Chapter One

Introduction, The European Single Enlarged Market: Its Evolution, Completion and Intra-community Economic Effects
Introduction

The forging together of the Single market has primarily been an economic endeavour: to enable people and firms to buy or sell, lend or borrow, produce or consume freely throughout the European Union (EU) as they have hitherto done within their own countries. The political rationale behind such a motive has much deeper roots than the founding of the European Community and its development into the European Union.

Over the centuries, the concept of a closely knit association of European States found political expression in a variety of ways, including attempts to impose unity through hegemony or by force. Schemes for a peaceful, voluntary association of states on terms of equality gained currency especially after the harrowing experiences of the First World War. In 1923, Count-Coudenhove Kalergi of Austria led the Pan-Europe Movement calling for the creation of a United States of Europe. He took inspiration from the successful assertion of Swiss unity in 1848, the forging of the German Empire in 1871 and the confederation of British colonies in North America into the United States of America. On 5 September 1929, speaking at the League of Nations assembly in Geneva, the French Foreign Minister Aristide Briand, with the backing of his German counterpart, Gustav Stressmann, proposed the creation of a European Union within the framework of the League of Nations. In this case, though, the immediate aim went no further than securing closer cooperation between the states of Europe, leaving their national sovereignty intact.1

1 Commission of the European Communities, European Integration (Brussels, 1995) p. 5.
But the tides of nationalism and imperialism still dominated, and Europe was yet again devastated by war. It was only the ruinous consequences of the Second World War that awakened European sensibilities to the futility of unremitting national rivalry. Before the war, western Europe accounted for 40 per cent of world imports and 30 per cent of world exports. Now their economies were in ruins. France and UK, which used to be creditor nations, became large-scale debtors to the United States of America. Hitherto, Europeans had enslaved a large part of the inhabited world and callously exploited the people of their colonies. European nations had enjoyed prosperity and a measure of democracy to a large extent by transferring wealth from these colonies to themselves. The Second World War put an abrupt end to this order of things and changed the equations of balance of power. The pivot of power now lay across the Atlantic. The USA and the USSR emerged as superpowers with hostile ideologies, dividing Europe on ideological grounds.

The USA supported the movement for integration of West European states as a counterpoise to the Eastern bloc owing allegiance to the communist ideology under Soviet hegemony, but the Europeans were cautious that their dependence on the US should not result in loss of their political autonomy. It hurt European pride that decisions having an impact on Europe should be taken by others outside Europe.

---


War-ravaged economies could hardly lay claims to political clout and hence European nations needed to ensure a quick economic revival. The statesmen of Europe could see that economic integration of Europe offered their nations greater prospects of quicker economic revival. They could, for instance, perceive the need for an economic system that would be proof against the kind of protectionism that had preceded the war; Europeans were highly conscious in the 1950s of the dominance of the American economy, which was attributed at least in part to the vast size of the American market. These perceptions led to the Rome Treaty which established a customs union to remove all tariffs and quotas from trade between the member countries over a little more than year period, and to give them a common tariff on imports from outside the community.\(^5\)

The beneficial impact of the elimination of tariffs and quotas soon became visible. Intra-Europe trade grew twice as fast as world trade, quadrupling in the decade after the economic community was set up and European economy grew twice as fast as that of the United States. With the economics of scale and specialization encouraged, technological progress was accelerated, business investment was boosted and markets acquired a more competitive structure.\(^6\)

Technological progress had enabled Europeans to catch up with the Americans in the post-war era in producing goods such as cars and consumer durables. In the 1980s, therefore, American technological dominance in micro-electronics and information technology, called new Technologies, gave Europeans

---


6 Ibid., p.95.
serious cause for concern. American and Japanese firms were decidedly superior in the new technologies, while in the more conventional production some of the newly industrializing countries were giving the Europeans stiff competition.

Europe's lack of competitiveness and dynamism had once again fragmented the European economy into national markets. Non-tariff barriers had come to the fore again, stemming partly from the attempts to prop up old established sectors that were hard hit by the stagflation of the 1970s. Thus steel, ship and textile manufacturers in most countries were heavily subsidized. Yet more significant in blocking technological progress was the tendency for products embodying the more advanced technologies to be subject to national specifications and public purchasing as well as subsidies; all of which could fragment the EC.

This state of affairs could not continue for long if Europe were not to be left behind as an economic power, and so the policy-makers of Europe once again came to the negotiating table to achieve a single market, by freeing it of internal non-tariff barriers. Sir Lord Cockfield as the Commissioner responsible for the internal market, presented a comprehensive programme for achieving this to the European Council in 1985. It was approved by the European Council and the member states embodied their commitment to it in the Single European Act (SEA), 1986.

---


Evolution of the European Community and its Transformation into European Single Market

Post-war Reconstruction and Marshall Aid: At the height of the Cold War, European Recovery Programme (ERP also called the Marshall plan), was the basis of Western Europe's remarkable economic performance and saving Western Europe for democracy. The United States directed the debtor countries of Europe to draw up their respective plans to accommodate the aid flow fruitfully. At the end of 1947, President Henry S. Truman signed the legislation for Interim aid, which enabled Italy and France to import wheat, coal, oil and cotton which they desperately lacked.

Shortly afterwards, the President submitted to Congress "A programme for United States support to European recovery" providing for $17 billion to be made available to the sixteen countries between then and June 1952. It was committed in three principal ways, as grants, loans and "conditional" aid. The plan found its legislative embodiment in the European Recovery Programme under the direction of the Organization for European Economic Cooperation (OEEC) with sixteen members, signed in 1948 at a convention in Paris.

The plan, put into gear the movement of European unification. The subsequent formation of the North Atlantic Treaty Organization (4 April 1949) and West European Union (1954), provided further stimulus to integration. But the real

---


11 Ibid.
Introduction, The European Single Enlarged Market: Its Evolution, Completion and Intra-Community Economic Effects

thrust for economic integration came from European Organizations comprising the European Coal and Steel Community (ECSC), the European Atomic Energy Community (EURATOM) and the European Economic Community (EEC). From the statutory point of view, the three communities existed separately, but from the point of view of political reality, they represented a single entity.¹²

The European Economic Community: The EEC, the last of the three communities to be founded, was concerned with general economic integration. The objective was to transform the member states' separate and disparate markets into a large common market where people and goods could move about as freely as in a domestic market. The EEC as institutionalized became a community of states which had of their own will joined together to create under the Treaty of Rome a transnational entity possessed of certain attributes of autonomous growth and which were united in their determination to achieve specific goals. Since it was impractical for the member states to attain these goals through their exclusive national endeavours they had embarked on a joint enterprise to augment their economic strength and increase their political influence at the global level.

For Europeans regional integration fundamentally meant two things: (1) creation of a single economic space; and (2) sharing of political authority by individual member states at the Community level. The economic aspect implied an adjustment in economic matters (new forms of competition, closing of companies,

¹² Commission of the European Communities, n.1, p. 7.
exploitation of new market shares, etc.)\textsuperscript{13} In the political aspect it implied a new
division of responsibility between the Community and member states.\textsuperscript{14}

**Benelux Example:** The EEC experiment had, as its predecessor, the 'Benelux
customs union agreement', signed in 1944 by the governments in exile of Belgium,
Luxembourg and the Netherlands. The agreement provided for the establishment of
a customs union as a first step towards a more complete economic union of the three
countries. The ultimate objective was the establishment of an economic community
in which goods, capital, labour and services would circulate unrestricted. Progress
in this direction was slowed down in the early post-war years by a combination of
differences confronting Belgium and the Netherlands. Even though both countries
had low tariffs before union, the elimination of import duties on their mutual trade
could only be gradually achieved and it was not until 1 January 1948 that common
external tariff was made effective.

In 1949 the three governments agreed to proceed rapidly towards a broader
economic union by equalizing taxes, coordinating domestic economic and social
policies, eliminating non-tariff restrictions between them and harmonizing
commercial policies towards third countries. The Benelux experience suggests that
substantial differences in labour costs are not a bar to the successful functioning of
a customs union and that their differences tend to diminish over time. But widely
divergent tax structures probably require some harmonization, particularly when they

\textsuperscript{13} E. Rhein, "Intra-Community politics of European Integration" in K.B. Lall

\textsuperscript{14} Ibid
affect the relative burden of taxation on different industries in each country. Over the years, the trade of Benelux member countries increased internally and with outside countries but the increase in intra-Benelux trade was relatively greater.

**Treaty of Rome:** The opening lines of the Treaty of Rome, signed on 25 March 1957 spelled out the idea of creating a Single European Economy based on a common market in specific terms:

> 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 relations among the states belonging to it.\(^{15}\)

The treaty clearly envisaged that the Community's prosperity and in turn, its political and economic unity would depend on a single, integrated market. To bring that about it set out specific provisions for the free movement of goods, services, people and capital. The main aims of the treaty,\(^{16}\) which entered into force on 1 January 1958, after ratification by the parliaments of all six member states, were:

- to set up a customs union by removing obstacles to the free movement not only of goods, but also of people, firms, services and capital and to harmonize conditions under which imports from third countries enter the common market, in particular by establishing a common customs tariff (CCT);


Introduction, The European Single Enlarged Market: Its Evolution,
Completion and Intra-Community Economic Effects

- to harmonize national economic policies and apply common policies throughout the whole of the common market; in particular concerning agriculture, industrial competition, transport and trade with the rest of the world;
- to improve the living and working conditions of community citizens;
- to lay the foundations for political union and economic union.

