official starting date of the Common Market, when France, Germany, Italy and the Benelux Countries signed the Treaty of Rome, its establishment started far earlier, directly after the second world war.

After the war it became evident that the international political climate is defined by the relationship between the USA and the Soviet Union. For this reason, the geographical region located between the two superpowers strategically became a very important area. USA considered West-Europe as a region that can play a significant role during its appearance against the Soviet Union.

For this reason USA strongly supported West European countries in reinforcing their economies. Irrespectively of the American support, West European countries have also endeavoured to strengthen their relationships in order to establish a Europe which is independent both from USA and the Soviet Union.

1.2. Treaty establishing the European Economic Community

As the result of these processes six West European states, France, Germany, Italy and the Benelux Countries established the European Economic Community (EEC) in 1957. The common aim of the founding states was to create a Common Market based on a simple economic cooperation. However, establishing requirements necessary to realise it, political cooperation among the founding countries was also inevitable. Therefore the EEC, through the economic cooperation, also created the basis for future political integration of the member states.

According to the EEC treaty the mission of the Community was as follow:

„The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of member states, 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 relationship between the states belonging to it.” (*Treaty Establishing the European Economic Community, 1957*)

Based on the defined mission of the EEC, it can be clearly said that the EEC was more than a simple economic cooperation. Actually, the EEC was not an aim but an instrument. Such an instrument which allowed of creating a globally competitive economic community able to ensure stable and significant rising of living standard.

The EEC based *on the free movement of persons, services, goods and capital*. These four freedoms were the core element of the EEC treaty containing 240 articles.

1.2.1. Free movements of goods

The free movement of goods and actually the whole Economic Community have been intended to be established by a common commercial policy. The core element of this common commercial policy was the establishment of a customs union. The customs union was based on the elimination of customs duties and quantitative restrictions and on a common customs tariff system. The execution was based on a very detailed timetable.

Agriculture:

Due to the strategic importance of the food production the EEC Treaty discussed the liberalisation of agricultural products' trade in a separate chapter.

1.2.2. Free movement of persons, services and capital

Concerning the regulation of persons', services' and capital's free movement, the Treaty was not so detailed and exact as for goods and agricultural products. It also signals that, although the Treaty aimed to implement all "four freedoms", the emphasis was on the implementation of free movement of goods.

Concerning the free movement of persons, the Treaty managed the issue of workers, enterprises and the liberalisation of company establishment separately.

Concerning the free movement of workers, it was mentioned in the Treaty that all discrimination hampering working freely in the Common Market has to be abolished. However, the Treaty did not discuss the mutual recognition of qualifications. Without this, the free movement of workers can be ensured only in a limited way.

The free supply of services was discussed only very briefly in the Treaty. Only 7 short articles were dedicated to this issue (Article 59-66). Services were grouped only in general terms. Only one field, the transportation was separately emphasized, which was discussed in a separate part

The same can be said for the free movement of capital. The Treaty discussed it very briefly only in six articles (Article 67-73).

Transport

Due to its emphasized role in the national economy and the very different national regulation solution of the member states the EEC Treaty discussed the transport in a separate article. One of the most essential requirements of the free movement of goods is a proper transportation policy. It is not enough to simply abolish custom duties and custom clearances for ensuring the free circulation of commodities within the Common Market. For this reason, as in case of the agriculture the Treaty intended to establish a complete community transport policy.

"The objectives of this Treaty shall, with regard to the subject covered by this Title, be pursued by the Member States within the framework of a common transport policy." (*Treaty establishing the European Economic Community, 1957*)

1.2 White paper

Actually, the Treaty establishing the European Economic Community can also be considered as an ambitious long-term program, of which aim was to establish a common Market able to create the basis for a balanced, long-term sustainable economic development.

As it was mentioned before, the member states signing the Treaty intended to establish a common market based on a customs union and on the free movement of goods, persons, services and capital in the course of a transitional period of twelve years. As for the implementation of a customs union the execution process were going very well. As the result of the cooperation, among France, Germany, Italy and the Benelux Countries the customs union has been completed by July 1st 1968, 18 months earlier than set in the EEC Treaty.

