CHAPTER -II

GROWTH & DEVELOPMENT OF EUROPEAN ECONOMIC COMMUNITY (EEC)

This chapter has been divided into four sections. Section I deals with the historical background of the formation of EEC. The section refers to Europe before 1957 and the subsequent developments following the Treaty of Rome in 1957. Section II highlights the major institutions in the European Economic Community. The section considers the objectives and working of these institutions. Section III enumerates some salient features of the EEC including geographical, economical and international trade structure. Finally, Section IV highlights the features of the unification programme of EEC in 1992 and its major implications on EEC.
SECTION I
HISTORICAL BACKGROUND AND PRESENT STATUS:

Chart 2.1 gives a summary of the major historical events which led to the formation of EEC and the subsequent developments.

(A) EUROPE - BEFORE 1957

For many centuries the world seemed to revolve around Europe. It was in Europe that the great scientific and technological revolutions occurred and the modern state took shape. This outburst of inventiveness was accompanied by far-reaching European imperial expansion. In 1939, in the Second World War, Europe's political, economic, cultural and military powers dominated the whole world. Over a third of the earth's surface was colonized by the European powers - an area more than 30 times the size of Europe itself. Although there are nine official and numerous unofficial languages, for a long time it was symbolized by Latin, the common language of a common religion and culture. For a long time Philosophy, Poetry, Science and Art had no nationality and Erasmus of Rotterdam, Bacon and Dante could have been equally at home in London or Paris, Florence or Toledo. The repositories of their common heritage were the great universities of Heidelberg, Prague, Paris, Padua, Salamanca, Oxford and Uppsala.
## CHART 2.1

**MAJOR EVENTS IN THE FORMATION AND DEVELOPMENT OF EEC**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
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<tbody>
<tr>
<td>I. BEFORE 1957</td>
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</tr>
<tr>
<td>(i) 1948</td>
<td>European Recovery Programme popularly known as Marshall Plan was announced.</td>
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<tr>
<td>(ii) April 1948</td>
<td>A convention was held in Paris for creating Organisation for European Economic Co-operation (OEEC) by the major European countries.</td>
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<tr>
<td>(iii) 9 May, 1950</td>
<td>The Schuman Plan was announced by the French Ministry of Foreign Affairs.</td>
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<tr>
<td>(iv) 18 April, 1951</td>
<td>The Treaty of Paris setting up the European Coal and Steel Community was signed by six Member States (Belgium, Netherlands, Luxembourg, France, FRG and Italy).</td>
</tr>
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</table>
II 1957
(i) 25 March, 1957

Treaty of Rome was signed by establishing the European Economic Community (EEC) and European Atomic Energy Community (Euratom).

III AFTER 1957
(i) January, 1958

EEC and Euratom Treaties came into force.

(ii) January, 1959

First cut in custom duties in trade between Member States. Common external tariff begins to be set up.

(iii) July, 1962

Common Agricultural Policy (CAP) born.

(iv) July, 1968

A common tariff (CCT) was established for setting up a single customs barrier around the entire Community.

(v) April, 1972

European currency 'snake' established, fore runner of the EMS.

(vi) January, 1973

Ireland, Denmark and U.K., joined.

(vii) Feb., 1975

EEC and 46 African and Caribbean countries signed
the Lomé Convention providing access for these countries' products to the Community market.

(viii) March, 1979
The European Council brought the EMS into operation with its European Currency Unit (ECU) - based Parity System.

(ix) January, 1981
Greece became tenth member of EEC.

(x) June, 1985
European Commission completed the White Paper on the internal market ("The Cockfield Report").

(xi) Feb., 1986
"The Single European Act" was signed amending the Treaties and designed to improve the EEC's functioning and expand its scope.

(xii) June, 1986
Portugal and Spain became members of EEC.

Source: Compiled from the data available from various publications of the Commission of the European Communities, Directorate-General for External Relations, Brussels, Belgium.
Even the merchants' caravans between Venice, Bruges, Barcelona, Genoa and Lubeck and the holy pilgrimages to Santiago de Compostela and Rome helped a lot in unifying Europe.

The various migrations, invasions and wars had made havoc of frontiers, influenced the development of languages, changed customs and ways of life and had altered the face of the old continent, but for all this Europe had not lost its common civilization. All the new arrivals had fitted into the European mould and had rapidly become some of the staunchest supporters of their new culture. But after the Second World War the whole European economy was destroyed. The colonial empires were destined soon to crumble, leaving the United States and the Soviet Union facing each other as the new super powers.

The decade after Second World War marked a turning point in European political ideology. Until then the inviolable and overriding maxim had been nationalist separatism - a concept of nationhood based on chauvinistic prejudice and arrogant feelings of superiority. The common aspirations were to seek absolute sovereignty and to increase the country's independence from others through policies aimed at self-sufficiency and sub-ordination of the interests. Inter dependence was to be avoided and minimised.
The only conceivable way to save the destructed Europe from collapse was through a massive injection of capital to rebuild the industrial base and to repair the damage to its infrastructure and agricultural production. This conviction was translated by U.S.A. into the European Recovery Programme, popularly known as Marshall Plan. The essence of the Marshall Plan was to allocate $11.4 billions of USA public funds as economic aid to the European countries. Its effective duration was planned for the four year period of 1948-52. To make sure that these funds would be used for the integration of the different European economies, the Marshall Plan was tendered subject to the qualification that concrete organisational arrangements be made by the potential recipients of the funds which would dispel the USA reservations. The European answer to this demand was the convention creating the Organisation for European Economic Co-operation (OEEC), the convention was signed in Paris in April, 1948. The OEEC embarked upon three ambitious programmes1:

-- One was aimed at restoring monetary stability and convertibility and at providing international clearing

house services as a means of financing foreign trade. For this purpose a subsidiary organisation, the "European Payments Union" (EPU) was formed.

The second programme was designed to raise the efficiency and productivity of European business enterprises. It too was assigned to a subsidiary organisation, the European Productivity Agency (EPA).

The OEEC's third area was commercial policy primarily trade liberalisation.

In May 1950, the Schuman Plan was announced by the French Ministry of Foreign Affairs. It proposed that the coal and steel production of France and Germany be pooled to form "common basis for economic development as a first step in the federation of Europe". The aim of the plan was to integrate the coal and steel industries of these western European countries who wished to participate in the scheme, thus creating a European Coal and Steel Community (ECSC). The ECSC was the first step towards European unity. It enabled the integration of the coal and steel industries, thus paying the way for the integration of other sectors and then of European economies as a whole. This could result eventually in the formation of a united states of Europe.

Formally, the Treaty was signed at Paris 1951, the

1. Ibid.
signatories included Belgium, France, West Germany, Italy, Luxembourg and the Netherlands. Common institutions were established to govern the operation and development of the coal and steel industries in the Member States. The ECSC was also responsible for ensuring the most rational distribution of coal and steel with the maximum of efficiency. Among other things, this involved securing coal and steel supplies for the market, regulating prices, improving living and working conditions for workers, promoting trade and investment and overseeing the structural adjustment of the coal and steel industries to a changed world economic climate.

(B) EUROPE - 1957:

In 1957, a few years after the establishment of the ECSC, the process of integration was taken a step further with the signing of the Treaties of Rome establishing the European Economic Community (EEC), to integrate the member countries economies as a whole, and the European Atomic Energy Community (Euratom), to encourage co-operation in the peaceful use and development of nuclear energy in the Community and to secure their supplies of fissile material. Chart 2.2 gives the basic integration scheme of the Rome Treaty. Following were the major objectives of the Rome Treaty:1-

(a) **Free movement of goods**

To be obtained through

1. **Trade liberalization** successive elimination of tariffs, quotas, turnover taxes, excise duties, and all other forms of restrictions on the movements of goods among member states.

2. **Common agricultural policy** Common prices, subsidies and support programmes, stockpiling and carry-forward arrangements, standards for importation and exportation, unified market organization for agricultural commodities.

3. **Common transport policy** Unification of freight rates and harmonization of shipping practices and regulatory standards of rail, highways and inland
water carriers; regulation of air and ocean transportation on Community-wide basis also if deemed advisable.