In short, the central provisions of the Treaty of Rome related to eliminating tariffs and quotas. Customs duties and quantitative restrictions on the import and export of goods among member states were to be eliminated and a common customs tariff and a common commercial policy was to be established towards third countries. The Treaty also envisaged procedures by which the economic policies of member states could be coordinated and disequilibria in their balances of payments remedied. A European Social Fund as well as a European Investment Bank were also to be created to facilitate the economic expansion of the Community by opening up fresh resources.

Tariffs

Abolition of Internal Duties: Under the Treaty of Rome member states committed themselves to refrain from introducing any new import or export duties or increasing any existing duties in their mutual commercial relations. Also, all duties were to be eliminated within prescribed time limits: export duties by the end of the first stage, and import duties and equivalent taxes by the end of the transition period.

Various methods had been chalked out by the experts to dismantle internal tariffs. One method would have been simply to reduce by a fixed percentage at

regular intervals, say annually, each duty effective in each country as of a base date. This method offered the advantages of both simplicity and automaticity, but it made no allowance for the different sensitivity of various products and the desirability of allowing the process to proceed more rapidly in some products than in others. It was feared that any system which failed to allow for some flexibility might result in frequent resort to escape clauses. In order to get the process launched on a broad front, however, it was decided to follow this procedure in connection with the initial uniform 10 per cent tariff reduction scheduled for 1 January 1959.

For subsequent reductions a system of negotiated tariff cuts was proposed but not seriously considered because, while offering flexibility, it conflicted with the basic principle of automaticity. The French proposed bunching groups of products for average reductions on individual items, but the experts rejected the proposal because of the absence of a uniform system of international classification and nomenclature. It was feared that, consequently, the process might get bogged down in endless discussion of marginal cases. In the end, a modified French plan was adopted which was free from this difficulty and at the same time provided for both automaticity and a reasonable degree of flexibility.

As base date for the calculations, it was decided not to take the tariff in force at the time of the first reduction since this would provide an incentive or at least an opportunity for governments to raise duties in the interval before the treaty came into effect on 1 January 1958, a date three months earlier than the signing of the treaty and two years earlier than the first prescribed tariff reduction. Average duty

---

18 Articles 3 and 5 of Draft Treaty on a free trade zone U.S. Department of State, despatch 348, Enclosure no. 1 from U.S. Embassy, Montevideo, 1 October 1959.
reductions were to be calculated by in effect weighing the percentage reduction of duties on each product by a factor representing the value of imports of the product from other members of the common market during 1958, the year preceding the first prescribed reduction.

The first 10 per cent reduction on 1 January 1959 applied across the board to each product. The treaty stipulated that the average tariff level of each state must be lowered by at least 30 per cent at the end of the first stage by successive reductions (at intervals generally of eighteen months). The minimum reduction in any single duty during the first stage was to be 20 per cent. The treaty also stipulated that each state was to make an effort to reduce each of its duties by at least 25 per cent during the first stage.

By the end of the second stage the minimum average tariff reduction was to be 60 per cent, and the minimum reduction in any single duty was to be 35 per cent. Each state was also required to make an effort to reduce each of its duties by at least 50 per cent. During the third stage of the transitional period all remaining duties were to be eliminated, the timing to be determined by the council on a proposal by the commission. Members were authorized to reduce their duties more rapidly than the prescribed schedule and final duties were to be eliminated by a process independent of but similar to the process described above for protective duties. A general escape from the foregoing obligations was provided for the duration of the transition period in cases where there were "serious difficulties which are likely to persist in any sector of economic activity or difficulties which may seriously impair

---

19 Commission of the European Communities, Treaties Establishing European Communities; Single European Act; Resolutions - Declarations (Luxembourg, 1987), Art.148.
the economic situation in any region. But it was the clear intention of the treaty that this escape clause was to be used sparingly.

**Basic Rule for Setting the Common Tariff:** The provisions of the Treaty of Rome regarding the establishment of common external tariff were more difficult to negotiate than those relating to the elimination of internal tariff. They involved not only the question of staging the gradual process of balancing the national tariffs but the more difficult question of the level of the common tariff itself. In determining the basis for the level of the external tariff, due consideration had to be given to the GATT requirement that it be no higher than the "general incidence" of the national tariffs as well as to the divergent economic interests of the low-tariff versus the high-tariff countries in the common market. While the GATT rule might be thought of as prescribing in a general way the upper limit for the common tariff, the pressure of the low-tariff Benelux countries was effective in bringing about the adoption of a number of provisions for reducing the common tariff below the GATT limit. At the same time the common tariff could not be pegged too far below the GATT limit for fear of weakening the position of the common market in bargaining for concessions with third countries on a reciprocal basis.

The GATT rule, however, provided no guidance as to the method of calculating the tariff in order to satisfy the general incidence test. Especially knotty was the problem of weighting. Finally the general rule was adopted that the common external tariff on any product should be the unweighted arithmetic average.

---

20 Ibid., Article 226.

21 Isiaah Frank, n.17, p.103.
of the duties actually applied by the four customs areas (Benelux, France, West Germany, Italy) on 1 January 1957.

Prior to the establishment of the common market the structure of the tariff in the four customs areas showed considerable variations. In general, the low Benelux duties contrasted sharply with frequent ad valorem incidences in France and Italy exceeding 15 per cent. West Germany fell somewhere in between. Very high incidences (over 30 per cent) were most common in Italy; being in other countries confined to food, drink and tobacco. In raw materials there was less variation than in other sectors, with incidences over 10 per cent very rare; in fact, incidences over 5 per cent were significant only in France and Italy. In the semi-manufactures category, only 10 per cent of all tariffs in Benelux exceeded 10 per cent tariff level as compared to 70 per cent in France and Italy and 50 per cent in West Germany. Taking 20 per cent as the dividing line in the finished goods sector, the proportion of all tariffs falling above this line was 10 per cent in Benelux contrasted with nearly two-thirds in Italy, about half in France and significant proportions in West Germany. Table 1.1 makes a comparative study of trade as a percentage of gross national product for the common market countries as well as for the UK and the USA. It will be seen from the table that foreign trade was from two to four times as vital for the Benelux countries as for the other countries of the common market. The Netherlands, with two-fifths of its national income dependent on foreign trade, was particularly concerned about a high tariff because of its traditional position as a major importer of materials and semi-manufactures and exporter of finished goods.

---

### Table 1.1: MERCHANDISE TRADE AS PER CENTAGE OF GNP (1956) 1956 PRICES AND EXCHANGE RATES

<table>
<thead>
<tr>
<th>Country</th>
<th>GNP ($ billion)</th>
<th>Imports as per centage of GNP</th>
<th>Exports (as per centage of GNP)</th>
<th>Exports (as per centage of GNP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>8.16</td>
<td>45.5</td>
<td>2.86</td>
<td>35.0</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>10.34</td>
<td>31.6</td>
<td>3.16</td>
<td>30.6</td>
</tr>
<tr>
<td>France</td>
<td>51.79</td>
<td>10.7</td>
<td>4.54</td>
<td>8.8</td>
</tr>
<tr>
<td>Germany</td>
<td>45.81</td>
<td>14.4</td>
<td>7.36</td>
<td>16.1</td>
</tr>
<tr>
<td>Italy</td>
<td>23.31</td>
<td>13.6</td>
<td>2.16</td>
<td>9.3</td>
</tr>
<tr>
<td>UK</td>
<td>58.02</td>
<td>18.8</td>
<td>9.29</td>
<td>16.0</td>
</tr>
<tr>
<td>USA</td>
<td>419.20</td>
<td>3.0</td>
<td>17.34</td>
<td>4.1</td>
</tr>
</tbody>
</table>

**Source:** GNP figures for Europe, Statistical Bulletins, General statistics (Paris, January 1959); other figures from International Monetary Fund, International Financial Statistics (September 1959).
Approximately 60 per cent of the Dutch trade in 1956 was with countries outside the common market. The Dutch feared a high external tariff especially with respect to semi-manufactures that would raise their manufacturing cost and reduce their competitiveness in vital export markets.

Exceptions to the basic rule: The treaty included various exceptions from the general rule for setting the common tariff. First, ceilings were set on duty rates for certain raw and semi-processed materials, given in four lists annexed to the treaty. List B included 80 commodities, mostly raw materials, on which the common tariff was not to exceed 3 per cent. List C included 142 semi-finished products on which the common tariff might not exceed 10 per cent. List D included 50 inorganic chemicals for which ceilings of 15 per cent were set. And list E contained 52 organic chemicals with ceilings set at 25 per cent.

A second type of exception from the general rule on averaging was provided in list F which included 87 products on which the rates were in advance by the treaty negotiators. In general, the products on this list were either of particular importance or sensitivity to one of the member countries or commodities whose subsequent classification under the general rule might have been a subject of dispute. The list included commodities of key importance to the overseas territories of member countries, e.g. coffee, bananas, sugar, cotton. The rates fixed ranged from zero for raw cotton and crude petroleum to 80 per cent for both beet and cane sugar.

