

Brussels, 30 May 2001

OPINION
of the
Economic and Social Committee
on the
**Communication from the Commission to the Council, the European Parliament, the
Economic and Social Committee and the Committee of the Regions
"Working together to maintain momentum" -
2001 Review of the Internal Market Strategy
(COM(2001) 198 final)**

On 19 April 2001 the European Commission decided to consult the Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions: "Working together to maintain momentum" - 2001 Review of the Internal Market Strategy (COM(2001) 198 final) (Single Market Observatory).

The Section for the Single Market, Production and Consumption, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 16 May 2001. The rapporteur was **Mr Franz**.

At its 382nd plenary session (meeting of 30 May 2001), the Economic and Social Committee adopted the following opinion by 110 votes in favour, with two abstentions:

1. Introduction

1.1 On 29 March 2000, the Committee adopted an opinion on the Commission communication of 24 November 1999¹ setting out a strategy for the internal market (rapporteur: **Mr Little**)². The first annual review of the strategy, published on 3 May 2000³, was the subject of a Committee opinion adopted on 19 October 2000 (rapporteur: **Ms Sánchez Miguel**)⁴.

1.2 On 11 April 2001, the Commission submitted a second review of the internal market strategy in a communication entitled *Working together to maintain momentum*. The Internal Market Council will discuss this paper and draw conclusions at its meeting on 30 and 31 May. In submitting the present opinion, the Committee is seeking to make its voice heard at an early stage in the debate now being launched on this review.

1.3 The Commission communication retains the four strategic objectives set out in the strategy paper:

- to enhance the efficiency of Community product and capital markets;
- to improve the business environment;
- to improve the quality of life of citizens;
- to exploit the achievements of the internal market in a changing world.

1 COM(1999) 624 final

2 OJ C 140, 18.5.2000, p. 36

3 COM(1999) 257 final

4 OJ C 14, 16.1.2001, p. 13

1.4 In its new agenda for the next eighteen months, the Commission has cut the number of its target actions from the current 130 to 78. The priority target actions have been selected largely in the light of the Stockholm European Council conclusions, but are also based on the Commission's own studies and input from other sources, including the Economic and Social Committee. The Commission's overall aim is to focus on consolidating and speeding up implementation of the Lisbon priorities, since the most important thing now will be to press ahead with - and implement - the actions already launched.

2. General comments

2.1 The strategic goal laid down in Lisbon, namely to make the EU the most competitive and dynamic knowledge-based economy in the world, has been repeated so often that it has almost become something of a mantra. Unfortunately, since Lisbon, too little headway has been made towards achieving this goal. In its contribution for Stockholm⁵, the Commission - with welcome candour - laments that fact that many of its *proposals have been delayed or watered down for different reasons, including a lack of political will*. The Committee shares these concerns, which the Stockholm European Council has amplified rather than allayed. What matters this year, therefore, is not to adopt new strategies or to formulate new objectives, but to translate existing targets into specific action within ambitious yet realistic timeframes.

2.2 This applies on the one hand to the structural and economic reforms agreed in Lisbon and reaffirmed in Stockholm; these form part of the Cardiff process and are moving forward too slowly in some Member States. Equally, it applies to the completion of the single market. The Lisbon European Council rightly noted a point again underlined in Stockholm - namely the single market's crucial role in achieving key Union objectives such as sustainable economic growth, more and better jobs and greater social cohesion. However, actual progress on the ground fails - sometimes by a wide margin - to live up to these fine words.

2.3 The Committee has basically endorsed the Commission's 2000-2004 internal market strategy, the strategic objectives set out therein, and the annual review of its operational target actions. However, the Committee has felt from the outset that, since legislative processes are known to take time, the deadlines set for transposing many of the actions are very optimistic. Accordingly the results presented by the Commission in its first strategy review in May 2000 were modest.

2.4 The current second review also shows that transposition of the actions launched leaves a lot to be desired in many cases. Most of the actions planned for this period were introduced in good time by the Commission, but, in the Council and Parliament, there is often a lack of will - or political clout - to meet the prescribed deadlines. Thus, of the 36 target actions scheduled for completion by June 2001, only 20 are expected to be completed on time.