(b) **Free movement of capital**

To be obtained through

| 1. | Convertibility of currencies | Progressive abolition of all exchange restrictions and discriminatory treatment of capital transfers among Member States based on nationality or place of residence. |
| 2. | National-treatment principle | Opening the domestic capital market and credit system for Community-wide investment and credit transactions on a non discriminatory basis. |
| 3. | Monetary co-operation | Consultations among central banks of member countries regarding rediscount rates, reserve requirement, open- |
market policies, and major monetary changes.

(c) Free movement of labour

To be obtained through

1. Right to resettle

Abolition of any discrimination based on nationality regarding employment, remuneration and working conditions; right to move about freely in all Member States, to actively seek employment, and to take up residence in the country of employment.

2. Common social policy

Equalization of remuneration for equal work in all member countries, establishment of common units of measurement for work performance and compensation, close collaboration among member governments regarding social legislation policies including employment,
labour laws, vocational training, social security, pensions, industrial safety and hygiene, laws relating to trade unions, collective bargaining, and general social welfare.

(d) **Free movement of enterprise**

To be obtained through

1. **Freedom of establishment**
   Right to engage in and carry on business activities, to acquire real property, to set up and manage enterprise, agencies branches or subsidiaries in any member country under the same conditions as its own nationals; abolition of any obstacles—legal or administrative—to the freedom of establishment by all member governments.

2. **Freedom of service**
   Progressive removal of restrictions affecting the
industrial, commercial, artistic and professional services supplied for remuneration by residents of other Member States; right to relocate service personnel and facilities; liberalization of banking, insurance, and transport services according to common policies.

(e) Harmonisation of internal conditions

To be achieved through

1. Common rules of competition

Prohibition of restrictive business practices harmful to the consumers, including collusive price fixing; monopolistic limitation of production, markets, technical development or investment; dividing markets or supplies; stifling competition through dominant bargaining strength, contr-
actual arrangements, or any other means; requirement that companies operating in the EEC register all agreements covering more than one country.

Any state aid to business which distorts competition is incompatible with EEC; aid of social character is permissible (to consumers, to disaster areas, and to depressed areas); aid to business may be approved by EEC authorities if intended to promote economic development of underdeveloped regions, to promote projects of common interest, or to remedy serious disturbances.

EEC institutions can issue directives for alignment of laws and governmental regulations which affect
(f) Unification of external relations

To be obtained through

1. Common custom tariff
   Internal integrative links are protected by a uniform tariff system applying to all imports from non-member countries; no national tariff schedule different from the common tariff is permissible.

2. Common commercial policy
   Foreign economic relations are structured in terms of Community-wide interests and executed in close collaboration with its supranational institutions; in tariff and trade matters the member countries act as a supranational body.

(a) **Free Movement of Goods**: It was to be attained through.

(1) **Trade Liberalisation**: Successive elimination of tariffs, quotas, turnover taxes, excise duties and all other forms of restrictions on the movement of goods among Member States.

(2) **Common Agricultural Policy**: Common prices, subsidies and support programmes, stock piling and carry-forward arrangements, standards for importation and exportation, unified market organization for agricultural commodities.

(3) **Common Transport Policy**: Unification of freight rates and harmonization of shipping practices and regulatory standards of rail, highways and inland water carriers, regulation of air and Ocean transportation on Community-wide basis also if deemed advisable.

(b) **Free Movement of Capital**: To be attained through:

(1) **Convertibility of Currencies**: Progressive abolition of all exchange restrictions and discriminatory treatment of capital transfers among Member States based on nationality or place of residence.

(2) **National Treatment Principle**: Opening the domestic capital market & credit system for Community-wide investment and credit transactions on a non-discriminatory basis.

(3) **Monetary Co-operation**: Consultations among central banks of member countries regarding rediscount rates, reserve
requirements, open market policies and major monetary changes.

(c) **Free Movement of Labour**: To be obtained through:

1. **Right to resettle**: Abolition of any discrimination based on nationality regarding employment, remuneration and working conditions, right to move about freely in all Member States to actively seek employment and to take up residence in the country of employment.

2. **Common Social Policy**: Equalization of remuneration for equal work in all member countries, establishment of common units of measurement for work performance and compensation and close collaboration among member governments regarding social legislation and policies including employment, labour laws, vocational training, social security, pensions, industrial safety and hygiene, laws relating to trade unions, collective bargaining and general social welfare.

(d) **Free Movement of Enterprise**: To be attained through:

1. **Freedom of establishment**: Right to engage in and carry on business activities to acquire real property, to set up and managing enterprises, agencies, branches or subsidiaries in any member country under the same conditions as its own nationals, abolition of any obstacles - legal or administrative to the freedom of establishment by all member governments.
(2) **Freedom of service:** Progressive removal of restrictions affecting the industrial, commercial, artistic and professional services supplied for remuneration by residents of other Member States, right to relocate service personnel and facilities, liberalisation of banking, insurance and transport services according to common policies.

(e) **Harmonization of Internal Conditions:** To be achieved through:-

(1) **Common rules of competition:** Prohibition of restrictive business practices harmful to the consumer including collusive price fixing, monopolistic limitation of production, markets, technical development or investment dividing markets or supplies, stifling competition through dominant bargaining strength, contractual arrangements or any other means, requirement that companies operating in the EEC register all agreements covering more than one country.

(2) **Common rules of aid:** Any state aid to business which distorts competition is incompatible with EEC aid of social character is permissible (to consumers, to disaster areas and to depressed areas) aid to business may be approved by EEC authorities if intended to promote economic development of under developed regions, to promote projects of common interest or to remedy serious disturbances.

(3) **Approximation of laws:** EEC institutions issue directives for alignment of laws and government regulations which effect business enterprises in the Community.
(f) **Unification of External Relations**: To be obtained through:

1. **Common custom tariff**: Internal integrative links are protected by a uniform tariff policy applying to all imports from non-member countries, no national tariff schedule different from the common tariff is permissible.

2. **Common commercial policy**: Foreign economic relations are structured in terms of Community-wide interests and executed in close collaboration with its supranational institutions, in tariff and trade matters the member countries act as a supranational body.
EUROPE - AFTER 1957: Earlier the Treaty was signed by original six nations i.e. Belgium, Luxembourg, France, West Germany, Italy and Netherlands. During the seventies EEC was enlarged to increasing its membership to nine nations with the inclusion of U.K., the Republic of Ireland and Denmark. This was followed by a second expansion in the eighties with the inclusion of Spain, Portugal and Greece as member countries. After signing of the Treaty of Rome, a number of steps were taken to meet the objectives of the Treaty. The major steps are now discussed:-

(a) **The common market**: Following steps were taken to complete the internal market as laid down in the Treaty of Rome in 1957.

1. **The customs union and the free movement of goods**:

   The first objective in the creation of the common market was to eliminate all the custom duties levied on imports and exports between the Member States and elimination of custom duties within EEC was accompanied by the establishment on 1st July, 1968 of a common tariff (CCT), setting up a single customs barrier around the entire Community for all imports from non member countries, with duty normally being levied when goods enter the economic territory of the Community. This was necessary in order to prevent diversion of trade flows.

   The CCT rates have frequently been adjusted since
1968. This is done either unilaterally, by a decision of the Council of Ministers or through negotiations between the Community and individual non-member countries or other international organisations, especially within the framework of GATT (General Agreement on Tariffs and Trade). Since 1975, the proceeds from customs duties form part of the Community’s own resources and are paid over to it by Member States.

2. **Free movement of workers**: The right of all Community nationals to equal treatment in terms of employment, wages and other working conditions within the Community enshrined in the Treaties, was comprehensively covered in the 1968 Council Regulation on freedom of movement. Individuals are granted geographical and occupational mobility and a minimum level of social integration in the Member State where they choose to work.

Geographical mobility encompasses a person’s right to go to another Member State and remain there for the purpose of seeking or taking up employment. At the movement, the right of residence guaranteed under Community law is still only three months for someone seeking work in another Member State, whereas anyone with a job enjoys a guaranteed right of residence for five years, with a possible extension for a further five years.
Under certain circumstances people may even stay on where they are after retirement; but there is no general right yet for pensioners to spend their retirement wherever they please.

National immigration authorities cannot refuse to grant someone the right of residence guaranteed under Community law (particularly on the grounds of public safety, order or health) except in extremely serious cases, and any such refusal can be challenged before the Court of Justice. The Commission’s declared aim is to continue dismantling the remaining restrictions on the right of residence until any Community national can live anywhere in the Community for as long as he or she wants.