A third type of exception was provided in list G, comprising 70 items for which the common rate was left for future negotiation. They included such items as

---

fish, lard, animal and vegetable oils, machine tools and aluminium. This was an area of conflict of interests between Benelux on the one hand and France, Germany and Italy on the other which could not be resolved in advance. A final exception to the general rule consisted of various provisions in the treaty which, taken together, empowered the commission to set tariff quotas at reduced rates of duty or duty free for particular members.24

Establishment of Common External Tariff: The treaty provided for the gradual adjustment of tariffs up or down towards the common external tariff. Where the individual rates differed by less than 15 per cent from the common rate, the latter would go into effect at the end of the first stage. At the end of the second stage the difference would again be reduced by 30 per cent and it would be completely eliminated by the end of the transition period. Members were free to accelerate the process of alignment, but to slow down the process they required the permission of the commission and only in case of "special difficulties". The postponement had to be only for a limited period, however, and might involve items representing no more than 5 per cent of the state's total annual imports.25 In cases of emergency during the transition period, a state might take such measures itself, subject to subsequent commission approval.

The treaty provided for common action with respect to third countries as regards changes in the external tariff, the entering into commercial agreements and any other external trade problems that might arise; e.g. defensive measures in case

24 Isiah Frank, n.17, p.107.
25 Ibid., p. 108.
of subsidies or dumping. So far as the objectives on external commercial policy were concerned, the chapter opened with a ringing statement of the intention of the community to be liberal and outward looking by contributing to the harmonious development of world trade, the progressive abolition of restrictions on international exchange and the lowering of customs barriers. It noted that the community should be in an advantageous position to become a force for liberal trade because of the favourable incidence which the abolition of customs duties as between member states might have on the increase of the competitive strength of the enterprises in those states. To be more specific, the Treaty declared the willingness of the members to enter into reciprocal arrangements with third countries directed to the reduction of customs duties below the general level which they could claim as a result of the establishment of the customs union.

Quotas

Whereas both the internal and external tariff provisions were precise, the provisions governing quota policy were specific only in relation to the progressive abolition of internal quotas, the section entitled "Free movement of goods" being limited to provisions for the progressive removal of quotas among members of the common market. The sections on the balance of payments and on the common commercial policy of the community contained information about quotas on imports from third countries. The entire approach of the Treaty towards the quota issue was heavily conditioned, on the one hand, by the strict GATT (now WTO) and IMF rules pertaining to quantitative restrictions and on the other hand, by the effort which

---

the OEEC had been making to come to grips with this problem through the trade liberalization programme.

By mid-1956 five of the six countries which were engaged in negotiating the common market treaty had fulfilled their OEEC obligations with respect to intra-European trade liberalization laid down by the council of that organization in January 1953. All but France had removed quantitative restrictions on at least 90 per cent of their imports. France had attained a liberalization of 82 per cent.27

The general escape clause was also applicable to the matter of quotas in a situation where a particular industry or region within a member country encountered serious difficulties. The commission was authorized to grant relief under this escape clause, although priority had to be given to measures which would least disturb the functioning of the common market, and the relief was to be limited to the transition period.28 Import restrictions against other members might also be invoked in the traditional case of balance of payments difficulties recognized in the GATT, the Articles of Agreement of the IMF and the OEEC code of liberalization.

**Tariff Disarmament and Trade Expansion**

The Treaty of Rome required that all internal tariffs would be abolished within twelve years, by 31 December 1969, spread over three phases. Table 1.2 shows progress in tariff reduction on industrial goods. It would be seen from the table that the community accomplished its tariff disarmament ahead of schedule. The

---

27 OEEC, "Europe today and in 1960", 8th report of the OEEC (Paris, April 1957), Table 18, p. 78. For the others the percentages were: Italy 99, Benelux 96, Germany 92.

28 Ibid.
The task of abolishing quotas was rendered relatively easy by virtue of measures of liberalization accomplished within the framework of the IMF, GATT and the OEEC, before the Treaty of Rome came into effect. According to the treaty, the external tariff was to be equal to the unweighted arithmetic average of the duties on imports from third countries which were operative on 1 January 1957.\(^{29}\) Tables 1.2 and 1.3 show how the community progressed towards the establishment of the common tariff.

**Table 1.2: INTERNAL TARIFF REDUCTION OF THE EEC**

<table>
<thead>
<tr>
<th>Date</th>
<th>Acceleration of Industrial reduction made on 1 January 1957 level</th>
<th>Cumulative reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.59</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>1.7.60</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>1.1.61</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>1.1.62</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>1.7.62</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>1.7.63</td>
<td>10</td>
<td>60</td>
</tr>
<tr>
<td>1.1.65</td>
<td>10</td>
<td>70</td>
</tr>
<tr>
<td>1.1.66</td>
<td>10</td>
<td>80</td>
</tr>
<tr>
<td>1.7.67</td>
<td>5</td>
<td>85</td>
</tr>
<tr>
<td>1.7.68</td>
<td>15</td>
<td>100</td>
</tr>
</tbody>
</table>


Table 1.3: ADJUSTMENT OF DIFFERENT SECTORS

<table>
<thead>
<tr>
<th></th>
<th>Acceleration of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.1.61</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>30</td>
</tr>
<tr>
<td>Adjustment</td>
<td></td>
</tr>
<tr>
<td>Cumulative Adjustment</td>
<td>30</td>
</tr>
<tr>
<td>Agricultural</td>
<td>30</td>
</tr>
<tr>
<td>Products Adjustment</td>
<td></td>
</tr>
<tr>
<td>Cumulative</td>
<td>30</td>
</tr>
<tr>
<td>Adjustment</td>
<td></td>
</tr>
</tbody>
</table>


The net result of the liberalization of trade within the community was a considerable increase in intra-community trading. There was also a modest increase in the community's imports from third countries. Thus, during the time periods 1953-58 and 1958-67, whilst the average annual percentage increase in imports from third countries rose from 9.4 to 10.0 respectively, intra-community trade increased from 14.2 to 28.4.
Merger of ECSC, EEC and EURATOM into EC,  
*Its Expansion and deepening of the integration process*

Besides EEC, which was the most powerful institution of the European Community, the other institutions which played a great role in the integration process were the ECSC and EURATOM.

It was in fact with the foundation of the ECSC that the foundation of the edifice of the European community was first laid on 9 May 1950. On that day, Robert Schuman, the French Foreign Minister, put forward a plan worked out by himself and Jean Monnet for France and Germany to pool all their coal and steel production under a joint high authority in an organization open to any other country in Europe that wished to join it. Behind this proposal lay a twofold realization: it was pointless to impose unilateral restrictions on Germany, but at the same time a fully independent Germany was still perceived as a potential threat to peace. The only way out of this dilemma was to bind Germany politically and economically into a firmly based grouping of European states.

The experiment was intended not to nationalize or indeed to internationalize the ownership of the means of production in coal, iron and steel, but to create, by the removal of customs duties, quotas and so forth, a common market in these products. The success of ECSC in giving a boost to their own economies encouraged its member countries to progress further along the path of European Community. EURATOM was an off-shoot of this realization. The main purpose of EURATOM was to coordinate and encourage the development of nuclear energy for peaceful

---

30 Commission of the European Communities, n.1, p.11.

Introduction, The European Single Enlarged Market: Its Evolution, Completion and Intra-Community Economic Effects

purposes. EURATOM was an expansion of the Schuman plan by including in its scope atomic energy in the coal and steel community.

The first step towards economic integration was the establishment of a common market and the gradual alignment of national economic policies. The community was given wide powers to formulate, shape and implement a community policy. With pragmatic intent, matters pertaining to the community were not left in the hands of member states. Four institutional bodies were created for the purpose, namely the council of ministers, the commission, the European parliament and the court of justice as envisaged in article 4 of the treaty establishing the EEC.

The European community, as a transnational system, presents a unique model of regional economic integration and political cooperation with far-reaching implication for the other world regions as well as the international system as a whole. Comprising fifteen highly developed industrial states of Western Europe, of late it has become a veritable economic superpower. This joint enterprise has enabled every member state of the community to augment its economic strength and increase its political influence at the global level.

The creation of a customs union resulted in dramatic gain for the member countries. Between 1958 and 1972 their economies grew much faster than that of the

32 Commission of the European Communities, n.1, p.23.
33 Commission of the European communities, n.19, p.224.
USA, the world's richest country. Britain, more prosperous than any of the six when they started, had been overtaken by all of them except Italy.³⁵

Britain kept itself away from the integration process, jealous of its sovereignty, which it feared might be diluted by joining a supranational body. Britain was also apprehensive that its Commonwealth connection would be affected by joining the community. The vitiated political atmosphere prevailing in western Europe was also not conducive to attract new members.

The subsequent British efforts to create a larger European Free embracing the EEC and the other OEEC countries broke down in late 1961 of irreconcilable differences between France and Britain. In 1959 the European Trade Association (EFTA)³⁶ came into existence as a parallel political organization to the community with Britain at the helm of affairs and Denmark, Norway, Ireland, Austria, Sweden, Portugal and Switzerland being other members.