However the customs union was not equal to the common market. The EEC member states had to do a lot yet, first of all concerning “the four freedoms”. Namely, the free movement of goods, services, persons and capital has not fully materialized. Several significant steps have been made , but a lot of obstacle remained to be overcome. For example, EEC member states used several national regulations which had the same effect like quantitative restrictions.

To give a new impetus for the integration process of the EEC member states, the Commission headed by Jacques Delors prepared and presented the Single Market Program (SMP) on the completing the Internal Market in 1985.

The SMP paid special attention to the executing and the timing. The timing of actions proposed by the SMP based on an exact time schedule grouping them under the following three objectives:

1. The removal of physical barriers
2. The removal of technical barriers
3. The removal of fiscal barriers

(European Commission, 1985)

After publication of the Single Market Program, the special idea of the Internal Market has been also included in the Single European Act. Actually, the Single European Act was the revision of the Treaty of Rome. The document set 31 December, 1992 as completion date of the Internal Market:

“The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992...” *(Single European Act)*

1.3 Start of the Single Market

The Single Market Program adopted in 1985 gave a new impetus for establishing an effectively operating Single Market. The member states have started with renewed strength to realize proposals set in the White Paper. As a result of this new impetus the followings have been achieved:

- 95% of the 282 proposals, 265 have been adopted until the end of 1993;
- 93% of the adopted proposals, 246 have entered into force from which in case of 222 temporary national arrangement was necessary

- 87% of necessary national arrangements was made until 1993

(European Commission, 1994)

Proposals accepted by the Council concerned first of all the following areas:

- Harmonization of some part of direct and indirect taxes, first of all excise tax
- Removal of technical barriers
- Ensuring free movement of capital, fiscal- and other services
- Opening-up of public procurement

(European Commission, 1993)

Although some proposals have not been put into practice, made steps have materialized results. Due to actions have been made in this period:

- Approximately 300 000 – 900 000 jobs have been created
- The EU income increased by 1-1,5% between 1987-1993
- The inflation was by 1-1,5% lower than it would be in the absence of the Single Market Programme.

(European Commission, 1996)

These results strongly contributed to the economic convergence of member states and regions with different economic development level. It is extremely important, because stable and long-term sustainable economic development cannot be ensured without it.

Despite the results achieved until 1993, the Single Market was far from the perfect operation. For eliminating still existing imperfections and fully exploiting the potential of the internal market the Commission prepared a strategic programme (*Making the most of the internal market: Strategic Programme*).

The strategic programme contained exact legislative proposals. Furthermore, based on the recommendations of the report on „The internal market after 1992, Meeting the challenge”¹ (Sutherland Report) published in October, 1992, it paid special attention to the practical execution and defined exact ideas on the development of the Single Market.

1.4 The impact of the Single Market

After 1992, both the EEC and the global economy have changed significantly. The Maastricht treaty signed by twelve member states on February 7th, 1992 come into force on November 1st, 1993. The number of member states increased in more stages to 15 until 1995. The Economic and Monetary Union has been established in 1999, the Euro has been introduced in 2002, ten East European countries joined the EU in 2004 and further 2 in 2007.

All of these direct changes have been accompanied by several global economic changes. The globalisation of the world economy shifted into a higher gear strongly reforming the economic processes.

¹ The Sutherland report was requested by the Commission in 1992 inter alia to suggest a strategy designed to ensure that full benefits are drawn from the internal market after 1992.

The European Union prepared itself for these changes in time. For further developing and improving the Single Market effectiveness three Single Market action plan based on each other have been prepared and executed in the period 1992-2006.

1.4.1 The 1997 Action Plan

It was a 18 months ambitious action plan which defined the following strategic targets:

1. Making the rules more effective
2. Dealing with key market distortion
3. Removing sectoral obstacles to market integration
4. Delivering a single market for the benefit of citizens

(European Commission, 1997)

Member states started with new impetus to implement the action plan which has delivered its results. During the review prepared in February 1999 it was clearly determined that the action plan's outcome:

„...must be judged a success: in most, though not all, cases, the progress sought by the Action Plan has been achieved.” *(European Commission, 1999)*

1.4.2 1999 Strategy for Europe's Internal Market

After completing the 1997 Action Plan the Commission, for further improving the effectiveness of the Single Market, prepared a long-term strategic plan. The aims of the plan were as follows:

1. To improve the quality of life of citizens
2. To enhance efficiency of Community products and capital markets
3. To improve business environment
4. To exploit achievements of the Internal Market in a changing world

(European Commission, 1999)

The actions necessary to achieve these strategic objectives and the results were defined, adapted and reviewed every year. During the execution of the strategy mixed result born. The aims of the strategy has been only partly met.