Geographical mobility also means giving Community nationals an opportunity to better their situation by applying for jobs anywhere in the Twelve, and to help them to do so the Community has set up an information exchange system. At present it is still at the trial stage, but eventually people will be able to find out locally about job vacancies wherever they want and to apply for them or advertise for employment.

Occupational mobility covers people’s pursuit of an occupation and their terms of employment and working conditions. Here again, nationals of other Member States may not be treated differently from local workers. They are, for
instance, entitled to the same pay, free access to the labour market, admission to training establishments or retraining centres or to re-employment in the event of redundancy.

Then there is social integration, which means the right of a worker to all the general social benefits which the host country offers. In other words, workers from other Member States are entitled to the same rights and privileges as local people when it comes to accommodation (including access to subsidized housing), trade union activity or social security assistance, for example. They and members of their families are entitled to all the subsistence allowances, student grants, maternity benefits or reductions on public transport or other public amenities that normally available. Members of their immediate family (i.e. spouses and children) are also free to take paid employment or to work in a self-employed capacity, while children are entitled to general schooling and can enter into apprenticeships and vocational training on the same terms as local children.

Community regulations on social security guarantee employees and the self-employed, including members of their families, adequate cover not only as regards family allowances but also in the event of illness, disability, occupational accident or disease, unemployment, death of a close relative and old age. The point is above all to ensure that no one loses out or is penalized in terms of social
security entitlements as a result of exercising the right to move freely within the Community.

The Community has launched a wide range of schemes in an effort to promote the basic conditions which will allow people to exercise their right to free movement. Prominent among these are a scheme to encourage students and staff mobility among universities, a plan to stimulate international co-operation and interchange among European researchers and the European strategic programme for research and development in information technologies.

(3) Right of establishment and freedom to provide services: Members of the professions and the self-employed are also, in principle, guaranteed the right to establish themselves in business and provide their services wherever they like. The knowledge, skills or qualifications required of anyone wishing to set up on his own account in another Member State or to provide a service during a period of temporary residence may not be any different from what is required of that country's nationals. Conversely, Community citizens are assured equal rights in another Member State only if they satisfy the same conditions as apply to that country's nationals. They must therefore, for example, be able to show that they have completed any vocational training required, or passed the necessary examinations and obtained the relevant qualifications in their host country. Since they
will not normally have been able to do so these freedoms will continue to count for very little in practice until the conditions for setting up in a self-employed capacity are brought into line or until the Member States recognise each other's degrees, diplomas and other qualifications as equivalent. The greatest and almost the only headway made along this path has been in the health professions with the adoption of a number of Council Directives enabling general practitioners, specialists, nurses, midwives, veterinary surgeons to practise in any of the Member States. Chemists and architects have also subsequently joined the list. The only gain for lawyers on the other hand, is that the provisions of services has been made somewhat easier. They can now act as legal advisors in other Member States and bring action in the courts there, provided they are assisted by a lawyer from the country in question.

(4) Free movement of capital and liberalization of payments: The free movement of capital and liberalisation of payments is one of the key factors for the completion of the single market.

At the moment only Germany, the United Kingdom, the Netherlands, Belgium and Luxembourg have lifted all restrictions on capital movements. France, Italy and Denmark still restrict short-term capital movements and transfrontier financial credits, while controls in Ireland, Greece, Spain and Portugal are even stricter. These mainly apply to
residents, for example making it illegal for them (except perhaps on certain conditions) to hold foreign currency accounts, conduct money market transactions, or acquire foreign securities. In mid-1988, however, a major breakthrough was made when the Community managed to set definite deadlines for removing the remaining restrictions, so setting the Twelve on course for a completely free capital market by 1992.

(b) The common policies: As a result of the development of the internal market of the EEC, a number of policies had to be harmonized. A summary of these policies and their contents are given in Chart 2.3. The detailed discussion of these policies is now undertaken:

(1) The common agricultural policy: Agriculture, as one of the "foundations of the Community" plays a key role in Community policy. It accounts for much the largest proportion of Community legislation and more than two thirds of expenditure under the Community budget.

The main lines of the common agricultural policy were laid down immediately following the entry into force of the EEC Treaty at a specially convened conference held at Stresa in July 1958. The most difficult problem was to incorporate the different national systems in a common system of market organisations so as to create a Community-wide market for agricultural products. To start with all tariff and trade barriers between the Member States had to be eliminated. In
<table>
<thead>
<tr>
<th>Policies</th>
<th>Contents</th>
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<tbody>
<tr>
<td>1. The common agricultural policy</td>
<td>Different national systems on agriculture were incorporated in a common system of market organisation so as to create a Community-wide market for agricultural products.</td>
</tr>
<tr>
<td>2. Competition policy</td>
<td>Competition policy was formulated to protect the free competition within the common market based on the competition rules laid down in the Treaties.</td>
</tr>
<tr>
<td>3. Transport policy</td>
<td>The Commission has formulated the common transport policy aimed at giving full freedom to the transport operations, removing all technical and physical barriers among all Member States.</td>
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</table>
4. **Economic and monetary policy**

Common economic and monetary policy was formulated to create a zone of monetary stability in Europe as free as possible of wild currency fluctuations.

5. **Energy policy**

Energy policy was formulated to break the link between economic growth and energy demand, to keep oil imports below a certain level and to increase the proportion of power generated from coal and nuclear energy.

6. **Research & technology policy**

Research & Technology policy originally was concerned with research programmes which call for greater financial, personal and technical resources that can easily be mobilized by the Member States individually.
7. Social policy

It covered the laws relating to equal treatment for men and women, social security for migrant workers, vocational training and the establishment of the Social Fund.

8. Regional policy

It was declared to reduce the differences existing between the various regions and the backwardness of the less-favoured regions.

9. Environment & consumer protection policy

It was declared to protect the environment and the consumer by preventing and monitoring of air and water pollution, the disposal of used oil and other wastes, the control of chemical pollution and the preservation of wild birds.

Source: Compiled from the data available from various publications of the Commission of the European Communities, Directorate-General for External Relations, Brussels, Belgium.
addition a common pricing system had to be introduced to guarantee uniform price levels for farm products in all the Member States. It was on this basis that the Council of Ministers, meeting in December, 1960 adopted the principles for the construction of a "green Europe". The centrepiece was to be the policy on markets and prices, which would mean uniform management of the internal market and the application of common rules at the Community's external frontiers but over the years it became clear that the problems of European agriculture could not be resolved solely by a common policy on prices and markets. Additional measures were necessary if there was to be any significant long term improvement in "agricultural structures" such as production methods, farm sizes and training levels. In 1962, the first modest steps were taken towards a structural policy, although this involved little more than the co-ordination and partial financing of the structural measures taken at national level. A Commission Memorandum of December 1968 finally provided the impetus for a real policy on agricultural structures. This took the form of structural directives adopted by the Council in April 1972.

Then began the gradual process of planning and implementing market organisations for the various products. In the early stages these market organisations covered just over half of the six Member States', agricultural production.
One of the first market organisations was that for cereals which came into force in 1962. By 1970, some 87% of agricultural production was subject to common rules and by 1986, this figure has risen to 91%.1

(2) **Competition policy**: The common market for the goods produced by industry and agriculture can operate smoothly only if conditions of competition are uniform. This was the only way to safeguard equality of opportunity for all in the common market and to prevent action that distorts competition by the private or public sector or by the government. One of the Community's tasks were therefore to create a system to protect free competition within the common market based on the competition rules laid down in the Treaties. These rules prohibited agreements between undertakings to restrict competition and all forms of abuse by an enterprise of a dominant position on the market.

The Commission ensured that the principles of fair competition were observed in the common market and punished infringements with heavy fines. Assisted by the Court of Justice it was also responsible for refining the competition rules so that they were fully effective. The task facing the Community -- now as in the past -- is the laborious one of

developing the wide armoury of rules and individual decisions necessary to put the established principles into practice.