The EEC's initial successes outshone those of the EFTA, and Britain in August 1961 formally applied for full membership of the EEC. Denmark and Ireland followed suit. The attraction for Denmark was the prospect of free access to the common market. Danish food production was sufficient to feed 15 million people three times the country's population; it was therefore a matter of vital interest to be able to export this substantial surplus freely to a common internal market at guaranteed prices. Another major factor was the longer term prospect of new openings for Danish industrial goods. Ireland saw entry into the community as a

³⁶ Commission of the European Communities, n.1, p.16
chance to boost its vital farm exports. At the same time improved competitiveness gave Irish industry good cause to expect a healthy increase in trade and wealth. Yet another attraction was the community's Social and Regional Funds which promised further economic benefits. However, in 1963 accession of the applicant countries was blocked when General De Gaulle broke off the negotiations abruptly because of his deep mistrust of British intentions in applying for membership. Only after De Gaulle stepped down in 1969, Britain, Ireland and Denmark became members on 1 January 1973.

With their return to democracy, Greece (1975) followed by Portugal and Spain (1977) applied for membership of the community. Greece saw this as a means of stabilizing its newly restored democracy and enhancing its standing and influence on the international stage. In economic terms it was believed that through modernization of agriculture and industry membership would help to put the economy back on its feet. As such on 1 January 1981, Greece became the tenth member of the community.

Spain and Portugal duly became the eleventh and twelfth members of the community on 1 July 1986. From the economic point of view the main impact of accession, thanks to the funds this would make available, would give an appreciable boost to an already highly competitive agricultural industry in these countries with considerable reserves of productive capacity. In the industrial sector, they would (with the assistance of their new partners) be in a better position to initiate the painful but necessary process of structural adjustment and so close the long-standing gap between themselves and other countries of Europe.

37 Ibid., p.18.
The attraction of the community, boosted by the single market and the impetus towards political union gathering pace with the EU treaty, as well as the entry into force of the Maastricht Treaty, prompted Austria, Finland, Sweden and Norway to open accession negotiations which were successfully concluded in 1994. Referendums were held in all four countries with Austria, Finland and Sweden coming out in favour of accession, while Norway again voted against membership as in 1972 - by a majority of 52.4 per cent. The entry of Austria, Finland and Sweden into the EU brought the number of member states to fifteen. Austria's decision to seek membership was primarily dictated by economic and trading interests, to ensure secure access to its traditional markets. The deciding factor for Sweden was its determination to play a major part in establishing a new order in Europe after upheavals in Eastern Europe and to use its weight as a member of the union to influence future political, economic and social cooperation. As in Sweden, the changes in the geopolitical landscape in Europe prompted the Finns to apply formally on 18 March 1992 for membership of the EC. Besides the economic interests, the Finns expected that membership of the EC would allow them to participate in cooperation as equal partners—be it research, education, the arts or any other field.\textsuperscript{38} The unification of Germany meant that from 3 October 1990 the former German Democratic Republic became an integral part of the EC. the Heads of State or Government having decided on 28 April 1990 in Dublin that its incorporation required only adjustments rather than a full-scale accession

\textsuperscript{38} Ibid., p.21.
procedure.\textsuperscript{39} Norway, on the other hand, would continue to pursue its interests within the European Economic Area (EEA) like other EFTA members.

Applications for membership were also received from Turkey (1987), Cyprus and Malta (1990) and Switzerland (1992). The collapse of the Soviet bloc also opened up the prospect of further links and enlargement. Poland, the Slovak Republic, the Czech Republic, Hungary, Bulgaria and Romania are all seeking closer ties and eventual membership but it will be some time before any of them will be able to join, as their level of economic development must first gradually be brought on par with that of the EU. To help them towards this goal, the union concluded a series of association agreements with them between 1991 and 1993.

The focal point of economic integration is the common market in which the member states have combined to create a united economic territory undivided by either customs or trade barriers. In this sphere of operations the EEC registered a distant success in that complete freedom of movement was achieved by July 1968, one and a half years ahead of schedule.\textsuperscript{40} The common market allows capital and labour - two basic factors of production to - develop their potential untrammelled and unhindered. No member state would give its own nationals preferential treatment over those of its community partners.

\textbf{Movement for Integration}

In the later half of the 1970s, European economies suffered a grievous setback owing to the second energy crisis, caused principally by the Iran-Iraq war.

\textsuperscript{39} Ibid., p.20.

\textsuperscript{40} D. Swann, n.29, p.67.
Following the oil crisis in 1973 and 1979, and the subsequent recessions, progress in Europe slowed down and even halted, while the European Community's principal competitors, the USA, Japan and the emerging industrial economies of the Far East, continued to forge ahead. Europe's record on productivity innovation, inflation, unemployment and new job creation was relatively poor. Increasingly these products priced European goods even out of Europe's own domestic markets. In the early 1980s, President Ronald Reagan of the USA adopted tough measures against the USSR, such as modernization of NATO, nuclearization of space through SDI and deployment of Pershing/cruise missiles in Europe. Also his monetarist policies added to the European economic turmoil. As a result there grew a kind of perception in Europe of "sclerosis". So the movement for integration again gathered momentum in the 1980s in order to tide over the future setbacks.

Although the common market established a customs union without tariff barriers, goods moving between member countries faced obstacles as formidable as before. Widely differing VAT rates meant that complicated refunds and payments were demanded at border crossings. Divergent national product standards, technical regulations and conflicting business laws prevented goods legally sold in one country from being exported to others. Administrative formalities involving massive paperwork, red tape and border checks resulted in high and unproductive costs. So did interminable delays in crossing internal community frontiers.\textsuperscript{41} The only ones to benefit from this sorry state of affairs - apart from those with vested interests such as customs officials and their supporting bureaucrats in all European countries - were Europe's competitors, especially the USA and Japan where no internal barriers to

\textsuperscript{41} Ernest Wistrich; n.35, p.5.
trade existed and economies of scale could and were exploited to the full. An authoritative estimate of the cost of the divided community was given in the 1988 Report on the Cost of Non-Europe prepared at the request of the European Commission by an experts' committee under the chairmanship of Paolo Cecchini. Their conclusions put the overall cost of existing barriers at about ECU 200 billion (£130 billion). This was equivalent to about 5 per cent of the community's gross domestic product. The break-up of this total amount disclosed a revealing picture.

Based on interviews with some 500 firms in several community countries, the administrative costs of customs formalities for private firms were estimated at 2 per cent of the value of goods traded. The smaller the company, the higher the cost, which prevented many from exporting altogether. In addition the cost to public authorities of administering the customs formalities was estimated at between ECU 500-1,000 million (£335-670 million).

In addition there was the cost of national public purchasing policies that discriminated in favour of domestic suppliers. In the vast majority of cases public procurement was awarded solely to national suppliers. Purchases controlled by the public sector - that is, by central and local governments, their agencies and monopoly type enterprises - accounted for ECU 530 billion (£350 billion) in 1986 or about 15 per cent of the community's gross domestic product. This was more even than the total value of intra-community trade, which was ECU 500 billion. This protectionism resulted in the public sector generally paying more for goods than it

---

Ibid.
needed to. In 1986 the total cost of national protection in the field of public procurement was estimated at some ECU 21.5 billion (£14.5 billion).

Differing technical regulations, standards, testing and certification procedures were also a major barrier to free trade. Technical regulations were laid down by national laws to provide health, safety and environmental protection. Such barriers inhibiting trade were significant in the case of telecom equipment, cars, foodstuffs, pharmaceuticals and building products. In the case of these products the cost of the restrictive practices was estimated at ECU 3.5 billion (£2.36 billion) for telecom equipment, ECU 2.6 billion (£1.75 billion) for cars, between ECU 500 million and ECU 1 billion (£335-650 million) for foodstuffs and ECU 1.7 billion (£1.14 billion) for building products.43

Finally there was the whole field of research and development, especially on technology. The Albert-Ball Report (the report was commissioned by the European Parliament and published in 1983) pointed out that Europe's total expenditure on research and development was close to that of the USA and double that spent in Japan because each country pursued its own policies, duplicating research and often developing products that could not be sold to its neighbours.

All these restrictions to trade had to go if Europe was to become competitive again. It was realized that the removal of customs duties, originally thought to be the key factor in creating the golden age of European cooperation in the establishment of a single internal market, was only one factor in the process; many barriers remained after customs duties and quantitative restrictions were abolished. Many new barriers (especially non-tariff in nature) had also been raised in the following

43 Ibid., p.61.
years. The growing interdependence between the economies of member states meant that common action had to take the place of uncoordinated national policies pursued in isolation. Trading barriers were not the only obstacles. Major differences in indirect taxation needed to be reduced and frequent exchange rate fluctuations replaced with by long-term currency stability. Many other changes were also essential; amongst them the removal of remaining restrictions on the movement of people and their right to work anywhere in the community in their chosen occupations and professions.

The Cockfield Plan

Increasing dissatisfaction had emerged with the extent of and pace of movement towards a genuinely common single market. The obvious barriers of border, customs posts and diverging currencies remained. So did a wide range of differences in technical standards, restrictive public procurement policies and fiscal provisions which necessitated the border controls and themselves restricted both the achievement of scale of economies and the increase of competitive pressures in Europe.

It was the European Parliament which started the pressure with a series of reports on what became known as "the costs of Non-Europe". Various estimates of the impact of continuing border controls emerged, in terms of both the impact on average prices in Europe and on the community’s GDP. The EC Commission also

---

44 Ibid., p.7.  
had been well aware of the problem, but member states had increasingly sought to protect what they thought were their own short-term interests by sheltering behind such non-tariff barriers-physical, technical and fiscal. But the mood had begun to change and during 1980s the Heads of states and governments in the community had committed themselves more and more positively to the creation of a single internal market as a fundamental prerequisite for the economic recovery of Europe and the future well-being of its people.

