NETHERLANDS SCIENTIFIC COUNCIL FOR GOVERNMENT POLICY

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THE UNFINISHED EUROPEAN INTEGRATION

Summary of the Report to the Government

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The Hague
june 1986

1. GENERAL

This report focuses on the need to complete the stagnating process of European economic integration by finishing the internal market for industrial products and services and by a reorientation of the Common Agricultural Policy (CAP). Such progress is essential if the Community is to withstand the threat posed by structural changes at world level, especially the competition to which it is exposed from the United States, Japan and the newly industrialized countries.

As discussed in chapter 1, the capacity to conduct national economic policies has been eroded by the unfinished state of market integration, a "leakage" effect for which the Community has so far been unable to compensate. On the assumption that there will be no appreciable decline in the need for government intervention over the next few years, and that the continuing completion of the internal market will further undermine the capacity of the Member States to conduct independent policies, enlargement of the Community's policy-making capacity in the coming years will continue to demand major attention.

This report accordingly deals with two aspects of the integration process: "negative" integration (meaning the elimination of national barriers towards the introduction of a single, unified market) and "positive" integration (i.e. the implementation of common or Community co-ordinated policies). These two aspects are inextricably linked in the sense that where national governments pursue policies, negative integration will always have to be closely followed by more or less far-reaching forms of positive integration. When (as at present) negative and positive integration are

inadequately co-ordinated, integration "deficits" arise that disrupt the functioning of the common market and limit the effectiveness of official policies (both communal and national) within the Community.

Deficits also arise in relation to national policies outside the acquis or actual areas of integration. The marked increase in government responsibilities over the past thirty years and the associated rise in the level of government intervention have brought the problem of co-ordination into the focus of attention, both with respect to interventions by the Member States and as regards the macro-economic and monetary policies complementing the introduction of the common market. This problem has been accentuated by the successive enlargements of the Community. With the greater number of national administrations intervening in the unfinished common market, the risk increases that the results of market processes and the effects of national government policies will cut across one another, with losses in effectiveness at both Community and national level.

This report has sought to identify solutions that are consistent with the particular nature of individual areas of policy and also politically realistic and feasible. The complexity of the phenomenon of uncompleted integration renders it pointless to look for single, all-embracing solutions. Thus progress may be made in some areas by delegating greater powers from the Council of Ministers to the European Commission, while in others closer co-operation between Member States will be the most feasible course. Solutions along the lines of "differentiation", "differentiated integration" and a "two-tier" Community, which could in certain circumstances contribute towards the completion of the process of integration, need similarly to be viewed in this light. The conditions under which solutions of this kind would be acceptable are spelled out in the relevant sections.

Chapter 2 examines the possibilities and margins for solutions to the problem. It is noted that the views in the Member States on the ultimate objectives of the integration process diverge markedly and that their involvement in the process differs according to the extent to which the domestic economy is integrated into the common market.

New Member States are, therefore, sometimes more cautious about progress towards integration than the older ones. This is possible provided the current achievements of the integration process are not undermined and the possibility is left open for these Member States initially lagging behind to catch up at a later stage. The chapter also examines limitations connected with the origins, composition and institutional structure of the Community, and concludes with a review of the theoretical possibilities for reducing the co-ordination deficits noted in chapter 1, given the margins within which the integration process has to take place.

The problem of the unfinished integration has been tackled in relation to two main aspects: the market for industrial products (and, in conjunction with this, the market for services) and the market for agricultural products. This choice has been prompted by the experience gained in these fields in the integration process and by the central place that these subjects occupy in the problem of European integration and their importance for the Netherlands.

Chapter 3 examines the problem of unfinished integration in relation to these two areas. The importance is stressed of achieving a large, homogeneous home market for industrial products for Western Europe as a whole and for the Netherlands in particular. A summary of the major obstacles to this process is followed by a brief account of the differences in industrial strategy in the Member States and the obstacles arising as a result. Agricultural policy is discussed in terms of three problems: surpluses and the associated financing problems; marginal areas; and environmental problems. In these respects it is evident that the necessary reorientation of the CAP must take the situation as it has evolved as its starting point, both for Western Europe in general and the Netherlands in particular. The divergent views in the Member States about the future of the CAP indicate, however, that such a reorientation will not be an easy matter.