(3) Transport policy: Under the EEC Treaty transport policy, like agricultural policy, was intended to be a common policy area. But very little has emerged in the way of common solutions in this complex sector so far. The individual types of transport -- in particular road freight, the railways, and inland waterways -- still largely rely on the old national structures. In this they are backed by the Member States which, for a variety of reasons (economic, geographical, political, and historical), still want to pursue their own transport strategies. Moreover the difficulties facing a common transport policy have increased even further since enlargement.

Because of the discrepancy between the Treaty requirement for a common transport policy and the progress actually made, in 1982 Parliament, backed by the Commission, brought an action against the Council before the Court of Justice on the grounds of the Council's failure to act.

In May 1985, the Court delivered its judgment, partly vindicating the position taken by Parliament and the Commission. After seeking to clarify the specific obligations which the EEC Treaty imposes on the Council in this connection, the Court concluded that the Council was indeed
bound to act to ensure freedom to provide services within the Community -- something which had been guaranteed since 1969. In this respect the Council had failed to adopt the appropriate measures and rules, its main tasks being to guarantee international and transit traffic between and through the Member States and to lay down the conditions under which non-resident carriers may operate transport services in other Member States. But the Court refused to condemn the Council outright for its failure to introduce a common transport policy, since in the case of transport, unlike agriculture, the Treaty did not set out a detailed timetable or inventory for completion.

As far as the Ocean shipping is concerned, the Community has already adopted a package of measures to open up the shipping market and combat national protectionism effectively so as to ensure free competition.

For some years Community policy on air transport has been geared towards gradually dismantling the web of regulations governing capacity and fares. Routes already being served between Member States must be opened up to competition. The Community's approach has produced benefits for both business travellers and private passengers. The choice of routes is now wider and regional links with the main European air network have also been improved.

(4) Economic & monetary policy: The Community's founders fully realized that the creation of the common market and the
effective implementation of common policies would have to be accompanied by a common economic and monetary policy. It was clear that the gradual establishment of the common market would lead to growing economic interdependence between the Member States, making it more difficult for them to pursue their own short term economic policy objectives. Conversely economic and monetary measures adopted by one country would have a considerably greater impact on its partners as economic interdependence grew. It was therefore essential to establish at least some common ground in these policy areas.

At the 1969 Hague Summit the political leaders of the Community launched a new initiative for economic and monetary union. The Council and the Commission were instructed to draw up a timetable setting out the stages for its achievement. A committee was set up under the chairmanship of Pierre Werner, the Prime Minister and Finance Minister of Luxembourg, and in October 1970 the committee presented its final report. The ‘Werner Plan’ envisaged three stages on the road to economic and monetary union, aiming to achieve the final stage by the year 1980. On 22 March 1971 the Council adopted a number of decisions, to be effective retroactively from 1 January , opening up the way for the first stage of economic and monetary union to begin.
The setting up of the European Monetary System (EMS) in March 1979 gave a new dimension to European monetary cooperation. Its purpose was to create a zone of monetary stability in Europe as free as possible of wild currency fluctuations. It was primarily because of the volatility of exchange rates that European firms had fought shy of undertaking major, long-term investment projects in other Community countries and had been unable to take full advantage of the common market. With frequent unpredictable shifts in exchange rates, firms found that making broad economic calculations had become little more than a game of roulette, and the stakes were too high for their liking.

The EMS seeks to achieve its objectives of internal (price) and external (exchange rate) stability by means of a system of fixed but adjustable guidance rates resting on a variety of intervention and credit mechanisms. The obligations imposed on Member States by the system and the way in which it operates have led to greater convergence between the economic and monetary policies of the Member States, with the result that it is generally held to be a success. This is demonstrated most notably by the 3% rate of inflation recorded in the Community in 1986, the lowest rate in 20 years.

Within the system the 'ecu' plays a central role. (The name has a dual parentage: it stands for 'European
currency unit'; at the same time it also revives the name of a 13th century French gold coin). The ecu comprises a 'basket' of the currencies of the Member States, each currency accounting for a proportion which is determined on the basis of the economic strength of the country in question.

(5) Energy policy: Energy policy is a crucial factor for the continued growth and development of the European economy. Although the Community used to be largely self-sufficient in energy supplies, it has over the years become dangerously dependent--dangerous in both economic and political terms--on a number of countries outside Europe particularly the oil exporting countries. The consequences for the security of supplies and price stability were dramatically brought home by the sudden huge oil price rises in 1973 and 1979. The Community was forced to respond with a new energy strategy.

All the Member States accept that even though they may continue to pursue national energy policies, there is also a Community dimension which requires the coordination of national measures, the completion of specific Community programmes, and the definition of fundamental Community objectives in this field. The primary objectives up to 1990 are to break the link between economic growth and energy demand, to keep oil imports below a certain level, and to increase the proportion of power generated from coal and nuclear energy. In order to guarantee adequate energy
supplies up to 1995 and beyond, the Commission in 1985 put forward a series of new Community energy objectives reflecting the changes on the energy markets.

In 1988 the Commission completed an exhaustive inventory of all the remaining obstacles to freedom of trade in the Community energy market. The aim now is to work towards completion of an internal energy market by gradually bringing these obstacles down and so helping to increase security of supplies, bring costs down and boost competitiveness.

(6) **Research and technology policy:** The balance sheet of achievements in this field quite impressive. Starting from the Treaties on coal and steel (ECSC) and the peaceful use of nuclear energy (Euratom), a comprehensive European research and technology policy has developed over the past 30 years and more. The Community supplements and concentrates national research with its own extensive scientific and technical research programmes. This avoids unnecessary duplication of effort and ensures the rational and effective use of funds. The Community is therefore principally concerned with research programmes which:

(i) Call for greater financial, personnel and technical resources that can easily be mobilized by the Member States individually.

(ii) Involve projects that can only be properly tackled
across national frontiers, such as protection of the environment.

(iii) Serve to promote completion of the internal market (e.g. the definition of common standards).

Despite the relatively modest funds allocated (in 1985 the Community research budget amounted to only 3% of the total Community budget and 2% of national budgets) and the cumbersome nature of the decision-making procedure in the Council, the Community's research programmes have triggered off wide ranging co-operation across national frontiers in practically every major area of scientific and technical research. In addition to this, there is the prospect of broad technological advance on an unprecedented scale following the agreement reached in July 1985 in Paris on European Technological Co-operation (known as the Eureka Project) between 17 European countries (the 12 EEC member countries together with Sweden, Finland, Norway, Austria and Switzerland).

(7) Social policy: Because of the high level of unemployment in the Community, especially among young people, social policy is coming to be regarded more and more as the touchstone of European integration.

The first outlines of a Community social policy can already be seen in the Treaties of 1951 (ECSC) and 1957 (EEC and Euratom). But the underlying assumption at the time was that the workings of the common market which they sought to
create would more or less automatically bring the Member States' different social security arrangements into line with one another. The Treaties therefore did no more than sketch out the rudimentary features of a Community social security model. Apart from guaranteeing basic freedom of movement within the Community, they only specifically covered equal treatment for men and women, social security for migrant workers, vocational training and the establishment of a Social Fund.

By the early 1970s, however, the Member States came to realize that this minimalist view of the Communities' role in social policy had been overtaken by events. Experience had shown that the economic mechanisms of the common market did not automatically lead to social progress and full employment. In 1974, therefore, the Social Fund was overhauled and the Community adopted a social action programme comprising some 40 measures aimed at full and better employment, improved living and working conditions and increased involvement of the social partners. Achievements so far include Directives covering worker protection against the hazards of noise and certain dangerous substances, equal treatment in the workplace, safeguards against mass redundancy, workers' rights in the event of takeovers, and worker security when firms go bankrupt.

The major changes introduced in 1987 by the Single
European Act included giving the Community wider powers in the social field to enable it to press ahead with the coherent European social policy on which it had already embarked. The social dimension has thus become a vital part of the single market project, the aim being not simply to boost growth and strengthen competitiveness but to make fuller and more effective use of resources and to distribute the benefits more fairly.

Projects assisted by the Social Fund range from training in new information technology to aid for migrant workers and vocational training for the disabled. The balance to date is impressive: over 915000 persons under 25 have been given basic vocational training on leaving school, more than 420000 young people have been given additional training to improve their qualifications and 480000 persons of all ages have found employment under the job creation measures.  

Regional policy: In the Preamble to the EEC Treaty the Member States declared their aim of 'reducing the differences existing between the various regions and the backwardness of the less-favoured regions.' The Community set about the task with the creation of a number of structural Funds. The centrepiece is the European Regional Development Fund.