This commitment became concrete in March 1985. In that year a new commission, under the presidency of Jacques Delors, took office and began to devise a programme necessary for the achievement of the European Commission. Lord Cockfield presented a white paper to this effect to member governments in March 1985. It proposed the virtual removal of all internal community barriers to the free movement of people, goods, services and capital, completing the internal market and creating an economic area without frontiers by 1992.46 The white paper identified 282 policy measures which had to be enacted within a strict timetable.

The commission started in an essentially dirigistic mood. The way to the single market was to achieve agreement on harmonizing all those national rules and regulations that stood in the way of a border-free single internal market for the community. But this approach clearly antagonized some national governments, notably the British, who saw it as an essentially illiberal attempt at centralizing decision-making in Brussels. Moreover, it required detailed agreement on some areas of national policy that had hitherto been regarded as sacrosanct, such as the

46 Ernst Wistrich, n.35, p.7.
proposal to "approximate" (i.e. harmonize within two broad bands) the permissible rates of VAT. 47

Increasingly, therefore, it was seen that the desired end product could just as easily be obtained by a less bureaucratic means. Most variations between countries would survive if only competitive pressures allowed them to do so. As long as all citizens of the community were allowed free movement and freedom to move goods, insupportable differences in taxes or regulations would be forced to be harmonized. The virtual outcome was, logically, a compromise: harmonization was necessary in a number of areas for reasons of public safety etc., as was the transfer of some power in certain areas to Brussels, e.g. merger policy, but the recognition of the lack of need to harmonize every last detail was an important step forward.

Cecchini Report and the Costs of Non-Europe

It was also necessary to support the view that there were substantial benefits to be gained from completing the single market; that it was not a zero-sum game but one with enough net benefits to compensate any losers whilst leaving the gainers better off. This job was entrusted to a group of experts under the chairmanship of Paolo Cecchini, who reported in 1988. The Cecchini study was itself a massive exercise involving not just an attempt to make an overall macro-economic assessment, but also to include case studies of the most important sectors and independent assessments of the scope for gain in some of the more critical areas such as scale of economies and public procurement. Both the strength and the weakness of the Cecchini study lie in the putting of numerical values on the gains. The

strength is in the quantitative assessment of the costs of Non-Europe which is comprehensive and thorough. The weakness is in assuming that this measures the gains that can be achieved.

In 1985 the EC summit endorsed the European Commission's white paper on completing the internal market. This set out a detailed legislative programme for creating real home market conditions in Europe by 1992 via some 282 acts to remove non-tariff barriers. By early 1988, a third of the journey to 1992 over, just under a quarter had been adopted. Cecchini in his Report in 1988 mentioned that what remained was a daunting, uphill task given the scale of the problem. Citing instances, he pointed to the shortcomings in the common market as it existed:

- Customs related costs put a charge on companies equal to a major portion of their profits from intra-EC trade; firms in effect pay a penalty dividend (around 25 per cent of profits in many sectors) to national border controllers for the privilege of going European; Industry in areas like motor-manufacturing and telecommunications is losing billions of ECU's because of inefficiencies imposed by divergent product standards of protectionist procurement;
- smaller companies are to a significant extent debarred from transborder business activity by administrative costs and regulatory hassles;
- a bewildering array of price differences faces consumers of essential services: car insurance may vary by as much as 300 per cent between high and low price countries, 'tariffs for telephone services can vary 50 per cent from one

---

48 Ibid., p.82.
49 Ibid.
EC country to another; the range of price differences for some key financial services can be even greater;

- the public authorities, year in year out pay around ECU 17,500 million more than they should in purchasing the goods and services they need because of protective procurement systems over which they themselves preside.\(^{50}\)

The basic finding of the Cecchini Report, corroborating that of the White Paper, was that a whole series of barriers would have to go if European companies, consumers and governments were to be freed from these costs and enjoy a real European home market in the 1990s. These barriers were of three broad types:

- Physical barriers - like intra-EC border stoppages, customs controls and associated paper work;

- Technical barriers for example, meeting divergent national product standards, technical regulations and conflicting markets;

- Fiscal barriers - especially differing rates of VAT and excise duties.\(^{51}\)

A survey specially commissioned for the research involving 11,000 businessmen, showed that administrative and customs barriers, coupled with divergent national standards and regulations, topped the aggravation list (see Table 1.4).


\(^{51}\) Ibid., p.4.
Table 1.4: RANKING OF MARKET BARRIERS BY BUSINESS

<table>
<thead>
<tr>
<th>Total industry</th>
<th>B</th>
<th>DK</th>
<th>D</th>
<th>GR</th>
<th>E</th>
<th>F</th>
<th>IRL</th>
<th>I</th>
<th>L</th>
<th>NL</th>
<th>P</th>
<th>UK</th>
<th>EUR12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. National standards and regulations</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2. Government procurement</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>7/8</td>
<td>7</td>
<td>2</td>
<td>8</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>3. Administrative barriers</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>4. Physical frontier delay</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>5. Differences in VAT</td>
<td>8</td>
<td>7</td>
<td>5/6</td>
<td>4/5</td>
<td>7</td>
<td>3</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>6/7</td>
</tr>
<tr>
<td>6. Regulations of freight transport</td>
<td>5</td>
<td>4/5</td>
<td>5/6</td>
<td>4/5</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>6/7</td>
</tr>
<tr>
<td>7. Restrictions in capital market</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>7/8</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>8. Community law</td>
<td>7</td>
<td>4/5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>4</td>
</tr>
</tbody>
</table>

Ranks are based on the answers to the question: "How important do you consider this barrier to be removed?" Range of ranks: 1 (Most important) to 8 (least important).

B = Belgium  GR = Greece  IRL = Ireland  DK = Denmark  E = Spain  I = Italy  D = Germany (erstwhile FRG)  L = Luxembourg  NL = Netherlands  P = Portugal  UK = United Kingdom  EUR12 = Twelve EC Members

The Cecchini Report, its supporting research studies and subsequent detailed studies of individual sectors and countries have given us a graphic picture of the working of the European Community, pointing to a substantial annual cost of nearly 5 per cent of the community's GDP.\textsuperscript{52}

Table 1.5 summarizes the main findings of the Cecchini Report on the contribution of these factors to the overall costs and Table 1.6 indicates the macro-economic consequences of their removal. The argument is that the removal of internal frontiers will allow goods to move more easily and at lower cost. It will also remove the artificial protection which both prevented cross-border operation to exploit scale of economies and gave protection from competition to inefficient domestic firms in all countries. The combined effect would be to lower costs and stimulate demand. At the macro-economic level this would also have implications for levels of unemployment, for inflation and for public sector budgets.\textsuperscript{53}

Some critics have argued that the lower end of the possible band of results presented by the Cecchini Report is the most likely as residual NTB effects would persist, there is reluctance over such factors as the degree of community control over mergers, the removal of frontiers which help in the control of terrorists and drugs as well as legally traded goods, and any harmonization of taxes which would remove government's fiscal independence. One outcome of this would be a so-called two-tier Europe with an inner group of fully integrated states and an outer group of states retaining some barriers - these inner and outer groups would to a large extent reflect both geographical location and length of EC membership, with the outer group being

\textsuperscript{52} R.W. Vickerman, n.55, p.13.

\textsuperscript{53} Ibid., pp.13-14.
Table 1.5: ESTIMATED GAINS FROM COMPETITION OF SINGLE MARKET

<table>
<thead>
<tr>
<th>Source of gain</th>
<th>Billion ECU</th>
<th>per cent GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barriers to trade</td>
<td>8.9</td>
<td>0.2-0.3</td>
</tr>
<tr>
<td>Barriers to production</td>
<td>57-71</td>
<td>2.0-2.4</td>
</tr>
<tr>
<td>Economies of scale</td>
<td>61</td>
<td>2.1</td>
</tr>
<tr>
<td>Increased competition</td>
<td>46</td>
<td>1.6</td>
</tr>
<tr>
<td>Total EC-7 (1985 prices)</td>
<td>127-187</td>
<td>4.3-6.4</td>
</tr>
<tr>
<td>Estimate EC-12 (1988 prices)</td>
<td>174-258</td>
<td>4.3-6.4</td>
</tr>
<tr>
<td>Mid-point</td>
<td>216</td>
<td>5.3</td>
</tr>
</tbody>
</table>


Table 1.6: ESTIMATED MACRO-ECONOMIC CONSEQUENCES OF COMPLETION OF SINGLE MARKET

<table>
<thead>
<tr>
<th>Source of gains</th>
<th>GDP % change</th>
<th>Consumer Prices % Change</th>
<th>Employment Change (Mn)</th>
<th>Budget balance change (% points of GDP)</th>
<th>External balance change (% points of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs barriers</td>
<td>0.4</td>
<td>-1.0</td>
<td>0.200</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Public procurement</td>
<td>0.5</td>
<td>-1.4</td>
<td>0.350</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Financial services</td>
<td>1.5</td>
<td>-1.4</td>
<td>0.400</td>
<td>1.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Supply effects(^1)</td>
<td>2.1</td>
<td>-2.3</td>
<td>0.850</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Aggregate(^2)</td>
<td>4.5</td>
<td>-6.1</td>
<td>1.850</td>
<td>2.2</td>
<td>1.0</td>
</tr>
</tbody>
</table>

1. Effects of Economies of scale and competition.
2. Average estimate - The study reports a spread of ± 25-30 per cent around these values

the geographically peripheral members that joined in the various expansions of the community. 54

On the other hand there is also the view that in taking only the initial effects and their short-term working into account, the Cecchini study has substantially underestimated the potential impact. Dynamic benefits arising from the accelerator effect as firms are induced to replan their actions, to invest further in more efficient equipment, etc., could generate at least as great an additional level of benefits. 55

These studies also highlight a further point - that even a completed internal market is itself only a stage on the road to a fuller economic and monetary union. The question is raised, therefore, whether all the potential benefits of a single market can, or will, be realized whilst member states are free to follow independent monetary or macro-economic policies. These may continue to distort the allocation of resources in the community and depress the overall level of economic activity in the interests of maintaining some specific policy objectives in one member state which are incompatible with those in other countries.