⁵ Communication COM(2001) 79 final, 7.2.2001, *Realising the European Union's potential*

2.5 The Commission itself has on numerous occasions pointed to the gap - which has become particularly apparent recently - between rhetoric and reality, between words and deeds. Clearly, Member States' policy is too often determined more by domestic considerations and tactical concerns than by a desire for compromise, without which all plans for legal approximation in the single market are doomed to failure.

2.6 In this paper, the ESC assesses individual target actions of the single market programme. It follows the Commission's breakdown according to longer-term strategic objectives and focuses on some of the actions it considers to be a priority.

3. Horizontal priorities

3.1 The communication rightly states that the full transposition of all internal market legislation is a prerequisite for the proper functioning of the market. Although this is a legal obligation on Member States, considerable transposition deficits remain. Only three Member States met the interim target established in the internal market strategy of reducing their transposition deficits to 1.5% by December 2000. Alarming, the Commission notes that nearly 13% of all internal market directives have not yet been transposed in one or more Member States. There are also considerable transposition deficits in two of the three EFTA countries, which - as members of the European Economic Area - are also obliged to convert single market rules into national law. This means that we only have a partial internal market.

3.1.1 The Committee still feels that the speedy elimination of transposition deficits is a priority objective. This can be achieved by Member States making stringent voluntary commitments which must be reviewed regularly. The interim target laid down in the Commission communication - that Member States halve their transposition deficits by December 2001 and reach 98.5% transposition by spring 2002 - does not seem at all overly ambitious. The half-yearly Single Market Scoreboards are indispensable since they set out progress made and delays encountered in achieving this and other single market objectives and are designed to trigger critical debates in the Council and Parliament.

3.2 The Commission thinks that citizens must be better informed of their rights and given timely help in case of problems. It considers it essential to improve the integration of existing structures such as the dialogue and information centres, the contact points and co-ordination centres established within each national administration and the European consumer information centres (Euroguichets) so that they are used more productively and more efficiently. The Committee supports this objective.

3.2.1 The coordination centre and contact point network for citizens and businesses is up and running in theory. However, experience so far shows that the network is not yet efficient enough in all areas, as the ESC's Single Market Observatory was able to note for itself in hearings with users and other contacts in a range of Member States. The findings and conclusions are set out in the own-initiative opinion on PRISM 2000⁶.

⁶ OJ C 116, 20.4.2001, p. 106

3.2.2 So that existing structures can be put to better, more efficient use, an improved integrated on-line inter-active problem-solving network is to be set up by June 2002. Such networking is designed to provide the capability for tackling quickly and effectively the full range of problems encountered in the single market. This is one of the conclusions drawn by the Commission from the Internal Market Forum, which it co-staged with the European Parliament in November 2000 and which discussed grassroots issues. The Committee supports this plan.

3.3 By dint of a further scheme - the *Interactive Policy-Making initiative* - the Commission is seeking to expand the dialogue via the Internet with "those on the receiving end" in order to bring their reactions to bear in the policy-making process. The scheme is designed to allow economic operators to evaluate both existing EU policies and new initiatives. The Committee trusts that it will be involved in the preparation and implementation of this new consultation procedure and would also point out that, at the moment, the vast majority of people are excluded from Internet-based dialogue.

4. **Enhancing the efficiency of Community product and capital markets**

4.1 The focus here is on opening up additional key economic sectors to more competition. The Lisbon European Council rightly pressed for speedier liberalisation of gas and electricity markets, postal services, financial markets and transport. In these areas, the aims of the internal market strategy coincide with those of the economic reform process launched at Cardiff, the results of which have now been the subject of a third Commission report.

4.2 Although it is generally agreed that economic reforms on product and capital markets are the key to achieving the ambitious targets set in Lisbon, moves to turn them into reality have so far failed to match expectations. While it is important, in all measures for opening up the market, also to consider the implications for workers and, if need be, to rectify any adverse developments, it would be equally inappropriate to think that labour market difficulties stand a good chance of being solved by delaying requisite structural reforms.

4.3 The Community has made headway in opening up the telecommunications market and in establishing a legal framework for e-commerce. These are, however, just the first links in a chain of requisite measures. Swift action must now be taken to put into effect the entire telecoms reform package proposed by the Commission in June 2000.