Fund which was set up on 18 March 1975. The Social Fund also operates along regional lines in the sense that the level of assistance available for labour market measures is geared to the scale of the problems facing each individual region. Lastly there is the EAGGF Guidance Section, which helps to finance structural measures in rural areas. With effect from 1 January, 1989 the Funds were completely overhauled so as to give them a much greater impact: assistance is to be specifically targeted towards national schemes to stimulate investment and create jobs in less-developed regions, so helping to reduce the disparities between rich and poor regions of the Community. The key element in this reform is the doubling of the Funds' resources between 1987 and 1993, rising from ECU 7800 million in 1988 to ECU 14100 million eventually. The money is to be allocated among regions according to five objectives:

Objective 1 -- Regions whose development is lagging behind.
Objective 2 -- Areas affected by industrial decline.
Objective 3 -- Combating long-term unemployment.
Objective 4 -- Combating unemployment among young people.
Objective 5 -- speeding up the adjustment of agricultural structures and promoting the development of rural areas.

(9) Environmental & consumer protection policy: The Treaties make no explicit reference to environment and consumer protection as one of the Community’s tasks. The
explanation is principally that the threat to the environment and the risks facing the consumer were less readily apparent when the Rome Treaties were signed in 1957 than they are today. It is, however, characteristic of the Community — and clear evidence of the dynamic force of integration — that it has been able to adapt its range of policy instruments to suit the changing needs of the times and society.

The Community’s environment and consumer protection policy was launched at the Paris Summit in 1972, when the Heads of State or Government declared protection of the environment and the consumer to be one of the Community’s most important and pressing concerns and called for the preparation of action programmes to set such a policy in motion. The Commission responded by drawing up a series of detailed and comprehensive programmes which have since been steadily refined and expanded. Originally the legal basis for this action, as for research and technology policy, was Article 235 of the EEC Treaty; but under the Single European Act, environment policy has now been given its own place in the Treaty.

The main areas of progress in environment policy have been the prevention and monitoring of air and water pollution, the disposal of used oil and other wastes, the control of chemical pollution, and the preservation of wild birds.
In 1986, the Council of Ministers adopted three new environmental programmes proposed by the Commission focusing on:

(i) The causes of acid rain and the effects of small quantities of heavy metals on health.

(ii) Climate research into the effects of deforestation and the improvement of fossil fuels.

(iii) Limiting the technological hazards in the chemical and petrochemical industries.

In the field of consumer protection, a whole series of Directives on health and safety have been issued, notably on preservatives and additives in foodstuffs, industrial goods, textiles, motor vehicles, pharmaceuticals, and cosmetics. There have also been important Directives on product liability and misleading advertising. Further Commission proposals on door-to-door sales and consumer credit are pending before the Council.
SECTION II

THE INSTITUTIONS OF THE EUROPEAN ECONOMIC COMMUNITY

The growth and the success of the EEC has been due to the establishment and operation of a number of institutions. Chart 2.4 gives the institutional set-up for co-operation among the Member States. The major institutions are:

(A) THE EUROPEAN COMMISSION

The Commission is composed of at least one citizen from each Member State. It consists at present of 17 Members: two German, two Spanish, two French, two Italian, two British and one from each of the other countries. Members of the Commission are appointed for four years by mutual agreement of Community governments. They act only in the interest of the Community; they may not receive instructions from any national government and are subject to the supervision of the European Parliament which is the only body that can force them collectively to resign, Commission’s decisions are taken on the collegiate basis, even though specific competences are allocated to each member of the college. The tasks of the Commission are1:

(a) To ensure that Community rules and principles of common market are respected. As the guardian of the

THE INTER-INSTITUTIONAL COOPERATION PROCEDURE

COMMISSION

proposal

PARLIAMENT

opinion

COUNCIL

Common position

PARLIAMENT

Approval or no comment

Council

Legislation passed by qualified majority

Amendment by absolute majority

Commission

Amendment by Parliament accepted

Amendment by Parliament rejected

Council

Legislation passed by qualified majority

Legislation passed by unanimous vote only

Rejection

Council

Adoption unanimous vote only

Treaties, the Commission sees that their provisions as well as the decisions of the Community's institutions are correctly applied. It decides on requests from Member States wishing to avail themselves of the safeguard clauses in the Treaties which allow, in exceptional cases, temporary waivers or derogations from Community rules. It also has investigative powers and can impose fines on individuals or companies, notably those which are found to be in breach of Community competition rules. Appeal is allowed to the European Court of Justice. States that fail to respect their obligations can also be taken before this Court by the Commission.

(b) To propose to the Community Council of Ministers measures likely to the advancement of Community policies (in the fields of agriculture, energy, industry, research and environmental, social and regional problems, external trade, economic & monetary union etc.) In 1988, the Commission sent 696 proposals to the Council of Ministers.

(c) To implement Community policies, whether based on council minister's decisions or directly on Treaty provisions. Under the Single Act reforming the European Treaties, the Council gives the Commission powers for the implementation of the rules which the
Council lays down, in all but exceptional cases. Some of these executive powers can be subject to procedures for collaboration and consultation with national experts.

(1) The Commission has especially wide powers of its own in sectors such as coal & steel, competition, and nuclear energy.

(2) In other cases, the Commission operates under instructions from the Council: in the negotiation for instance of trade agreements with third countries or the management of the agricultural markets.

(3) The Commission also manages the funds and common policies which account for most of the Community budget. These include the:

(i) Support & modernization of agricultural produce (European Agricultural, Guidance and Guarantee Fund)

(ii) The encouragement of regional, industrial and professional development and the employment of young people. (European Regional Development Fund, ECSC Grants and Social Fund)

(iii) The promotion of scientific research. (Framework Programme for Research &
Technology Development, Joint Research Centre).

(iv) The concrete application of European support and concern for the third world. (European Development Fund, Food aid programmes etc.).

The Commission has an administrative staff based mainly in Brussels and to a lesser extent, Luxembourg. It consists of 14,000 officials, divided between some 20 Directorate-Generals. 20% of the Commission's personnel is employed on the linguistic work made necessary by the use, on equal footing, of nine Community working languages.¹

¹ Ibid.
THE COUNCIL OF MINISTERS

The Community's Council of Ministers meets in Brussels and a few times annually in Luxembourg. The Council consists of Ministers from Member States governments and makes the major policy decisions of the Community. Each government acts as President of the Council for six months in rotation. Participants in the meetings change according to the agenda, Agricultural Ministers for instance, discuss farm prices, Employment & Economy Ministers discuss employment problems. Meetings of the European Council take place two or three times a year. They bring together the Heads of State or government of the Community and the President of the EEC Commission assisted by their Foreign Affair Ministers and the members of the Commission. Its role in supplying guidance and impetus is not to be underestimated even if it can not directly agree Community legislation. The Council of Ministers is assisted by:

(a) The committee of Permanent Representatives, coreper, which co-ordinates the groundwork for Community decisions undertaken by numerous meetings of senior officials of Member States.

(b) A General Secretariat with a staff of about 2,000 people. It can deal only with proposals from the Commission and can alter them only by unanimous agreement. Unanimity is also required in the Council for certain important decisions. Out of total of 76 votes, 54 are needed to approve a Commission proposal. The FRG, France, Italy and the U.K. have 10 votes each, Spain has 8 votes, Belgium, Greece, Netherlands and Portugal have five votes each, Denmark and Ireland have 3 votes each and Luxembourg has 2 votes. In order to strengthen the Community's decision making process, the Single Act amending the treaties extended majority voting to certain decisions particularly in relation to the completion of European internal market, research and technology, regional policy and improvement of the working environment.

(C) The Court of Justice:
It comprises 13 Judges assisted by six advocates General. The Court's role is:¹

(a) To quash at the request of the Community institution, government or individual, any measures adopted by the

Commission, Council of Ministers or national governments which are incompatible with the Treaties.