**Inception of the SEM and dismantling the NTBs**

In the early 1980s, three factors gave rise to grave apprehension in the EC circles on its high-technology gap, particularly in relation to Japan and the US. Its dependence for the supply of informatics upon the external factors had reached alarming proportions. The factors causing apprehension in EC were as follows:

---

54 Ibid., pp.13-14.

The two oil shocks led to grave turmoil particularly in western Europe, and this was exacerbated by the US imposition of high interest rates and overvaluation of its dollar;

Western Europe suffered deficit in export competitiveness in relation to Japan owing principally to the latter producing high-quality labour-intensive manufactured goods, and also lack of complementarity between the two economies. Japan, being the 'more efficient producer, exported more to Europe than the reverse.

In its "Industrial Strategy for Europe", the EC bemoaned its low profile in the high-technology domain: the community then imported more than 50 per cent of micro-processors, 75 per cent of its video-recorders and 80 per cent of micro-computers from Japan and the US.56 The Japanese were successfully entering into many of the most sensitive markets in the EC (e.g. cars, consumer electronic equipment, computing equipment) and the newly industrializing countries (NICs) were becoming an increasing threat to many industries of the member states. The Common Agricultural Policy (CAP) and associated budgetary problems had diverted the EC from making progress on establishing the common market. A view emerged that the EC was stuck in a rut and was losing its vision and direction.

Nevertheless, there were also signs of the EC making some progress. The European Monetary System (EMS) founded in 1979, had achieved some success in stabilizing exchange rate fluctuations and in helping to promote the convergence of

inflation rates. Greece joined the EC in 1981 and Spain and Portugal joined in 1986, creating a potential market of 320 million consumers. A European Court of Justice (ECJ) ruling in 1978 - the Cassis de Dijon case - established the principle of mutual recognition. In this case the ECJ ruled that Germany could not ban the import of Cassis de Dijon (a French alcoholic beverage) on the grounds that it did not confirm to German rules and regulations governing the sale of alcoholic beverages. The use of mutual recognition was accepted by the EC when the "New approach to technical harmonization" was adopted in 1985.57

In 1983, at the Stuttgart summit, there was an acknowledgement of the need to take new initiatives to restore some dynamism into the activities of the EC. This took the form of a Solemn Declaration of European Community.

In order to overcome its problems and to undertake significant measures to break free of these internal constraints the EC had to move speedily towards deepening of the European Parliament. In 1984 the European Parliament issued a Draft Treaty on European Union, which, called for political and Economic change in the creation of an internal market and the return of decision-making procedures to the EC. The first bold step was towards establishment of the European Single Enlarged Market, for which a blueprint was provided by the Cockfield Report in 1985. At the Milan summit of 1985, an inter-governmental conference was set up to discuss the European Union, which resulted in agreement on the Single European Act (SEA), approved by all member states in 1986 and implemented in 1987. The SEA, which set out guidelines to form a Single European Market by the end of 1992

envisaged\(^5\); (a) removing frontier controls and related formalities; (b) harmonizing varying national standards; and (c) abandoning discriminatory practices which tended to favour only national firms.

The SEA is basically a limited set of changes to the Treaty of Rome, allowing for majority voting in the council of ministers in areas connected with establishing the internal market. It also makes some rather vague references to EMU, political union and other policy areas such as environment. At the heart of the 1992 programme lies article 13 of the SEA: "the Internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this treaty".\(^5\)

The prime objective of the SEM programme was to remove non-tariff barriers, such as those of physical, technical and fiscal variety and prepare the ground for setting up the single market, which was reinforced by the Paolo Cecchini Report of 1988 on "costs of Non-Europe".\(^6\)

To make a concerted endeavour to redress its shortfall in industrial competitiveness, particularly in the high-value-added technology sectors and also to provide incentive to its member states to participate together in the community's newly launched projects, the EC planned to devise a common framework


\(^6\) Frank McDonald and Stephen Dearden, n.57, p.18.

programme. New incentives are being provided to the Small and Medium Enterprises (SMEs) as well to enable them to participate in the community R&D programmes, such as ESPRIT, BRITE and RACE, and also to prod them on to undertake joint action at the transnational and interregional levels. In order to ascertain the positive effects of the SEM programme, a community-wide poll was conducted in 1994 which showed that only 54 per cent felt very optimistic of this project. Interestingly enough, the major member states, such as France (47 per cent), Germany (51 per cent), Britain (53 per cent) and Italy (57 per cent) seemed to have been less enthusiastic whereas smaller member states, such as the Netherlands (70 per cent), and Ireland (69 per cent) welcomed the enlarged market. The response from Belgium (57 per cent), Portugal (54 per cent) and Spain (53 per cent) was half-hearted. Though recessionary tendencies, growth of unemployment and inflationary situation in the European Union during the early 1990s contributed to the poor enthusiasm, there were certain other factors also. The Single Market project along with its procedures and measure was regarded by many European citizens as a voluminous, complex, highly bureaucratic and non-transparent act. Even more than four years after the inception of the SEM, progress has been found deficient in the case of member states. (see Diagrams 1.1 to 1.5).

The Cecchini Report pinpointed the main barriers which Article 13 of the SEA sought to remove. These barriers were identified by references to those outlined in the 1985 white paper, 'Completing the Internal Market' and by a series of surveys.

of businesses in the EC. The white paper lists three main types of barriers, viz. physical, technical and fiscal.

**Removal of Physical Barriers**

Physical barriers mainly consist of frontier controls and customs formalities. Frontier controls are also a significant economic constraint perpetuating the costs and disadvantages of a divided market. The aim is to completely remove all such internal frontier controls by 1992 so as to create a real “Europe without frontiers”.

Intra-community trade had to bear a heavy cost because of customs formalities. Trade in goods, much of which had to cross several, not just one frontier, amounted to some 500 billion ECU, or 14 per cent of community GDP and a little over half of the community’s total trade. Customs procedures, involving frontier stops either at internal community borders or inland and related administrative costs borne inland by companies and public authorities, were maintained within the community for the following reasons:

i) differences in value-added tax rates and excise duties, which were applied in accordance with the ‘destination principle’;

ii) application of monetary compensatory amounts to trade in certain agricultural products in accordance with the CAP;

---

62 Commission of the European Communities, n.159, p.15.

63 Ibid., pp.29-30.

iii) differences in national public health standards involved veterinary and plant health checks;

iv) checks to control road transport licences and the compliance of vehicles with national regulations including safety rules for the transport of dangerous products;

v) formalities carried out for statistical purposes;

vi) the enforcement of certain bilateral trade quota regimes that member states maintained with third countries, for example textile quotas under the multi-fibre agreement of the GATT (now WTO) and other miscellaneous national measures authorized under article 115 of the Treaty of Rome.

The direct costs of physical barriers in intra-community trade are as follows:  

i) internal administrative costs to exporting and importing firms;

ii) external costs of services directly associated with customs clearance;

iii) increased inventory and transport costs;

iv) the costs to public authorities in maintaining customs paraphernalia.

Indirectly, customs procedures cost the local economy by reducing pressure of competition from foreign suppliers.  

In fact, however, national customs duties were abolished in 1968 and member states agreed to remove customs signs from their mutual borders by 1 January 1988. The complete removal of all intra-community controls on the movement of persons required the implementation of measures to tackle such matters as drug trafficking.

---

65 Ibid., p.47.

66 Ibid., p.48.
crime prevention and movement in the community of non-EC persons. An initiative to abolish such controls was taken in 1990 within the scope of Schengen Agreement, the effects of which were evident even before 1992. Most community members, however, did limit the number of journeys that foreign and often national-hauliers could undertake. In June 1988, the final measure to replace national quotas with a community quota was adopted. Frontier customs posts are also used at present for the collection of a wide variety of important statistics relating to the trading performance of each member state in the industrial, agricultural and commercial sectors.

Removal of Technical Barriers

Rated by industrialists as the most constraining category of trade barrier, technical regulations are a subject enormously detailed and complex. It has been estimated that there exist over 10,000 different technical regulations and standards in the community, and are continuously increasing, as a result of technological developments and increasing concern for health, safety and consumer issues. Very often these barriers are greatest in high technology sectors where market fragmentation in Europe is a major competitive disadvantage vis-a-vis producers in the United States and Japan. Technical barriers for goods were posed by differing product regulations and standards - safety standards, health or environment standards, standards for consumer protection - between states. Such regulations

67 Commission of the European Communities, Europe without Frontiers - Completing the Internal Market (Luxembourg), 2/1989, p.36.