1.4.3 Internal Market Strategy: priorities for 2003-2006

The Commission presented a 10 targets action plan in May, 2003. The strategy defined priorities for the period 2003-2006. Its aim was to set out:

„what the European Union needs to do over the next three years to derive maximum benefits from the Internal Market after enlargement.” *(European Commission, 2003)*

The timing of the new strategy was understandable, because the EU was before one of the most important event of its history: 10 countries joined the EU at the same time which was the largest single expansion of the European Union ever.

The strategy defined the following 10 targets to be achieved as priorities for 2003-2006 period:

1. Facilitating the free movement of goods
2. Integrating services markets
3. Ensuring high quality network industries
4. Reducing the impact of tax obstacles
5. Expanding procurement opportunities
6. Improving conditions for business
7. Meeting the demographic challenge
8. Simplifying the regulatory environment
9. Enforcing the rules
10. Providing more and better information

(European Commission, 2003)

The execution of the strategy showed a mixed picture. While the member states were still taking too long to implement Single Market directives into national law in 2004, this process was very successful in 2005. After difficulties in the first half, the execution of the strategy received a new impetus in the second half of 2006. The 1,9% average transposition deficit reported in July 2006 (*European Commission, 2006*) was successfully decreased to 1,2% until year end of 2006 (*European Commission, 2007*)

The number of infringements proceedings due to incorrect implementation and application of the Internal Market directives showed the same picture. The number of this proceedings was 1 246 in November 2006 (*European Commission, 2007*), representing a significant improvement compared 1 505 reported in November 2002 (*European Commission, 2002*)

Consequently, the strategy could be considered as a success.

1.4.4 Single Market after 2006

The development of the Single Market has also continued after 2006. The member states made huge efforts during the implementation of the Internal Market directives.

For improving the development of the Single Market, the heads of member states decreased the transposition deficit target from 1,5% to 1% on the European Council summit on March 8-9, 2007. This target has to be achieved by year end of 2009.

This step has had its immediate effect. By November 2007 the average transposition deficit decreased to 1,2% from 1,6% reported in June 2007 (*European Commission, 2008*). This positive tendency continued in 2008 and 2009. In spite of the global economic recession started in September 2007, the transposition deficit decreased further to 1% by November 2008 (*European Commission, 2009*) which average level has also been successfully delivered in the half of 2009.

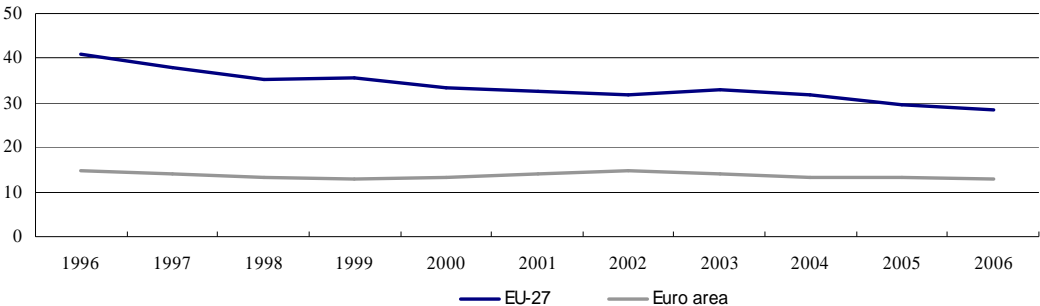
As for the infringements proceedings due to incorrect application of Internal Market directives, the member states were less successful on this field. The number of these proceedings was 1 326 in November 2008 (European Commission, 2009), which can be considered as a significant increase compared to 1 246 reported in November 2006 (European Commission, 2007).