4.4 In contrast, liberalisation of the internal markets in electricity and natural gas is making no progress at all. The agreed liberalisation targets have not been met in hardly any area across Europe. Thus, the Stockholm European Council again agreed only on the overall objective of opening up these markets but failed to lay down a specific and binding timetable. The Committee points out that when the requisite action is taken to open up the markets more quickly, security of supply is also an issue that must be borne in mind. The Committee has issued a detailed opinion on the issue⁷.

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Communication from the Commission to the Council and the European Parliament - Completing the internal energy market; Proposal for a Directive of the European Parliament and of the Council amending directives 96/92/EC and 98/30/EC

4.5 With regard to the liberalisation of postal services, agreement was reached in Stockholm only on the overall target of adopting the directive by the end of 2001. For the moment, however, the Commission proposal for further liberalisation of the postal services market is, the Committee regrets to note, being blocked in both the Parliament and the Council because of conflicting national interests.

4.6 As a result, on many fronts, the European single market is not yet complete. This applies in particular to the entire service sector, which generates some 70% of EU GDP. Fully integrated financial markets are an urgent priority and must be tackled without delay so that both the single market and the euro can realise their full potential.

4.7 The Lisbon European Council made the point that effective and transparent financial markets foster growth and employment by better allocation of capital and lower costs. The Financial Services Action Plan, which contains 43 individual proposals for eliminating obstacles caused by differing national rules, is to be implemented fully by 2005. Work on the action plan must be stepped up if this key target laid down in Lisbon is to be achieved. The Committee welcomes the declaration of intent given in Stockholm to establish an integrated securities market by the end of 2003. This task could be facilitated by drawing on the recommendations of the Lamfalussy group for a new regulatory approach which distinguishes between framework legislation and implementing measures.

4.8 The Commission's recent communication setting out a comprehensive internal market strategy for removing barriers to services is important in this connection. This two-step scheme seeks, first, to accelerate initiatives already planned, and then, in 2002, to present a further package of initiatives with a precise timetable, aimed at adapting the single market to the fundamental changes and dynamics in the service sector. The Committee backs this initiative and the proposed timetable and will consider this communication in detail at a later stage.

4.9 For many years, there have been complaints about the excessive cost of protecting intellectual property rights in Europe, particularly for SMEs. Thus, the Lisbon European Council rightly attached top priority to reaching agreement on a Community patent. The Committee too, in its wide-ranging opinion of 29 March 2001⁸ stressed the urgent need to promote research and innovation through a reasonably priced and unbureaucratic Community patent. Unfortunately, the declaration of intent by the Heads of State or Government is blatantly contradicted by the actions of national governments on the Internal Market Council, where the discussions about the Community patent have once again become bogged down. The impression is that national interests are often deemed more important than the needs of an innovative economy which has long been calling for this measure. The regulation on Community design has also been blocked for months for similar reasons.

concerning common rules for the internal market in electricity and natural gas; and Proposal for a Regulation of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity
COM(2001) 125 final

8 Rapporteur: **Mr Hernández Bataller** (R/CES 568/2001)

Proposal for a Council Regulation on the Community patent (COM(2000) 412 final) - rapporteur: **Mr Simpson** - CES 411/2001)

4.9.1 At the next Internal Market Council, the Commission should call on Member States to state clearly whether they want the Community patent, and, if so, at what price. It would be better to withdraw the proposal if it becomes clear that the measure would no longer bring businesses any added value because of the high costs of unnecessary translation into too many languages or because of calls for assurances that national patent offices will not close or shed jobs.

5. Improving the business environment

5.1 The Feira European Council achieved an initial important breakthrough in the stalemate surrounding the tax package (to remove tax-based distortions of competition). However, the agreement in principle to introduce a Community capital gains tax is still subject to considerable reservations and no decision is expected before 2002 at the earliest. This has, however, rekindled the debate on a code of conduct to combat unfair tax competition and on the taxation of interest and royalty payments. The Committee hopes that the work can be stepped up so that, in line with the remit given in Stockholm, agreement can be reached on the tax package as a whole, if possible before the end of 2002.

5.1.1 Unfortunately, Nice failed to agree on majority voting at least for procedural simplifications relating to VAT. Council negotiations on the Commission proposals to modernise VAT legislation in the internal market are dragging on as a result. Rapid adoption of these proposals would, however, be vital to remove the burden of red tape on the cross-border movement of goods and to reduce scope for tax fraud.