68 Directorate-General for Economic and Financial Affairs, n.64., p. 49.
added extra costs because of separate research, development and marketing costs, besides distorting production patterns. The Commission's concern for removing these hurdles was reflected in its new approach to technical harmonization outlined in the white paper.\textsuperscript{69}

The cost of technical barriers may emanate from duplication in the costs of research and development, loss of manufacturing efficiency as production runs have to be adopted to different needs, increased inventory and distribution cost, and competition weaknesses in world markets as a result of the small national market base. For the public authorities also, there is the cost because of duplication in testing and certification.\textsuperscript{70}

The community has adopted an arsenal of weapons for combating the market-segmenting effect of technical barriers:\textsuperscript{71}

i. by application of the mutual recognition principle towards national regulation, such that products lawfully produced or marketed in one member state can have access to all member states. In the absence of specific community legislation member states may still invoke certain provisions in the treaty (notably article 36) to restrict the free movement of goods on grounds of certain public policies or interests.

ii. by the harmonization of national technical regulations, whereby community directives indicate mandatory requirements for national regulations.

\textsuperscript{69} Commission of the European Communities, n.15, p.81.

\textsuperscript{70} Directorate - General for Economic and Financial Affair, n.64, p.50.

\textsuperscript{71} Ibid.
iii. by the better functioning of European standardization bodies (CEN and Cenelec) which the Commission is promoting through the 'new approach' to harmonization.

iv. by means of the mutual information directive as regards new regulations and standards. Since its adoption in 1983, member states are obliged to notify new regulations and standards.

In October 1990, the Commission published a green paper on European standardization to emphasize the urgency of the situation and to call on the governments and industries of the member states to redouble their efforts.\(^\text{72}\)

Standarization is fundamental for the continued refinement of the internal market, but the constraints on time and expertise and industry's reluctance to commit further resources indicate slow progress in this facet of intra-community trade though the community has realized its goal of the 1992 programme.

**The Removal of Fiscal Barriers**

The rates and the coverage of VAT and the whole structure of the main excise duties differ widely between member states.\(^\text{73}\) Whenever goods are moved between countries, they are elaborately documented at the border so that fiscal authorities can collect the taxes due on them. These fiscal barriers also play an important part in the fight against fraud and evasion.\(^\text{74}\)


\(^{73}\) Commission of the European Communities, n. 67, p. 51.

\(^{74}\) Ibid.
The advantages of abolishing fiscal barriers would be that: (a) it would help establish trade across borders; (b) it would simplify fiscal administration for traders and for national authorities alike; and (c) it would eliminate the major incentive for fraud and tax evasion which the zero-rating of exports represents. But there are also arguments against abolishing fiscal barriers entirely: (a) It would not deter other forms of fraud, evasion or trade diversion - that is other than frauds connected with zero-rating, (b) it would not deal with the unregistered trader or the individual traveller; and (c) it would not of itself allocate revenue correctly between member states.

These problems would be eliminated if the tax proposals are handled as well as managed properly. Variations to a limited scale can be accommodated. Differences of up to 6 per cent, even between neighbouring states, do not appear to distort trade significantly. The Commission believes that a similar system could be applied without difficulty in the community.

The Commission therefore put forward in 1987, proposals for the approximation of the indirect tax rates operating in the community aimed at reducing tax-reduced price differences to a point where they do not in themselves constitute an incentive to cross-border evasion. For VAT, the Commission proposed a double-rate system - a standard rate for basic necessities with the member states free to fix their own rate within a band of 14 to 20 per cent for the standard rate and 4 to 9 per cent for the reduced rate. In the case of the main excise duties - on mineral oil products, alcoholic drinks and tobacco products - the degree of harmonization

75 Commission of the European communities, n.15, p.50.
76 Ibid., p. 51.
proposed was designed to ensure that, even when added to VAT, the tax element in
the price of the goods should not differ enough to be in itself an incentive to cross-
border shopping. Though the member states had committed themselves to put in
place by 31 December 1992 a system of collection of VAT and excise duties
compatible with the abolition of frontier control, the system that was in place by the
deadline did not strictly adhere to the requirements. This had been expected, and
member states agreed to a more flexible approach consisting of a transnational
regime for a limited period but in conditions compatible with the abolition of fiscal
frontiers.

Diagrams 1.1 to 1.5 present an account of the status of the implementation
of White Paper measures and its directives by 8 July 1996. It will be seen from
diagram 1.1 that there is 100 per cent implementation of white paper measures on
control on individuals as a physical barrier, tractors and agricultural machines,
foodstuffs as well as transport as technical barriers and excise duty as a fiscal or tax
barrier. But a country-specific comparative study shows that Denmark and the
Netherlands are leading in the implementation of white paper measures as well as
directives concerning the internal market. Sweden, Austria and Finland are trailing
behind others in the implementation process because of their late entry into the union
in 1995.
Diagram 1.1

State of Implementation of the White Paper Measures

Situation by sector
(8 July 1996)

physical barriers
- veterinary controls
- plant health controls
- controls on individuals
- specific controls (fuel tanks, waste)

technical barriers
- special arrangements
  (arms, cultural works)
- new approach (standards)
- motor vehicles
- tractors and agricultural machines
- foodstuffs
- pharmaceuticals
- chemical products
- construction and construction items
- technical harmonization (other items)
- banks
- insurance
- transactions in securities
- new technologies and services
- transport
- company law
- intellectual and industrial property
- company taxation
- public procurement
- free movement of persons

tax barriers
- VAT
- excise duties

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
Table 1.7:

State of Implementation of Directives concerning the Internal Market
(1417 Directives in force)
Breakdown of Situation by Member State
(8 July 1996)

<table>
<thead>
<tr>
<th>Measures notified</th>
<th>Not applicable</th>
<th>Derogations</th>
<th>Measures not notified</th>
<th>Partial notification</th>
<th>Infringement for non-conformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>DK</td>
<td>1228</td>
<td>137</td>
<td>0</td>
<td>50</td>
<td>1</td>
</tr>
<tr>
<td>NL</td>
<td>1217</td>
<td>132</td>
<td>0</td>
<td>59</td>
<td>5</td>
</tr>
<tr>
<td>L</td>
<td>1180</td>
<td>130</td>
<td>0</td>
<td>102</td>
<td>4</td>
</tr>
<tr>
<td>E</td>
<td>1205</td>
<td>104</td>
<td>0</td>
<td>90</td>
<td>10</td>
</tr>
<tr>
<td>UK</td>
<td>1165</td>
<td>138</td>
<td>0</td>
<td>87</td>
<td>19</td>
</tr>
<tr>
<td>IRL</td>
<td>1154</td>
<td>138</td>
<td>0</td>
<td>115</td>
<td>8</td>
</tr>
<tr>
<td>D</td>
<td>1163</td>
<td>125</td>
<td>0</td>
<td>110</td>
<td>9</td>
</tr>
<tr>
<td>F</td>
<td>1164</td>
<td>123</td>
<td>0</td>
<td>118</td>
<td>2</td>
</tr>
<tr>
<td>P</td>
<td>1158</td>
<td>2</td>
<td>2</td>
<td>129</td>
<td>2</td>
</tr>
<tr>
<td>B</td>
<td>1134</td>
<td>118</td>
<td>0</td>
<td>144</td>
<td>12</td>
</tr>
<tr>
<td>EL</td>
<td>1143</td>
<td>105</td>
<td>2</td>
<td>159</td>
<td>1</td>
</tr>
<tr>
<td>I</td>
<td>1112</td>
<td>125</td>
<td>0</td>
<td>161</td>
<td>9</td>
</tr>
<tr>
<td>S</td>
<td>1147</td>
<td>44</td>
<td>24</td>
<td>161</td>
<td>40</td>
</tr>
<tr>
<td>A</td>
<td>1059</td>
<td>54</td>
<td>53</td>
<td>223</td>
<td>27</td>
</tr>
<tr>
<td>FIN</td>
<td>964</td>
<td>117</td>
<td>6</td>
<td>171</td>
<td>159</td>
</tr>
</tbody>
</table>

Diagram 1.2

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>DK</td>
<td>96.3%</td>
</tr>
<tr>
<td>NL</td>
<td>95.2%</td>
</tr>
<tr>
<td>L</td>
<td>92.5%</td>
</tr>
<tr>
<td>E</td>
<td>92.4%</td>
</tr>
<tr>
<td>UK</td>
<td>92.0%</td>
</tr>
<tr>
<td>IRL</td>
<td>91.2%</td>
</tr>
<tr>
<td>D</td>
<td>90.9%</td>
</tr>
<tr>
<td>F</td>
<td>90.8%</td>
</tr>
<tr>
<td>P</td>
<td>90.2%</td>
</tr>
<tr>
<td>B</td>
<td>88.4%</td>
</tr>
<tr>
<td>EL</td>
<td>88.2%</td>
</tr>
<tr>
<td>I</td>
<td>87.3%</td>
</tr>
<tr>
<td>S</td>
<td>85.7%</td>
</tr>
<tr>
<td>A</td>
<td>82.3%</td>
</tr>
<tr>
<td>FIN</td>
<td>76.7%</td>
</tr>
<tr>
<td>Ø EU</td>
<td>89.3%</td>
</tr>
</tbody>
</table>