Chapters 4 and 5 discuss strategies for dealing with the problem of the common market for industrial products and that for agricultural products. Finally a number of institutional aspects are examined in chapter 6.

The principal conclusions and recommendations are outlined below.

2. THE COMMON MARKET FOR INDUSTRIAL PRODUCTS

In chapter 4, the WRR reaches the following conclusions:

a. The Commission's ideas in its White Paper of 1985 on the completion of the internal market are substantively consistent. The Commission devotes too little attention, however, to the implications of rapid completion of the internal market for the geographical distribution of economic activities within the Community and to the consequences this would have for national powers. With respect to certain important aspects - such as fiscal approximation - second or third-best solutions will probably have to suffice, such as permitting the differentiation (i.e. different speeds) of integration, and leaving certain powers with the Member States.

b. The timely implementation of the measures required for the further realization of the internal market and effective management of the integration achieved to date require abandonment of the unanimity principle in decision-making by the Council of Ministers and comprehensive delegation of regulative executive powers to the Commission.

c. The internal market for industrial products will be unable to function properly until freedom of establishment and free movement of services within the Community have been brought about. Particular attention needs to be paid in this respect to a (liberalizing) common transport policy.

d. An internal market for industrial products will require the further unification of the common commercial policy, the strengthening and broadening of the common competition policy, and improved co-ordination by the Member States of their national industrial policies. Such developments need to be set in the framework of stricter co-ordination by the Member States of their macro-economic and monetary policies.

In the light of these conclusions the WRR makes the following recommendations:

2.1 Freedom of movement

a. Technical and administrative trade barriers

The necessary steps towards harmonization should be confined to laying down basic qualitative norms. With respect to regulations outside the field of safety, health and the environment, the reciprocal recognition of national standards, based on minimum qualitative standards at Community level, will suffice. Decisions by the Council of Ministers should be confined to broad political directives, with the harmonization of national regulations being delegated to a greater extent to the European Commission. The Commission should as such be accorded greater supervisory powers with respect to the enforcement of Community regulations at national level.

b. Fiscal barriers

Second-best solutions in the form of differentiation in time will have to be accepted here; longer transitional periods will be required, especially for the more recent members of the Community. Differentiation need not, however, extend to all harmonization proposals by the Commission. The Member States that have introduced VAT systems could, for example, all be subjected to the standstill principle with respect to the structure and level of taxes.

c. Exchange controls

It is not possible for the existing exchange restrictions to be lifted within the present structure of powers within the EC. The initiative will need to be taken primarily by the Member States themselves. The mutual co-ordination of macro-economic and monetary policies can be encouraged but not enforced by the Community.

d. Commercial policy restrictions

If priority is to be assigned to the completion of the internal market, the Community will not be permitted to

introduce any further commercial policy measures the nature or content of which would interfere with that process. In addition the common commercial policy will have to be expanded to take new forms, such as the so-called technical co-operation agreements with Eastern bloc countries. Greater efforts will have to be made to ensure that the substance of agreements with third countries is not at variance with Community interests, such as the unity of the internal market. The elimination of commercial policy restrictions in intra-Community traffic will require greater executive centralization of the de jure powers already possessed by the Community. The completion of the internal market will require greater restraint on the part of the Commission in applying the safeguard provisions under Article 115 EEC. A certain amount of differentiation over time for the new Member States will, however, be difficult to avoid.

e. Public procurement

The enhancement of market transparency requires the comprehensive harmonization of national regulations on government purchases and contracts. The Commission needs greater supervisory powers over the activities of national bodies, while national policies in the field of public procurement should be more closely tied to the Community's substantive anti-discrimination provisions. There is no scope for policy differentiation in this field.

f. Barriers to the movement of services

Banking and insurance services need to be liberalized by the reciprocal recognition of national standards for the admission and operating procedures of such institutions and the mutual recognition of national administrative controls over their policies. In the case of the liberal professions, national restrictions on the right of establishment should be eliminated. Disparities in national legislation with respect to cross-border traffic in information-technology services should be avoided.

g. The common transport market

Given the differences in national attitudes, the proposed solutions are necessarily limited in nature. The common transport policy will be more concerned with standardizing the qualitative and financial framework than with influencing the range of transport facilities in a quantitative sense. In view of the fact that intensive market regulation of transport would over-tax the policy and decision-making capacity of the Community, far-reaching liberalization is the obvious choice.

