



European Economic and Social Committee

INT/175
Internal Market Strategy
2003-2006

Brussels, 16 July 2003

OPINION

of the European Economic and Social Committee

on the

**Communication from the Commission to the Council, the European Parliament, the
European Economic and Social Committee and the Committee of the Regions: Internal
Market Strategy – Priorities 2003–2006**
COM(2003) 238 final

(Single Market Observatory)

On 8 May 2003, the Commission decided to consult the European 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 European Economic and Social Committee and the Committee of the Regions Internal Market Strategy – Priorities 2003 –2006
COM(2003) 238 final (Single Market Observatory).

The Section for the Single Market, Production and Consumption was responsible for the Committee's work on the subject. The Committee appointed **Mr Cassidy** as rapporteur-general.

At its 401st plenary session on 16 and 17 July 2003 (meeting of 16 July 2003), the European Economic and Social Committee adopted the following opinion by 80 votes to 15, with 18 abstentions:

1. Ten years of an internal market without frontiers

1.1 The EESC welcomes the Commission communication and its conclusions and the action plan set out in the appendices. It agrees that much remains to be done to achieve the full potential of the internal market.

1.2 The internal market is incomplete with major challenges to be overcome from 2003 to 2006. Various national constraints on the free movement of goods and people remain.

1.3 In addition to removing national barriers to the free movement of goods, services, capital and people, new challenges and developments, like the changing character of the EU (from EEC to EU and beyond), the Lisbon strategy and its broader political approach, upcoming enlargement, the outcome of the Convention proceedings, a changing international division of labour and the current economic slump, influence the environment and the framework conditions for the internal market.

1.4 Though there are now relatively few restrictions on capital movements, progress in implementing the Financial Services Action Plan has been slow. This is a major challenge for the European Parliament and the Council to speed up their co-decision as financial services are the lubricant of business in the EU. National protection of financial services may also hinder the internal market in cases where no EU measures yet exist. In removing these obstacles, account must be taken of citizens' interests (consumers, workers and employers.)

1.5 Progress over the last ten years has been insufficient to impact on unemployment, which remains too high, at 8% with a forecast rate of 8.8%, according to the European Commission's Spring Economic Forecast adopted on 8 April¹. While removing remaining obstacles to the internal

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European Economy No. 2. 2003

market does open up additional economic opportunities and thus also potentially creates more jobs, unemployment cannot be tackled successfully without an employment-oriented macroeconomic policy and enhanced efforts to implement the employment strategy at national level.

1.6 The Commission communication emphasises that achieving the internal market is a continuing process shared with Member States. The communication highlights, however, the increase in regulatory barriers, which arise from the way in which some Member States transpose European measures into their national law.

2. The priorities from 2003 to 2006

2.1 *Facilitating the free movement of goods*

Trade with third countries has been growing faster than trade between Member States. One reason is the failure of **mutual recognition** designed to give consumers confidence in products manufactured in another country. Member States should trust each other's systems. A sound legal system, high and transparent quality standards and consumer education initiatives provide the best conditions for increasing trade in goods between Member States.

2.2 *Integrating services markets*

2.2.1 Specific characteristics of services such as the importance of know-how and qualifications for the service-provider, considerable differences in national regulations and the resulting differences of prices, incomes and standards and the absence of effective mechanisms at EU level to deal with these differences as well as a lack of confidence in each others' regulatory systems have up to now hindered the development of an internal market in services. Services still account for only 20% of trade in the internal market – less than a decade ago! As nearly 90% of the SMEs in the EU are in service industries, there is an urgent need for progress.

2.2.2 Apart from the financial services, where 32 out of the 42 measures of the action plan have been adopted, other segments of the services sector have not yet been subject to a comprehensive internal market policy. As the Commission now plans action in this field, the Committee would draw attention to specific requirements in this field with respect to social, environmental and consumer safety standards, especially with respect to integrating the new Member States, as well as the needs of SMEs, e.g. in sales promotion and the principle of the country of origin.