Diagram 1.3  State of Implementation of the Directives concerning the Internal Market

Breakdown of Situation by Sector
(8 July 1996)

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free movement of persons and Union citizenship</td>
<td>95%</td>
</tr>
<tr>
<td>Free movement of goods</td>
<td></td>
</tr>
<tr>
<td>Veterinary controls</td>
<td>88%</td>
</tr>
<tr>
<td>Plant health controls</td>
<td>86%</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>91%</td>
</tr>
<tr>
<td>Mechanical and electrical equipment</td>
<td>93%</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>93%</td>
</tr>
<tr>
<td>Tractors and agricultural machinery</td>
<td>96%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>90%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>84%</td>
</tr>
<tr>
<td>Cosmetic products</td>
<td>89%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>86%</td>
</tr>
<tr>
<td>Special arrangements</td>
<td>75%</td>
</tr>
<tr>
<td>Free movement of services and right of establishment</td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>71%</td>
</tr>
<tr>
<td>Insurance</td>
<td>80%</td>
</tr>
<tr>
<td>Transactions in securities</td>
<td>95%</td>
</tr>
<tr>
<td>Transport</td>
<td>90%</td>
</tr>
<tr>
<td>The business environment</td>
<td></td>
</tr>
<tr>
<td>Intellectual and industrial property</td>
<td>74%</td>
</tr>
<tr>
<td>Company law</td>
<td>88%</td>
</tr>
<tr>
<td>Taxation</td>
<td>96%</td>
</tr>
<tr>
<td>Public procurement</td>
<td>72%</td>
</tr>
<tr>
<td>Regulated sectors</td>
<td></td>
</tr>
<tr>
<td>Telecommunications / audiovisual</td>
<td>86%</td>
</tr>
<tr>
<td>Energy</td>
<td>74%</td>
</tr>
<tr>
<td>Other policies</td>
<td></td>
</tr>
<tr>
<td>Consumer protection</td>
<td>81%</td>
</tr>
<tr>
<td>Environmental protection</td>
<td>86%</td>
</tr>
</tbody>
</table>

State of Implementation of the White Paper Measures

275 provisions in force / 219 requiring national implementing measures

Breakdown of Situation by Member State

(8 July 1996)

<table>
<thead>
<tr>
<th>Measures notified</th>
<th>Not applicable</th>
<th>Derogations</th>
<th>Measures not notified</th>
<th>partial notification</th>
<th>Infringement for non-conformity</th>
</tr>
</thead>
<tbody>
<tr>
<td>DK</td>
<td>217</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NL</td>
<td>216</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>S</td>
<td>208</td>
<td>2</td>
<td>0</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>L</td>
<td>207</td>
<td>5</td>
<td>0</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>E</td>
<td>208</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>IRL</td>
<td>206</td>
<td>3</td>
<td>0</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>UK</td>
<td>207</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>F</td>
<td>206</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>P</td>
<td>201</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>I</td>
<td>199</td>
<td>3</td>
<td>0</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>199</td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>D</td>
<td>195</td>
<td>2</td>
<td>0</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>EL</td>
<td>192</td>
<td>3</td>
<td>2</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>FIN</td>
<td>187</td>
<td>1</td>
<td>0</td>
<td>24</td>
<td>7</td>
</tr>
<tr>
<td>A</td>
<td>176</td>
<td>1</td>
<td>0</td>
<td>33</td>
<td>9</td>
</tr>
</tbody>
</table>

Diagram 1.4

Diagram 1.5

Maastricht Treaty

The Maastricht Treaty, designed to create a full-fledged European Union, marks a new stage in the process of European integration. By this treaty the member states have committed themselves to forging closer bonds between themselves and have resolved to give the integration endeavour an altogether new dimension. The objectives that the European Union and its member-states are required to pursue cover a wider canvas and inter alia include the following:

- With a view to promoting balanced and sustainable economic and social progress and also internal cohesion, the union and the member-states are required to strive to establish an economic and monetary union, including a single and stable currency.
- On the international scene, the European Union is to assert its identity through the implementation of a common foreign and security policy, including the eventual framing of a common defence policy, which might in time lead to a common defence.
- With a view to protecting the rights and interests of nationals of member states, the concept of Union citizenship is to be implemented; and
- To facilitate the free movement of persons and also to ensure safety and security of all nationals, member states are required to cooperate in the fields of justice and home affairs, particularly in respect of such issues as asylum and immigration policies, measures to combat drug addiction and frauds on

---

international scale, customs and police cooperation and judicial cooperation in civil and criminal matters.

In keeping with the above objectives, appropriate amendments and additions have been made in the three treaties: EEC, ECSC and EURATOM. Whereas amendments in the latter two basically relate to changes in institutions and procedures only, it is the EEC Treaty which has been used as the main medium for incorporating all important decisions reached at Maastricht. Thus a specific treaty on European Union, an extensively amended version of the EEC Treaty and certain provisions and protocols all taken together constitute what has come to be known as the Maastricht Treaty.

The basic changes that the Maastricht Treaty has brought out relate to three areas: (i) addition of several new policy areas to be pursued by the Community institutions and the member states; (ii) specific incorporation of 'subsidiary principle' in the treaty, emphasizing the importance of appropriate division of labour between different levels of authority; and (iii) changes in decision-making procedure, basically with a view to giving enhanced powers to the European Parliament, so as to remove what had come to be known as the community's "democratic deficit".

In the case of ECSC, the names of institutions have been changed, "High Authority" is to be referred to as "the Commission", "Common Assembly" as the "European Parliament", and "Special Council of Ministers" as "the council". Provisions relating to the "Commission" have been amended in both ECSC and EURATOM so as to make them identical with those in amended EEC Treaty. Also changes have been carried out in both ECSC and EURATOM in regard to "decision making procedure", particularly in regard to expanded role of Parliament in This respect. This again has been done so as to make them identical with those in amended EEC Treaty.
The confrontationist attitude of Britain to slow down the pace of unification had created a lot of confusion. The deadlock was ended only when the other eleven members of the EEC granted Britain the right to opt-out of the single currency (to be introduced latest by 1999) and the common social policy covering employment standards, labour relations, wages and conditions of work. The summit was thus not allowed to fail. Not even Britain wanted that to happen. The deadlock and endless negotiations did serve one purpose. Behind the smokescreen of rhetoric aimed at domestic audiences and the debate between Britain on one side and the eleven other community partners on the other, several compromises were made to move towards greater political and economic integration.

The historic European Union Treaty won the approval of the Maastricht summiteers, including Britain, which however specified that it would march towards a new Europe at its own pace and not join the eleven others in the first lane. Britain's community partners modified some of the clauses in response to its cautious approach to common foreign and defence policies and to enlarging the powers of the community and the European Parliament. When Britain still persisted with its strong reservations to the single currency and a common social policy covering labour relations, the remaining eleven decided to go ahead in these two areas without Britain.79

The developments in the Maastricht conference have given a new orientation to the integration process in Europe. This would provide the community the much

---

needed thrust and impetus. At the dawn of 1993 the long cherished dream of a single Internal market found its real shape though not as originally envisaged.

Concluding Remarks

The Single European Market has emerged as the world’s largest trading entity with a population of more than 370 million. Its range of objectives and activities has deepened and widened considerably and the plans currently under implementation in this respect are fairly ambitious. But this integration process was not smooth. Nearly thirty years ago the six founding members of the EC were able to set up a Customs Union, even one and half years before the deadline. This became possible because of the determination of the concerned member states of the EC. This resulted in unprecedented growth of their economies in general and internal trade in particular which again influenced other European countries to follow suit. But the oil crises of the 1970s, loss of competitiveness of European firms, economic recession and the rise of the NICs, besides the dominant economies such as the USA and Japan left Europe in a disadvantageous position. The large-scale economic benefits reaped by the member states due to integration in the 1950s and 1960s petered out, giving way to a recessionary phase. But this did not prevent the integrative process from gathering momentum in the 1980s and beyond.

In the late 1980s, the EC had formulated its historic plan on the creation of a Single Market, which was expected to be shaped up by 31 December 1992. But, then, in practical terms, problems were galore. In the mid-1990s, it is found that the EC member states had been too slow at transposing into national laws 282 measures required to give functional shape to the Single Market. In early 1992, Maastricht Treaty was formulated to provide the much needed thrust and impetus to the
integrative process. But, then, a question arose whether the Maastricht Treaty succeeded in gaining optimal support from its member states. Even though it formal ratification came from most of the member states, this was not whole-hearted. Particularly, in major member states, France, Britain and Germany, it received lukewarm support. In fact, many in these states criticized it as a complex, voluminous and ill-conceived draft treaty. It was expected of the Union to educate people through adequate public relations exercises to make the treaty and its implications more transparent before the high degree of unemployment, substantial fiscal deficit, and the rise in the rate of inflation currently prevailing in Europe as well as the growth of Eurosceptics are expected to come in the way of Europe's further integration. The Union is facing some major shortfalls in its operational framework, including internal contradictions within member states, abandonment of the "federal" concept and tough convergence criteria of the EMU. These problems call for immediate attention. Even so, the European Single Market as it exists can be regarded as the best model of economic integration in the present century.