2.2 Supporting Community policies

In this area the WRR reaches the following conclusions:

a. With respect to the various forms of secondary support policies - the common commercial policy, competition policy and industrial and technology policy - the completion of the internal market will generally require either the further communalization of policies hitherto conducted at national level or stricter co-ordination by the Community of national action. Each further stage towards the completion of the internal market will impose more stringent legal limitations on national intervention or will render such intervention ineffective.

b. Even the minimally required second or third-best solutions most acceptable to the Member States will require considerable shifts in the structure of powers within the Community. The resultant policy-making burden will again require the abandonment of the unanimity principle in the Council and the comprehensive delegation of powers to the Commission.

On the basis of these considerations, the following recommendations are made:

2.2.1 Commercial policy

a. Community commercial policy will need to respect the liberalizing commitments undertaken under the GATT and to exert pressure on third countries to observe those

commitments. In this respect the so-called new commercial policy instrument of the European Commission can be used to further leading industrial policy objectives.

b. In view of the fact that the frequent resort to anti-dumping and anti-subsidy regulations can lead to a highly complex, unfathomable set of import tariffs and restrictions, the Community will have to exercise restraint, especially with respect to third country signatories to the GATT.

c. The further communalization of commercial policy does not lend itself to differentiated application.

2.2.2 Competition policy

a. As progress is made towards completing the internal market for industrial products, services and factors of production and a common commercial policy, the harmonization and reduction of official regulation will have to go hand in hand as the common commercial policy is extended. The solution here lies in the stricter exercise of powers which the Community in fact already possesses but which it has not so far exploited adequately.

b. Restraint should be exercised with respect to introducing quantitative restrictions on the right of establishment at national level.

c. Stricter application of the state aids prohibition is required with respect to specific distortions. Apart from a few transparent constructions, national state aids should be declared incompatible with the provisions of the EEC Treaty. The Commission could ease its supervisory burden by attaching a maximum period to each exception that it approves. Greater attention needs to be paid to creating a Community policy framework in which national state aids notified to the Commission could be appraised and incorporated.

d. Integration, when the Community assumes the policies and policy instruments of the Member States, is advisable only where the policies in question can be conducted at Community level alone (e.g. certain aspects of technology policy).

e. The Community and the Member States will need to devise a medium-term legislative strategy directed towards the co-existence of Community and national legislative powers in the same areas of policy. (The three elements that such a strategy would need to cover are discussed in section 4.3.3.4.)

2.2.3 Industrial and technological policy

a. In improving the physical, technological and scientific infrastructure, collaboration between the Member States most directly concerned can lead to limited solutions, which the remaining Member States can join at a later stage. The Commission's main task in this area will be a supervisory one.

b. The services of national technological and scientific research institutions should be available to enterprises throughout the Community on the same conditions.

c. The Community will itself need to encourage the establishment of leading research centres, e.g. by the provision of finance. Collaborative arrangements between European universities should also be encouraged.

d. The Community agencies should develop a common science policy, with responsibility for overall management being assigned to an independent body at Community level.

e. The success of the Community programmes (Esprit, Brite and Race) in stimulating technological innovation in industry deserves to be built upon. The Council of Ministers will need to confine itself to the overall determination of the general objectives and resources of the various programmes. Organizationally, the Commission should make the industrial programmes self-reliant in a managerial sense and make provision for the input of independent experts in decision-making.

f. Government support for the research and development of new technologies and products should be assessed equally as critically as other forms of state aid. In both quantitative and qualitative terms, the Council and Commission could narrow the margins for offensive national state aids. Co-operation between the Community and the Member States in "large" projects would be building on the start made by Esprit, Brite and Race.