(b) To pass Judgement at the request of the national court on the interpretation or validity of points of Community law. If a legal action produces a disputed point of this kind, a national court can request a Preliminary ruling by the European Court. It must do so if there is no higher court of appeal in the Member State Concerned. Through its judgements and interpretations, the Court of Justice helps to create a body of truly Community law which applies to all: Community institutions, Member States, national courts and private citizens. Judgements of the Court, in the field of Community law, overrule those of national courts. Also, in cases of non-application of Community law by the Council or Member States, the Court has heard complaints brought by individuals and upheld the direct applicability of Treaty-imposed principles, such as equal pay for men and women and the right of the liberal professions to practise throughout the Community.

(D) THE EUROPEAN PARLIAMENT

The European Parliament has been elected by universal suffrage since June 1979. It now has 518 deputies elected
every five years, 81 from each of four most populous countries (Germany, France, Italy, the U.K.), 60 from Spain, 25 from Netherlands, 24 from Belgium Greece & Portugal, 16 from Denmark, 15 from Ireland and 6 from Luxembourg. Its role includes:

(a) It participates in the formulation of directives, regulations and Community decisions by commenting on Commission proposals.

(b) The Commission is asked to amend its proposals to take account of the Parliament’s position. The Single Act, which amended the European Treaties, provides for a co-operation procedure between the Council and the Parliament. This strengthen the legislative powers of the Parliament in a great number of areas, such as the completion of the European internal market, which is at the heart of the 1992 objective.

(c) It is the Parliament which adopts the Community budget, unless it decides to reject it which has already happened on two occasions in which case the budgetary procedure must be restarted.


Finally, it is the custom for the President-in-office of the European Council to inform the Parliament about the results of each Council.

(E) **THE ECONOMIC & SOCIAL COMMITTEE AND THE ADVISORY COMMITTEES.**

Before a Commission proposal can be adopted by the Council, an opinion must be sought, not only from the European Parliament, but also in many cases from the Community’s Economic & Social Committee. This is a consultative body with 189 members who represent employers, trade unions and other interested groups, such as farmers and consumers. It issued 163 opinions in 1988, including 15 on its own initiative.¹

Issues involving coal and steel are referred to the ECSC Consultative Committee, consisting of representatives of manufacturers, traders, workers & consumers.

Many specialized advisory bodies help to further associate professional and trade union interests with the development of the Community. The leaders of their European federations, established in Brussels, and their experts, are often consulted by the Commission before it adopts definitive proposals.

¹. Ibid.
F) THE BUDGET AND THE COURT OF AUDITORS

Community spending reached about ECU 44.8 billion in 1989 or approximately 1% of the gross national product of the twelve\(^1\). The Community budget is financed no longer by national contributions but by the Community’s own resources\(^2\).

(a) Customs duties and agricultural levies on imports from the rest of the world.

(b) A proportion, on a uniform assessment basis, of VAT collected in the Member States.

(c) A new resource created in 1988 and based on the gross national product of the Member States.

The Management of the budget is supervised by a Court of Auditors, consisting of 12 members appointed by mutual agreement of the Council of Ministers for six years. The Court of Auditors has extensive powers to examine the legality and regularity of Community receipts and expenditure and the sound financial management of the budget\(^3\).


THE EUROPEAN INVESTMENT BANK

The Treaty of Rome created a European Investment Bank with the task of contributing, through its financing to the balanced development of the Community. The EIB raises most of its funds on the capital markets and relends it on a non-profit making basis to finance priority investment for the Community. The projects financed help toward the following objectives, regional development, the improvement of infrastructures for transport and telecommunications, protection of the environment and the natural or architectural heritage, urban landscaping, reduction in energy dependence, strengthening the international competitiveness of industry, in particular by developing advanced technologies and small and medium sized enterprises.
SECTION-III

EUROPEAN ECONOMIC COMMUNITY: SOME PHYSICAL CHARACTERISTICS

(A) GEOGRAPHICAL CHARACTERISTICS:

(a) Geography and Climate: Most of the Europe is fairly flat or hilly country. Only the Pyrenees between Spain and France, the Alps in the border region between France and Switzerland and the Dolomites in the North of Italy are truly mountainous. About 20% is forest area. Almost 60% is used for agriculture and less than 9% is used for buildings. Community Europe's longest river, the Rhine is a mere stream compared to the rivers of other continents. There are no deserts or jungles and few insects or animals hostile to man.

Community Europe has a surface area of about 2.26 million square kilometers which is about one-fourth the size of the USA and one-tenth the size of USSR. It is thus a compact area offering easy communication and favouring economic activity.¹

The climatic conditions vary widely throughout Europe. Three regions can be distinguished: the west, the south and the east. The southern regions, bordering on the Mediterranean have a mild sunny climate. In winter,

temperatures remain above 10°C. on average, to rise well into the twenties and thirties C. in summer. Average rainfall is low in these areas. The west, all of Great Britain, the west coast of France, all of Belgium, the Netherlands and Denmark are subject to large amounts of rainfall throughout the year. Here temperatures are below or above freezing in the winter and between 15 and 25 degrees in summer. Denmark in the North being on average colder than France in the south.¹

The east is characterized by a land climate: warm summers and cold winters when temperatures are well below freezing most of the time.

(b) Population: Community Europe numbers some 341.5 million inhabitants out of the world population of more than 5000 million. It means that the Community's population accounts for just over 6.5% of the world's population.²

The rate of growth of population is very low. In some countries of the EEC, the size of the population is even declining. The Netherlands, the north-west of Germany, the south-west of England and the northern part of Italy and around the capital cities of other countries, like the regions around Paris, Athens, Madrid and Rome are densely

1. Ibid.

populated areas. During the recent past years, the life expectancy has now greatly increased. On average, a woman can now expect to live to the age of 78.2 and a man to 71.6 years. So because of low birth rate and high life expectancy rate the percentage of old people in the Community's population is rising while the percentage of young people is falling. The result is an aging population.¹

Table 2.1 shows that population wise, the major markets are West Germany (61 million), Italy (57 million), U.K. (57 million) and France (56 million).

(c) **Transport:** There are sea ports all along the Atlantic North Sea and Mediterranean coasts. From seaports, goods may be transported over inland water ways to other places. The rivers such as the Rhine, Meuse, Seine Thames and others play an important role in the transportation of goods. One of the most important ports for the continent is Rotterdam (The biggest port in the world) as it is connected to FRG, France, Belgium and Switzerland through the river 'Rhine'. Road and rail transport are alternatives. Rail transport is possible throughout Europe, to the Middle East and the Pacific. Especially the area comprised by the Netherlands, Belgium and the Rhine - river area in the Federal Republic Germany is well accessible through motorways. There are a number of

¹. Ibid.
## TABLE 2.1
**EEC: AN ECONOMIC PROFILE**

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</thead>
<tbody>
<tr>
<td>U.K.</td>
<td>56.7</td>
<td>8,870</td>
<td>4,68,290</td>
<td>2</td>
</tr>
<tr>
<td>FRG</td>
<td>60.9</td>
<td>12,080</td>
<td>8,91,990</td>
<td>2</td>
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<tr>
<td>France</td>
<td>55.4</td>
<td>10,720</td>
<td>7,24,200</td>
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<tr>
<td>Italy</td>
<td>57.2</td>
<td>8,550</td>
<td>5,99,920</td>
<td>5</td>
</tr>
<tr>
<td>Belgium</td>
<td>9.9</td>
<td>9,230</td>
<td>1,12,180</td>
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<td>14.6</td>
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<td>Denmark</td>
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<td>68,820</td>
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</tr>
<tr>
<td>Ireland</td>
<td>3.6</td>
<td>5,070</td>
<td>21,910</td>
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<tr>
<td>Spain</td>
<td>38.7</td>
<td>4,860</td>
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<tr>
<td>Portugal</td>
<td>10.2</td>
<td>2,250</td>
<td>27,480</td>
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<tr>
<td>Greece</td>
<td>10.0</td>
<td>3,680</td>
<td>35,210</td>
<td>17</td>
</tr>
</tbody>
</table>


**Note**: In this table, data on Luxembourg could not be provided because of lack of data.
international airports in Europe, mainly close to capital cities of the respective countries and a number of smaller regional airports. The container (20 or 40 ft.) is predominantly used for transport by water, rail and road.

(B) **ECONOMIC CHARACTERSITICS:** European Economic Community has chosen economic integration as a means of achieving unity. So it is very important to discuss the economic situations of the EEC.