1.5 The economic effect of the Single Market

Although, the targets of the before detailed strategies have not been in time and fully achieved, it is indisputable that the Single Market had and has an extremely significant role in the strengthening of the European Union’s role in the world economy. Results achieved in the first 15 years of the Single Market can be considered as significant from all aspect. As the result of the Single Market’s establishment:

- Prosperity increased: the Single Market added 2,2% to the EU GDP growth in the period 1992-2006 (Ilzkovitz, F., Dierx, A., Kovacs, V., Souse, N, 2007)
- More jobs created: in the same period, the Single Market has created 2,75 million extra job which resulted 1,4% gain of the employment on EU level. (Ilzkovitz, F., Dierx, A., Kovacs, V., Souse, N, 2007)
- Greater freedom to study abroad: in the period 1992-2006 1,2 million people completed part of their studies in abroad (European Commission, 2007)
- More opportunities to live and work in abroad: more than 15 million EU citizens have moved to another EU country to work or to enjoy their retirement (European Commission, 2007)
- Wider product and service choice: 73% of EU citizens think that the Single Market has had a positive effect on the product offer (European Commission, 2006)
- Decreasing prices, price convergence: free movement of products and services significantly contributed to the decrease of price levels, especially on the field of internet, air transport and telecommunication (on the field of communication the prices decreased by appr. 27% between 1997-2006) and to the price convergence (see Figure 1) (European Commission, 2006)

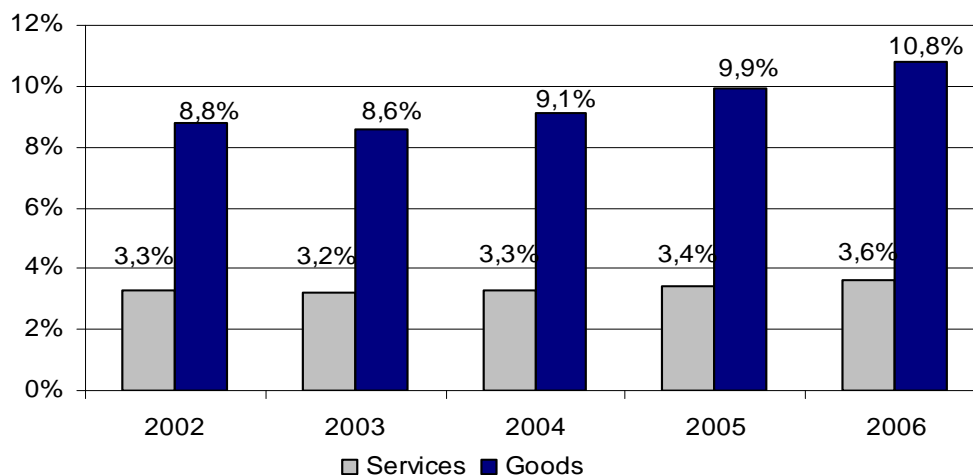
Figure 1: Price convergence within the EU (1996-2006)



Note: Comparative price levels are the ratio between purchasing power parities (PPPs) and market exchange rate for each country. If the coefficient of variation of the comparative price levels for the EU decreases/increases over time, the national price levels in the Member States are converging/diverging. Source: Own calculation based on Eurostat data - Price convergence between the EU Member States (tsier020)

- Increasing intra-EU trade: Removal of internal frontiers, ensuring of free movement of goods significantly contributed to the development of intra-EU trade, to the market integration (see figure 2)

Figure 2: Trade integration of goods and services, EU 27 (as % of GDP, 2002-2006)

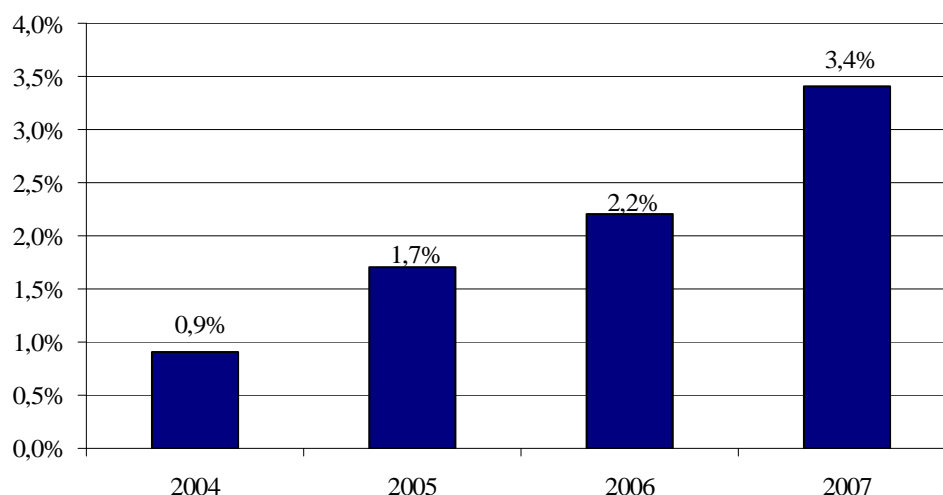


Note: Average of imports and exports of the item goods of the balance of payments divided by GDP. If the index increases over time it means that the country/zone is becoming more integrated within the international economy.