5.2 The Committee is pleased that plans for a European company statute have also got off the ground again thanks to an agreement in principle reached in Nice. However, rapid legislation on this front is being held back by the current dispute with the European Parliament on the legal base and the threat of legal action being brought. Further delays should now be avoided, however, since this new type of company organisation - which also brings workers major benefits - is urgently required in an internal market that is growing ever closer together. Thus, the ESC welcomes the Commission's plan to submit a directive on outstanding tax-related issues before the end of May.

5.3 The European company statute could be a first step towards removing the oft-lamented obstacles to company mobility within the European single market. The Commission is called upon also to propose appropriate legislation without delay for cross-border mergers and company transfers.

5.4 The Commission again notes that, at 1% of GDP, state aid levels are still too high and must be reduced in order to avoid distortions in competition within the single market. It also wants to make the system more transparent. Against this backdrop, the Stockholm European Council's request that Member States demonstrate a downward trend in state aid by 2003 is considered by the Committee to be too weak. On the other hand, it is pleased that the Commission has been asked to ensure that a publicly accessible state aid register and scoreboard are available online by July 2001.

5.5 For a long time now, the Committee has advocated a radical simplification of single market legislation in order to cut red tape for businesses and create a climate of trust among both companies and consumers. It recently issued a detailed opinion on the issue and proposed, among other

things, an independent impact assessment of Community legislation and codes of conduct for all EU bodies with a view to better lawmaking. The Committee will be subjecting its own work to such a code of conduct, which was unanimously adopted by its plenary assembly in autumn 2000. The Commission has announced an initiative to promote simpler legislation and is called on by the Committee to act soon. The Committee notes the key role of civil society players in ensuring the success of these reforms.

5.6 The mutual recognition principle is fundamental to the optimal working of the single market. The Committee awaits with interest the Commission report due to be published by the end of 2001 which will look at steps to enhance this principle and consider what still remains to be done. The Committee would point to its opinion of 30 November 2000⁹ and would take this opportunity to reiterate the readiness of its Single Market Observatory to work together with the Commission on the issue.

6. Improving the quality of life of citizens

6.1 Many barriers remain to workers' and citizens' mobility within the single market. Different national tax and benefit systems, insufficiently transparent conditions for the recognition of professional qualifications and difficulties in transferring pension and health insurance rights from one Member State to another are just some of the factors that put a brake on mobility. Removing these barriers would first and foremost benefit sectors experiencing an acute skills shortage.

6.1.1 The Committee is pleased to note that the Commission is planning to present the 2002 spring European Council with an action plan for developing and opening up new European labour markets in order to reflect both the integration of the single market and the dynamism of Europe's new economy. It particularly welcomes the Commission's plan to put forward, this year, proposals for simplifying the regime for professional recognition. In its recent opinion on freedom of movement for workers in the single market¹⁰, the Committee put forward a number of points and ideas for consideration.

6.2 The Committee also backs the Commission's plan to submit a discussion paper before the end of this year, setting out ideas for a general regulatory framework for consumer protection and administrative cooperation. The wide divergences between Member States' consumer protection laws fragment the internal market and reduce consumer confidence in cross-border transactions, which e-commerce and the euro in particular are expressly designed to facilitate.

6.3 Alternative dispute mechanisms can resolve many single market problems more quickly and more effectively without the need for lengthy court proceedings. A top priority is the Commission's plan for this year to establish - and have running - a European extra-judicial network for settling

⁹ OJ C 116, 20.4.2001, p. 14)

¹⁰ CES 406/2001, 28.3.2001

disputes. This will be done in conjunction with the Member States and will be along the lines of the financial services cooperation network (FIN-NET) launched in January.

6.4 The current crisis in the food sector proves the need for urgent Community action. Further to the White Paper on Food Safety, the Commission has proposed the establishment of a European Food Authority and the laying-down of procedures in matters of food safety. The Committee recently issued an opinion on these proposals¹¹. The Nice European Council called on both Council and Parliament to speed up work so that the future European Food Authority can become operational from the beginning of 2002. The Committee endorses this call. In the interests of consistency and continuity of dialogue on food safety issues, the Committee will carry out regular ad-hoc assessments of developments on this front.