(a) **Wealth:** The Community is a heavily industrialized area and in consequence it is much richer than many other parts of the world. In the Community as a whole, eight workers out of every 100 workers are engaged in farming. Of the remaining 92, 33 work in manufacturing industries and 59 in service industries. So it shows that EEC is a highly developed area. Another gauge of wealth is the income produced per inhabitant in terms of purchasing power. The income per capita for the Community in 1987 was about pound 6864 (IR pound 8763). This was however less than, that of the USA, pound 10718 (IR pound 13683), but much higher than that of Latin America or Africa. In other words the Community is rich in a world of comparative poverty.¹

¹ "The European Economic Community Economy: Wealth & Poverty."


, an official publication of the Commission of the European Communities, January, 1989, Brussels, Belgium.
Table 2.1 shows that FRG has the highest GDP, US $ 891,990 million, followed by France US $ 724, 200 million in 1986 and Denmark has the highest GNP per capita, US $ 12,600, followed by FRG US $ 12,080 in 1986.

The five biggest countries in the EEC, (Germany, the United Kingdom, Italy, France and Spain) together produce 87% of the Gross National Product (GNT) of the whole EEC.

If we analyse the wealth produced by each member country, it will be seen that countries can roughly be divided into two categories. The first category consists of eight countries with a per capita income of between pound 8607 (IR pound 10987) and pound 6914 (IR pound 8827) with Luxembourg heading the list followed by Denmark, the Federal Republic of Germany, France, the United Kingdom, the Netherlands, Italy and Belgium in descending order. Spain, Ireland, Greece and Portugal constitute the second category with a per capita income of between pound 5079-pound 3683 (IR pound 6484 - pound 4702) in 1986.¹

These differences in wealth are even more marked if we compare regions instead of countries. If, for example, the ten wealthiest regions of the Community are compared with the ten poorest, it will be seen that the per capita income of the former is about three or four times that of the latter. The Community is trying to reduce these differences by making

¹. Ibid
numerous investments in the poorest regions. In particular, it has set up a European Regional Development Fund.

(b) **Unemployment:** In November 1988, there were 15.4 million registered unemployed in the Community, of whom 33.5% were under 25 years of age. Employment growth rate increased from 0.8% per annum in 1986 to 1.2% during 1988. 1

(c) **Agriculture:** Agriculture is an important part of Europe's economy. European agriculture has changed more rapidly and more radically than almost any other economic sector. In 1960 some 15.2 million people were still employed in agriculture the Community of Six. By 1987 their numbers had dropped to 5.2 million, i.e. by almost two-thirds. Since the accession of Spain and Portugal, however, the Community of Twelve has had an agricultural work-force of just over 10 million. On average this represents more than 8% of the working population, but there are considerable differences from one Member State to another: whereas in Greece almost 30% of the working population is in agriculture, the corresponding figure for such countries as the Federal Republic of Germany, Luxembourg, Belgium, the United Kingdom and the Netherlands is less than 5%. 2

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1. Ibid
At the same time number of farms has been greatly reduced. In the Community of Six there were 6.4 million farms in 1960 but 20 years later there were only 4.8 million, whilst between 1960 and 1986 the average size of a farm rose from 12 ha to just under 20 ha. In the Community of twelve, however the average size is only 9 ha, since there are very considerable differences from one Member State to another. Whereas farmers in Greece and Portugal have less than 5 ha on average, their counterparts in the United Kingdom are farming on 65 ha.1

The drift from the land has led to a considerable fall in the number of farms and thus to an increase in the size and degree of specialization of existing structures.

Table 2.1 shows that Greece has the highest share (17%) in the agriculture sector, followed by Ireland (14%) and Portugal (10%) in the composition of GDP in 1986.

(d) **Industry & Services**: Compared with agriculture’s contribution in GDP of the Community, 3.4% in 1986, manufacturing industry contributed 36.5% and service industry 60.1%. Looked at another way in terms of people employed, this picture of the relative importance of industry is again confirmed. Compared with agriculture’s 9.9 million workers, manufacturing industry employed 40 million and service industry

1. Ibid.
75.9 million. Even in countries like Greece and Ireland, where agriculture is of considerable importance to the economy, the numbers employed in industry far exceed those employed in agriculture.¹

Table 2.1 shows that in the industrial sector, Ireland has the highest share (45%), followed by U.K. (43%) and FRG (40%) in the composition of GDP in 1986 and in case of service sector, Denmark has the highest share (66%) followed by Belgium (64%) and France (63%) in composition of GDP in 1986. While possessing a large agriculture sector the Community is thus heavily industrialized also.

INTERNATIONAL TRADE STRUCTURE: International trade is important for the Community for two reasons. First, trade brings many of the raw materials on which industry depends. The Community is far from being self-sufficient in a whole range of commodities vital to industry. To name but a few, it is heavily reliant on outside sources for petroleum products, gold, diamonds, tin, lead, mercury and bauxite while there are of course, a whole range of agriculture commodities for industrial use which for a variety of reasons are not produced commercially in the Community—cotton, cocoa, vegetable oils and rubber, to name but a few.

Second, trade is important because a large percentage of the output of Community industry is sold overseas. The European market is too small to absorb all industrial output.

This importance of trade can quickly be seen if reference is made to statistics. In 1987, Community exports represented 20.4% of world exports compared with the U.S.A. 13.2% and Japan’s 12.1%. So the Community is the world’s leading trader.1

Table 2.2 shows the import and export structure of EEC in 1986. It is seen from the Table that FRG has the highest share in the total exports of the Community, followed

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<tbody>
<tr>
<td></td>
<td>Fuels &amp; Minerals</td>
<td>Primary Commodities</td>
<td>Manuf. machinery &amp; Transport equipment</td>
<td>Food</td>
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<td>106,929</td>
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<td>5,648</td>
<td>11,350</td>
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</table>


Note: In this table, data on Luxembourg could not be provided because of lack of data.
by France, U.K., Italy & Netherlands in 1986. If we analyse the major items of export structure, then FRG again has the highest share in exporting manufacturing machinery and transport equipment (89%), followed by Italy (88%), Belgium and Portugal (80%) and U.K. & France (76%). In the exports of primary commodities, Denmark has the highest share (36%), followed by Greece (35%), Ireland (28%) and Netherlands (25%) and in exports of fuels and minerals, Netherlands, has recorded the highest share (18%), followed by Greece (14%) and U.K. (15%) in 1986.

It is also seen from the Table 2.2 that France has the highest share in the total imports of the Community, followed by U.K. and FRG. Ireland has the highest share in importing the manufacturing machinery and transport equipment, Spain has recorded a highest share in importing fuels and other primary commodities and Greece has recorded the highest share in importing the food products in 1986.
SECTION - IV
EUROPEAN ECONOMIC COMMUNITY - 1992

This section refers to the features of the European Unification Programme in 1992 and the major implications of this programme on EEC.

(A) FEATURES
(a) EEC 1992 is a programme of action for achieving total economic unification of the 12 Member States by the end of 1992. The concept is not a new one. It was very much enshrined in the Treaty of Rome, 1957. The Treaty specified that "the Community shall have as its task, by establishing a common market and progressively approximating the economic policies of the Member States, to promote throughout the Community a harmonious development of economic activities." ¹

(b) However, the progress towards a total harmonisation could not be maintained in adequate measure on account of a number of factors and primarily the difficult world economic situation during the 70s. As

has been evaluated by the EEC Commission, "at the moment the Member States remain largely 12 separate markets ranging in size from 3.7 lakhs people in Luxembourg to over 60 million in Germany".1

(c) It was in 1985 that the Heads of Member States asked the Commission to put forward concrete proposals to achieve the objective of economic unification by 1992. The Commission published a White Paper in June 1985, setting out the necessary programme and a timetable for action. The White Paper indentified all the existing physical, technical and fiscal barriers, which justify the existence of frontier controls and prevent free functioning of the market and formulated over 300 legislative proposals for removal of all barriers. It also outlined the consequences of removing the barriers and set out the follow up actions that would be necessary to ensure that the removal of barriers work in a coordinated way.

(d) The EC Commission, being determined to meet its commitments and produce the draft proposals within the laid down time scale, decided to complete the process of drafting all the White Paper proposals by the end of 1988 so that the same could be adopted and

1. Ibid.
implemented during the remaining 4 years.

A major landmark is the enactment of Single European Act in 1987 which has resulted in some major amendments to the original Treaties covering diverse subjects like economic and social cohesion, environment, institutional co-operation and political co-operation between the Member States. The Act provides for necessary market by 1992.