2.3 *Ensuring high quality network industries; ensuring high standards in services of general interest*

2.3.1 Companies offering service of general interest provide ongoing, high-standard and comprehensive service cover. The prime concern in any moves towards privatisation, outsourcing or liberalisation must always be the added value for the consumer and affordable, generally accessible

service provision. For reasons of safety and to maintain standards, adequately trained specialist staff must also be on hand in order to be able to bridge bottlenecks.

2.3.2 Network industries – telecommunications, water, energy, transport, etc. – are an essential part of the EU internal market. However, though there has been progress in bringing down prices after liberalisation, notably for companies and to some extent also for consumers, other improvements for consumers and users have been limited and, in some instances, enormous problems have arisen with supply and safety.

2.3.3 The EESC is monitoring with great interest the Commission's request to Council and Parliament to speed up their adoption of the "**second railway package**" and the package designed to create a **Single European Sky**. With regard to network industries in particular, the Committee is in favour of achieving a balance between the general interest and competition. The Committee also believes there is a need for the Commission to present a proposal for a framework directive consolidating the political principles governing services of general economic interest and giving Member States the flexibility they need in this area.

2.3.4 The larger internal market inevitably leads to an increase in the volume of transport. The challenge facing EU transport policy is thus to provide an appropriate framework for the requisite transportation that also is also environmentally - and socially - compatible and ensures that the various transport modes (rail, road, water etc.) are used sensibly side-by-side. At the same time, however, incentives must be put in place to avoid unnecessary journeys.

2.3.5 The Committee therefore backs moves to speed up completion of the Commission priorities (TEN-T). However, the resources provided to date by the Member States and the Community are insufficient to achieve these objectives.

2.4 *Reducing the impact of tax obstacles*

2.4.1 The principle priority, as it has been for almost twenty years, is a harmonised system whereby VAT is charged in the country of origin (**the origin principle**) rather than in the country of consumption (**the destination principle**). Fifteen different sets of VAT regulations add enormously to the burdens on business. The EESC emphasises that the question of VAT *rates* should remain in the hands of Member States but the Commission has a role in bringing about a harmonised *system*.

2.4.2 The EESC warns the Commission that its proposals for phasing out vehicle registration tax will meet objections from some Member States.

2.5 *Expanding procurement opportunities*

Few public procurement contracts are awarded cross-border in the public procurement market which accounts for 16% of EU GDP, i.e. €1,429 billion. So the system is not working satisfactorily. The EESC is concerned about the slow progress in the Council and the

Parliament in adopting the current **legislative procurement package**. Thus, there is still room for improving the system. As this is a major procurement market, cross-border invitations to tender involving a larger number of potential applicants could improve the competitive environment. That said, companies must factor into their cost calculations the higher transport costs usually entailed and the technical and commercial challenges of executing cross-border orders. In that regard, large companies used to international operations are better placed than SMEs operating on tight margins. Careful checks must be carried out to obviate the threat of social dumping through the deployment of workers from low-wage countries, or other workers paid below the contractually agreed rate.

2.6 *Improving conditions for business*

2.6.1 A key tool for the success of the internal market is the **community patent**. The EU must create an environment in which business and job creation can thrive. The EESC very much regrets the delay in full implementation of the recent Council agreement on the community patent.

2.6.2 The EESC has frequently expressed its concern about the impact of EU and national measures (red tape) on European internal market players. One of the aims of the internal market programme is to reduce the burden placed on companies and the public. It therefore urges the Commission and Member States to produce more detailed "impact assessments" on their proposals.

2.6.2.1 The Committee has repeatedly pointed out that small and medium-sized enterprises are not sufficiently involved in designing measures to implement the internal market. It urges that dialogue between the Commission and SMEs be reinforced. The EESC hopes that, in accordance with the recommendations of the European Charter for Small Enterprises, DG Internal Market will establish a system of consultation and cooperation with the organisations representing small enterprises to guarantee their participation in the entire Community legislative process.

2.6.3 The Committee, however, draws attention to the difference between, on the one hand an unnecessary regulatory and administrative burden and, on the other hand, the social, environmental and consumer protection standards and regulations required to ensure that living and working conditions are maintained and developed, in accordance with the common goals of the EU laid down in the Treaties and the Lisbon strategy.