Source: Own calculation based on Europe in statistics-Eurostat yearbook 2008, page 354

- Upward trend in the intra-EU Foreign Direct Investment (FDI) intensity: Due to creating legal and practical framework necessary to the free movement of capital the intra-EU FDI intensity has showed a strong upward trend (see Figure 3)

Figure 3: Intra-EU FDI intensity (as % of GDP)



Note: Average of inward and outward Foreign Direct Investment (FDI) flows divided by gross domestic product (GDP). The index measures the intensity of investment integration within the international economy.

Source: Eurostat – Market integration - Foreign Direct Investment intensity (tsier130)

Beyond materialized economic results, enterprises could also profit from the Single Market. Namely:

- Due to the 2004 enlargement, the total population of the Single Market increased to 500 million. This means a significant extra business potential to the EU companies.
- The enlarged Single Market created lots of opportunities for companies to improve their economies of scale.
- The establishment, acquisition and merger of companies became more simple. It also became possible to establish a so called “European Company”.
- Due to liberalisation of public procurements EU companies can participate on any public procurement tenders launched by any member states and submit offers.
- Control at internal frontiers has been eliminated, border bureaucracy and related costs has been abolished having a positive effect on corporate profits.

1.6 The future of the Single market

The future success of the Single Market is strongly depends on how it can adjust to the new challenges ahead. In order to improve the effectiveness of the single Market and to ensure its long-term success the most important task are as follows:

Strengthening the position of citizens, consumers: the global downturn hit not only the economies of the EU member states but it also has significant effect on the everyday life of EU citizens. Due to increasing unemployment, living standard of several families has decreased drastically. Therefore, one of the most important tasks of the EU is *restrengthening consumers’ and citizens’ position and confidence put in the Single Market* by (i) responding in a better and more effective way to the expectations and concerns of citizens, (ii) creating a well functioning consumer protection policy and by (iii) ensuring effective legal redress opportunities

Improving and strengthening the situation of SMEs: since these companies, based on the number of employees, have significant importance. 99,8% (SCHMIEMANN, M, 2008) of EU companies are SMEs employing 67,4% of the EU workforce (SCHMIEMANN, M, 2008). The situation of SMEs can be strengthened and improved first of all by (i) developing SME friendly regulatory environment, (ii) improving SMEs access to financial sources and funds, (iii) helping SMEs to go abroad, (iv) improving SMEs professional skills, (v) inspiring SMEs’ innovation activities and by (vi) ensuring more effective protection for intellectual properties of SMEs

Inspiring knowledge and innovation: in order to fully exploit the achievements of the Single Market both EU companies and citizens have to be innovative. The innovation can be inspired by (i) applying innovative information and telecommunication technologies, (ii) ensuring free movement of innovative, new ideas, (iii) by establishing a European research area helping and inspiring researcher mobility, protects intellectual properties and creating the requirements necessary to the the free movement of knowledge and innovation as the “fifth freedom

Making more effective actions, koordination and monitorig in order to ensure the effective execution and proper coordination of the proposals aiming the better operation of the Single

market. This can be realised by (i) mapping problematic areas, (ii) developing effective industry and market monitoring methods, (iii) by applying “to-the-point” actions and (iv) improving the cooperation among national and EU regulatory bodies.

Improving information flow, communication to improve the information basis of enterprises about their opportunities ensured by the Single Market. It can be achieved by (i) increasing the number of public services helping better orientation within the Single Market and by making more effective the communication between national and EU institutions.

Putting more emphasize on the environmental dimension by (i) inspiring the spreading of environment-conscious thinking and (ii) creating proper regulatory environment for “eco industries” having significant job creating potential.

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