7. External aspects of the internal market

7.1 The prime objective is to press ahead resolutely with the accession process. From the moment they join the Union, the accession countries must fully adopt single market rules, which they must also be in a position to implement. The main responsibility for that lies with the future Member States themselves, but the EU can and must provide support. In future, the existing aid schemes are to be stepped up so as to improve supervisory, enforcement and judicial structures. The Committee welcomes this objective. It advocates the speedier establishment of single market contact points and coordination centres in the candidate countries.

7.2 Technical assistance from the EU and the development of bilateral partnership agreements on single market issues play a major part particularly in building up efficient administrative machinery in the candidate countries. This duty is incumbent not only on Member States' government agencies. Banking, insurance and securities supervisors and other institutions from the Member States should also not delay the peer review process with the candidate countries.

7.3 Preparations for accession must be accompanied by the creation of civil society structures in the future Member States. Such structures are essential to a functioning single market. In some candidate countries, the establishment of civil society organisations is still in its infancy or is proceeding only slowly. Also, the governments of these countries are only gradually getting used to the idea of involving the social partners and other organisations in opinion-forming and social dialogue. By working together with partner organisations in almost all candidate countries, the Economic and Social Committee is making a key contribution to launching this civil dialogue.

7.4 Another external aspect is the incorporation of certain internationally agreed rules into the single market legal framework. This includes the forthcoming adoption of the regulation on the application of international accounting standards and a directive governing the capital framework for investment firms in order to secure a level playing field for EU companies. The Committee endorses these Commission priorities.

¹¹ CES 404/2001, 28.3.2001

7.5 That said, the pace of negotiations with certain third countries on arrangements for the taxation of income from savings should be quickened. Without such arrangements, the agreement in principle reached in Feira to introduce a Community capital gains tax cannot be translated into a decision. It is therefore essential to bring forward the December 2002 deadline set by the Commission.

8. Conclusions

8.1 The challenges of the present and the immediate future require from all players a speedier, more resolute approach than hitherto to the completion of the single market. The decisions and reforms that are needed must be adopted now; they must not be deferred until a later date.

8.2 A completed, properly functioning single market will provide the long-term boost to growth that Europe urgently needs and that will make it less dependent on uncertain world markets.

8.3 A common currency presupposes a common market. Hence, the forthcoming introduction of the euro is hard to square with an incomplete single market, particularly since its weaknesses and shortcomings will then become more rapidly and more directly visible.

8.4 Last but not least, a fully functioning single market is needed to provide a solid basis for the successful integration of new Member States into the European Union. How are the candidate countries to be convinced of the need to adopt the *acquis* quickly if Community law has not yet been fully transposed even in the existing Member States?

8.5 The Committee therefore backs any moves and plans which can help maintain the momentum behind the internal market strategy.

8.5.1 In order to measure and monitor progress even more closely in the future, the Commission is planning to develop a comprehensive set of indicators which will make it possible to gauge progress made towards meeting the operational objectives set out in the internal market strategy. The indicators will measure results and will also include an environmental and consumer dimension. The Committee is awaiting the first results - due for publication in the November 2001 Single Market Scoreboard - with keen interest.

8.5.2 The studies launched by the Commission on the benefits in certain sectors where the performance of the single market needs to be enhanced are also considered by the Committee to be useful. Over and above that, the Committee would welcome the Commission having the costs of non-integration investigated in certain target sectors of the strategy where cross-border trade is still seriously hampered. These costs should be quantified in terms of prices, growth rates and employment figures.

8.5.3 All impact assessments must be particularly careful to monitor the implications of the measures for workers. In the further implementation of the internal market strategy too, it must always be remembered that the benefits of the common market must be enjoyed equally by all groups in society.

8.6 All the schemes mentioned are important and provide a further case for pressing ahead with the single market process without delay. The crux of the matter, however, is and remains the political will of all those responsible - the Commission, the Parliament, the Council, governments and players in society - to complete the single market and transpose the rules on time. All

stakeholders must therefore use the current review of the internal market strategy as an opportunity to examine the reasons for the delays and to commit themselves to taking swifter action in the future.

Brussels, 30 May 2001.

The President
of the
Economic and Social Committee

The Secretary-General
of the
Economic and Social Committee

Göke Frerichs

Patrick Venturini