2.6.4 The EESC looks forward to seeing the Commission proposals on **corporate governance** and hopes that they will be consistent with worldwide criteria. International Accounting Standards require legal endorsement throughout the EU in accordance with the **IAS Regulation** and urges the Commission and the Council to move rapidly to the adoption of **international standards on auditing**. The interests of all stakeholders should be taken into account.

2.6.5 The EESC supported the Commission proposals for cross-border takeover bids². It notes that particular care is required to ensure a balanced interplay of the various forces involved so that the same conditions apply to all countries.

2.6.6 Concerning the Commission proposals for a regulation on a European Private Company Statute for SMEs, the EESC hopes that this will not impose additional burdens and points out that there are many large private companies whose shareholders and workers wish them to remain private.

2.7 *Meeting the demographic challenge*

2.7.1 Though the Commission has limited scope for initiatives in this field, the communication highlights the twin problems of an ever aging population and ever declining age of retirement.

2.7.2 The "dependency ratio" (the number of people that work to support those who are retired) also arouses concern.

2.7.3 Changing demographic trends call for necessary measures in the labour market as well as in social protection systems and infrastructure, e.g. in the health system. Within the Lisbon framework, the decision to boost employment is the priority objective if economic, social and more specifically, pension strategies are to be conducted properly³. In addition to the non-discrimination of older workers, however, action is also needed to reach higher employment rates among older people. Well-targeted employment and macro-economic policies are necessary to create the jobs needed, otherwise increased employment rates among older people will have negative effects on the employment of younger age groups.

2.7.4 The EESC points out⁴ that necessary reforms in view of a fair and balanced pension system have to take into account increasing longevity as well as new-style employment contracts and the effects of the different models of financing pensions. The Committee would also like to draw attention to the fact that reforms of social protection systems tend at the moment to be discussed from the point of view of internal market and budgetary necessities alone. This may have adverse effects on the systems as a whole. The pension systems need reform but must be discussed in overall terms. Moreover, reform efforts have to involve all the stakeholders concerned, especially the social partners.

2.7.5 The internal market also brings challenges for health services. On the one hand, worker mobility within the internal market can help resolve staffing bottlenecks, especially among the

² CESE 589/2003

³ EESC Opinion on Safe and Sustainable Pensions, OJ C 48 of 21.2.2002

⁴ EESC Opinion on Safe and Sustainable Pensions, OJ C 48 of 21.2.2002

nursing staff. On the other hand, patient mobility may lead to unequal financial burdens and imbalances in the differently structured systems. In this case too, discussing the challenges purely from an internal market perspective may have an adverse impact. To avoid that, future requirements must be considered and discussed in overall terms.

2.7.6 The Committee also draws attention to the reform of social protection systems undertaken in the incoming Member States. Reforms in these countries have gone in the direction of systems relying heavily on private initiative, private responsibility and personal risk as well as on funded pillars. This may create a division and tensions when the countries join.

2.8 *Simplifying the regulatory environment*

Replacing fifteen sets of national regulations with one EU-wide regulation is one of the objectives of the internal market. However, Member States continue to add to the requirements of EU directives (a process known as "gold plating"). The European Parliament has suggested the introduction of an internal market "compatibility test", a proposal the EESC supports⁵, provided the test criteria take account of the interests of all citizens in the internal market.

2.9 *Enforcing the rules*

2.9.1 Member States do not implement European directives speedily or accurately. The number of infringement cases rose from under 700 in 1992 to over 1,500 in 2002.⁶ The resolution of these infringement cases depends very much upon the work of the European Court of Justice (ECJ). The EESC would like a speeding up in resolution of infringement cases and hopes that the SOLVIT arrangements will contribute materially to this speeding up. The EESC asks the Commission to report regularly on the achievements of the SOLVIT network.

2.9.2 The EESC believes that a possible solution to the **transposition deficit** would be greater use of Parliament and Council regulations (to be known as EU laws), which are directly applicable rather than Parliament and Council directives which are addressed to governments and from which the main problems of transposition arise.