While it is not possible to elaborate all the barriers that will be removed, the following are some important features of the unification programme:

1. The Community nationals will not be stopped at the frontier for the purpose of immigration or tax. It has been decided to remove misleading "customs" signs from their mutual borders.

2. Earlier, for the purpose of movement of goods across the frontiers, as many as 70 forms were required to be filled up. Since 1 January 1988, the majority of these forms have been replaced by a single form called "Single Administrative Document". This has helped in saving time and money for companies and transporters and made the procedures easier. Substantial progress has also been made towards unification of essentially duplicate checks applied on the export of goods from one Member State to another.
There are frontier controls relating to application of quotas on the international trade agreements, textiles under MFA for instance. Such controls are also to be removed. Further, it has been decided to bring to an end the system of controls and countervailing duties which are affecting the trade of the common organisation.

There would be a harmonised health standard based on higher standard of health, so that there is no need for any restrictions on trade in items like agricultural and agro-based products.

The most significant aspect of the unification programme is the removal of all technical barriers, resulting from different product regulations and standards like safety standards, health or environmental standards, standards for consumer protection etc. These have significant implications on production technologies and product standards for the Member States. To give one example, a car manufacturer in France manufactures cars according to technical standards prevailing in his country. He cannot sell his car in the British market without conforming to the British regulations. Same is the case with almost all consumer durables. British chocolate cannot be sold in the other states because
they use a different definition of chocolate. Different national production standards and regulations mean that many products are separately manufactured to conform to standards for each separate country and these are often used as protection against competition from other Member States. It has been decided to eliminate these barriers through harmonisation of standards and regulations.

The Commission has launched an idea of a single system of mutual recognition applying to all higher educations which will allow practice of any vocation or profession in any of the Member States without any barrier.

The Commission has proposed directives to extend liberalisation to investments in short term securities, current and deposit account operations and financial loans and credits. The declaration of intent and procedure concerning the liberalisation of capital movements to and from Non-Member States and an uniform system for the provision of medium term financial support for individual Member States have been also proposed.

The programme also provides for free movement of services ranging from management consultancy, banking and insurance to transport, information technology
etc, which are playing an increasingly important role in the EEC economy.

(8) About investment opportunities the White Paper Programme points out that the industrial and commercial concerns operating in the large European market should be able to obtain finance Community-wide and the investors should be able to choose their investment opportunities all over the Community market.

(9) The Commission has put forward a comprehensive proposal for deregulating the operation of all modes of transport.

(10) Realising that the various legal, fiscal and administrative barriers should not create obstacles in operation of business across the frontiers, the Commission has pointed out the need for adopting a programme for harmonisation of the legal frameworks which will facilitate cross-border activities by the enterprises. It is expected that soon there would be harmonisation of company laws, national accounting laws etc. There may also be common rules on cross-frontier company margers. A Community framework for trade marks and patents, and copyright law, industrial and intellectual property laws etc, are also expected soon.
Finally, Commission has proposed an approximation of the indirect tax rates operating in the Community, aimed at reducing tax induced price differences. For instance, for VAT the proposal is for a two-rate system, a standard rate for most goods and services and a reduced rate for basic necessities with the Member States free to determine rates within a range of 14-20% for the standard rate and 4-9% for the reduced rate.
(B) IMPLICATIONS OF THE UNIFICATION PROGRAMME FOR EEC

The need for unified EEC market was left ever since the inception of the EEC but total unification could not be achieved due to a number of factors. In the absence of total unification, the EEC economy has suffered considerable losses and the overall growth rate of EEC has been lower than that of USA and Japan. During 1987, for instance, EEC’s GDP growth rate was 2.8% against 3.6% the USA and 4.3% in Japan. Individually, the economies of the Member States are far behind those of USA and Japan.\(^1\)

It has been also observed that lack of standardisation and harmonisation has proved to be extremely costly not only for the EEC but for all the Member States individually. This has been responsible for high rate of inflation, unemployment and slower economic recovery. Studies show that:\(^2\)

(a) Border formalities resulted in an annual loss of about ECU 12 billion (US $ 13.2 billion) for the Community, losses accruing to the firms and consumers in terms of higher costs on account of multiplicity of national standards and technical regulations are

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2. Ibid.
respectively, ECU 40 billion (US $ 44 billion) and ECU 50 billion (US $ 55 billion) per annum. Costs borne by the taxpayers on account of protection being given to national firms by public authorities is as much as ECU 40 billion per annum and on account of limited size of the national markets costs of production of firms goes up by ECU 10 billion (US $ 11 billion) a year.

(b) It may also be mentioned that there are costs due to wastage and duplication of efforts in R&D. One has also to take into account the loss of efficiency on the part of the firms and consequent loss of potential output, employment etc.

It thus observed that separation of the economies is highly detrimental not only for the entrepreneurs and consumers but also for the Community as a whole. It affects the competitiveness of enterprises in the Member States.

One can easily imagine that the total economic unification will result in elimination of such high costs and the resources, to be saved as a result, can be deployed for the purpose of increasing competitiveness of firms, increasing the purchasing power of the consumers and so on. On the other hand, it has been estimated that total potential economic
gain to the Community as a whole as a result of total unification would be in the region of ECU 200 billion or more in 1988 prices, which would add about 5% to the Community’s GDP. Economic integration, it has been observed, will deflate consumer prices by an average of 6% and will boost output, employment and living standards. Total savings from abolition on administrative formalities and border controls is estimated at 13 - 24 billion ECU and that from opening up of public procurement markets about 17 billion ECU. Savings from increasing the scale of production of manufactured goods are estimated at 2% of GDP. Labour market will gain considerably, as 2-5 million new jobs are likely to be created.

Chart 2.5 highlights the 10 commandments of EEC unification programme in 1992.
1. Twelve nations will become a single market of 341.5 million people. The frontiers that divide the Member States will disappear. There will be complete freedom of movement throughout all the Member States which will form a Single European Market.

2. Trading procedures will be simplified; there will be no customs hold-ups at borders. So goods will be speeded through -- greatly reducing transport costs by eliminating hours spent awaiting clearance and completing documents.

3. There will be common commercial laws -- making it attractive to form Europe-wide companies and start joint ventures. These will be able to compete on a global scale with enterprises in the United States and Japan.

4. Increased use of European currency (ECU) will develop a single unit of account and gradually standardise procedures for financial control.
5. Technical standards will be brought into line so it will be possible to design products to be sold from Copenhagen to Rome or Athens or Oxford. Product tests and certification will be agreed across the whole European market.

6. Engineers, accountants, medical practitioners, teachers and other professionals will be able to practice throughout Europe. This will lay the foundations of further integration for succeeding generations of young people to contribute their skills and pursue their life opportunities.

7. The educational system will broaden and deepen knowledge through exchange of peoples, students and teachers supported by greater co-operation between scientific and cultural institutions.

8. Capital and financial regulations will work in favour of enterprises and will help in creating millions of new jobs in the Member States.

9. Public contracts to supply equipment and services to local government, nationalised companies and the other state organisations will be open to tenders across
People will have more freedom. Their rights will be multiplied to include 12 countries in a Single European Market. People will have greater choice. There will be an altogether bigger world for themselves and their families.

Source: Compiled from data available from various publications of Commission of the European Communities, Directorate - General for External Relations, Brussels, Belgium.
Thus this chapter has outlined the historical background of the formation of EEC and the subsequent developments. It highlighted the objectives of the formation of EEC like: free movement of goods, free movement of capital, free movement of labour, free movement of enterprises, harmonization of internal conditions and unification of external relations among the member countries of EEC. The growth and the success of the EEC has been due to the establishment and operation of a number of institutions like: the European Commission, the Council of Ministers, the Court of Justice, the European Parliament, the Economic and Social Committee and the Advisory Committees, the Budget and the Court of Auditors and the European Investment Bank. This chapter also discussed some physical characteristics of the EEC like: geography and climate, population, transport, wealth, unemployment, agriculture, industry and services and international trade structure. This chapter has also highlighted the features and major implications of European Unification Programme in 1992.