2.9.3 Regulations should only be used, however, if there is strict compliance with the subsidiarity principle and if, at the same time, standards are respected in social security systems and in the fields of consumer and environmental protection.

2.9.4 The EESC welcomes the Commission proposal for a "screening mechanism" whereby Member States must notify new technical regulations to the Commission *before they come into effect*.

⁵ The Harbour Report of the European Parliament, A5-0026/2003

⁶ Source: Internal Market Scoreboard No. 11: November 2002

2.9.5 The EESC also welcomes Commission suggestions for better administrative cooperation and for the establishment of voluntary EU wide codes of conduct / professional rules.

2.10 *Providing more and better information - An internal market for citizens*

2.10.1 In spite of the progress made so far, citizens are still largely unaware of their rights and of the help available to them through programmes and contact points such as EURES (for jobseekers) and SOLVIT (for removing obstacles to the free movement of goods and services).

2.10.2 Also as far as consumers are concerned, the completion of the internal market has been a major disappointment, as they have not enjoyed the hoped-for benefits that they should have.

2.10.3 The public remain largely unaware of their rights and opportunities and of the programmes and contact points available to help them. It would therefore be worthwhile drawing up a blueprint for improving public information and easing grassroots access to existing programmes and contact points. The Committee thus recommends that information be provided about existing problem-solving machinery (e.g. SOLVIT) and how to access it and that such access also be made easier. For instance, employers', workers' or consumers' associations could act as contact points for companies and the public and provide a link to the appropriate problem-solving offices, such as the SOLVIT centres. However, as this is not actually part of these organisations' remit, it could impose an extra financial burden on them, and might possibly necessitate their being provided with additional resources. However, there should be no duplication of structures and resources.

2.10.4 Although the free movement of persons is one of the main objectives of the internal market, there are still obstacles as the number of complaints addressed to the Commission shows. Programmes enhancing the mobility of students have been quite successful. Maybe this is due to the fact that mobility is not seen as an end in itself. This also has implications for the geographic development of the internal market, instead of asking people to go where the jobs are, it may be more effective and also more compatible with people's needs to create the jobs where people are. This necessitates a comprehensive regional and structural policy as an adjunct to the internal market.

2.10.5 In order to be able to take greater advantage of the opportunities offered by cross border shopping, consumers need better information and existing barriers have to be removed. One of the key challenges for the Commission will be to ensure that Member States' judicial systems are able to deal quickly and cheaply with cross-border complaints about unreliable products or inadequately performed services. The Commission's initiatives in encouraging Alternative Dispute Resolution (ADR) are to be welcomed.

2.10.6 Knowledge of consumer rights in the internal market is extremely limited. Similarly, the jurisprudence of the ECJ and the CFI has too low a level of awareness even among lawyers. The EESC opinion on PRISM 2002 (rapporteur: **Mr Pezzini**⁷) has drawn attention to these failings and the

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EESC 575/2003 of 14.5.2003 (not yet published in the OJ)

way in which national and local officials often exploit this ignorance. The conclusions of this opinion are supported.

2.10.7 The own-initiative opinion by **Mr Hernández Bataller**⁸ examines in detail the need for the Commission to take a number of new initiatives in the field of consumer education. His recommendations are supported.

3. **Getting the best out of the enlarged internal market**

The Commission communication acknowledges that the enforcement of EU law will be even more difficult with enlargement. It proposes to issue a recommendation setting out "best practices" which should be applied consistently throughout the EU to ensure better and faster implementation. The EESC welcomes this.

3.1 *Building the internal market in an international context*

3.1.1 The enlarged internal market will bring many economic advantages and will strengthen the competitiveness of the EU in the global market, provided that the Union manages to exploit its existing potential, e.g. the utilisation of the existing workforce, and to deal effectively with the challenges associated with the enlargement of the internal market.

3.1.2 Among these challenges are the following: reducing economic and social discrepancies, transitional provisions which cause divisions in the internal market, sufficient administrative and judicial capacities in order to deal effectively with the implementation of the EU acquis and the increased volume of cross-border economic activities, differences in the quality of goods and services especially in agriculture, special challenges for border regions, an increasing necessity for adapting infrastructure to the changing needs, an increasing transport volume, the challenges of special economic zones, differences in tax regimes, health and safety standards in the workplace, environmental standards, reinforced border controls, increased competition, coping with unemployment due to restructuring, reforming social systems on the basis of the principles of economic, social and territorial cohesion and the necessity of strengthening social dialogue in order to enable social partners and civil society to fully participate in shaping the future internal market.

3.1.3 Effective support for the restructuring process and the removal of economic and social discrepancies between the existing Member States and the future Member States – also after their accession – are key prerequisites for a coherent economic and social development of the new EU as a whole, in line with the Lisbon objectives. Efforts need to be made in all areas of EU policy in order to remove, as quickly as possible, the differences between the existing regions of the EU and the new EU regions and assure a coherent internal market.

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OJ C 133/1 of 6.6.2003

3.1.4 The Committee plays its part by regularly organising hearings in present and future Member States in order to find out how the relevant actors cope with developments in the internal market, which obstacles they encounter and which measures would help develop the internal market and overcome the obstacles. It has also developed the PRISM initiative which collects data on relevant initiatives and thus provides information.

3.2 *Monitoring*

The Commission communication acknowledges that no matter how good the strategy statement may be, it will fail unless systematically monitored and evaluated. The EESC firmly supports that.

4. **Conclusions**

4.1 While welcoming the Commission communication and supporting its recommendations, the EESC believes that there are some significant omissions. In particular, there is insufficient attention given to job creation. Though the Commission communication expresses the belief in general terms that the internal market will create jobs, it does not provide any evidence.

4.2 Furthermore, the Commission communication virtually overlooks consumers and the advantages to which they have a right through the completion of the internal market.

4.3 The Committee also points out that, on its own, the setting-up of the internal market will not resolve the problems on the European labour market but that additional pro-active measures will also be required on this front.

4.4 The EESC believes that labour markets are under constant development, jobs disappear in the course of economic restructuring, changes in the international division of labour, technological development, etc. New jobs will be created which require different skills. New businesses may require different economics and other conditions (infrastructure, etc.) How to manage change is an important challenge to the European Commission and especially to the social partners.

4.5 The internal market brings with it challenges for the social systems and their future development. Any discussion about the future shape of the social systems must not, however, focus solely on the internal market and budget requirements but must look at the systems as a whole and take account of their objectives.

4.6 Slow progress with the Lisbon process is beginning to cause concern. The Commission communication does not acknowledge that concern.

4.7 An international threat to the internal market strategy may arise from deflation spreading to the EU from the USA and Japan. The EESC is concerned about this, but there is no reference to it in the Commission communication.

4.8 Additional welfare benefits within the EU will not be achieved by market liberalisation and enhanced competition alone. A supporting macro-economic policy geared towards growth and employment will do much to help complete the European internal market.

4.9 Lastly, the EESC finds it strange that the strategic priorities for the internal market do not include steps to gain citizens' confidence (consumers and workers) and to ensure that they benefit from the advantages associated with completion of the internal market.

Brussels, 16 July 2003

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini

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N.B.: Appendix overleaf.

APPENDIX
to the
OPINION
of the European Economic and Social Committee

The following amendment was rejected but obtained at least a quarter of the votes cast:

Point 2.6.4

Amend as follows:

*"The EESC looks forward to seeing the Commission proposals on **corporate governance** and hopes that they will be consistent with worldwide criteria. ~~International Accounting Standards require legal endorsement throughout the EU in accordance with the IAS Regulation~~ and urges the Commission and the Council to move rapidly to the adoption of **international standards on auditing**. ~~The interests of all stakeholders should be taken into account.~~ to check whether the International Accounting Standards and the International Standards on Auditing are compatible with the European economic model and to make any adjustments as may be necessary, taking account of the interests of all stakeholders."*

Voting

In favour:	44
Against:	44
Abstentions:	12