g. The EEC Treaty and Community law permit collaboration between two or more Member States to stimulate technological developments (such as Eureka, Cern and Airbus) provided these projects are opened up to enterprises throughout the Community and non-participating Member States can affiliate themselves to the project.

h. It is most important that the wave of legislation which developments in the field of information theory are likely to stimulate should be guided into Community channels.

i. By way of support for industrial policy, new approaches will have to be devised at Community level toward, among other things, the formulation and elaboration of regulations for goods and services; the operation of the money and capital markets; the protection of the environment against adverse external effects of production and consumption; and aspects of company law.

j. Innovation needs to be encouraged in the private sector. Most of the relevant powers are at national level, and the Community's role can be confined to advice and information. Governments can promote the introduction of new products and services by the timely provision of appropriate physical infrastructure, hardware, service facilities and information activities, and by setting competitive charges.

3. THE COMMON AGRICULTURAL POLICY

The CAP is examined in chapter 5 in relation to the problems faced by agriculture in the Community. It is argued that the current agricultural policy relies excessively on the price-fixing mechanism to achieve both market equilibrium and an acceptable level of income for the agricultural community. Taken together with technical progress, which means that increasing yields can be produced more and more cheaply, a large production surplus has been generated, which the all but stagnant level of demand in the Community holds out no hope of absorbing in the longer term. These surpluses have to be disposed of at great expense, partly on the world market, resulting not just in a waste of resources

but also in major conflicts with other agricultural exporters.

In contrast to agricultural policy, agricultural structure policy has remained in national hands. The cost of national structure policies is, therefore, passed on to the Community, with no built-in incentives for restraint.

Following a discussion of the respective advantages and disadvantages of market-oriented policies and quantitative restrictions, it is argued that the scope for quota arrangements in the Community is subject to tight political constraints, and that such a system would in any case not solve the central problems of agricultural policy over the longer term. The Community's decision-making mechanism would be over-taxed and the integrated internal market placed in jeopardy.

As a solution, the WRR recommends a reorientation in the form of a more market-oriented agricultural policy, with a general reduction in prices towards world levels, together with the development and funding of new instruments to help the poorer agricultural areas in the Community. Only in this way can the unity of and freedom in the market be preserved while at the same time enabling agriculture to fulfil its functions in terms of countryside protection, nature conservation and environmental protection.

A reduction in agricultural intervention prices in line with or close to world levels would be justifiable for the central agricultural areas since the Community price level has so far been largely geared to producers operating under marginal conditions. A cut in prices on this scale would, however, need to take at least ten years for farmers to be able to adjust adequately to the changed circumstances. The resultant squeeze on rural incomes will necessarily lead to an accelerated decline in the number of farmers. With the continuing increase in yields per hectare and the decline in land prices and rents, the cut in production will create room for other forms of land-use - for which the greatest demand exists in the central, densely-populated areas of Europe.

A drastic cut in prices would have unacceptable consequences for both the less prosperous agricultural areas with structural growth potential and the genuinely marginal areas lacking real prospects. This impact will have to be compensated for by a set of supporting measures. In areas with development potential, these measures could relate to improvements in land-use and associated infrastructural improvements, provided that this leads to enterprises that would remain viable under more market-oriented agricultural policies. This requirement calls for great restraint, particularly since every expansion in agricultural capacity will aggravate the adjustment problems in the central and traditionally more prosperous agricultural areas. In so far as expansion leads to a more balanced geographical distribution of production capacity within the Community this is, however, the price that will have to be paid for keeping the market open and preserving the development potential of agriculture in the central regions. In return for Community co-financing, the EC would need to exercise the powers it has to curb national support for agriculture by means of structural-improvement measures.

Broadly in line with the Commission's Green Paper, the following compensatory measures for genuinely marginal areas are proposed:

a. Safeguarding a certain productive capacity by means of a degressive subsidy per production unit for enterprises that have undertaken investment in the past and are potentially viable.
b. Buying-out regulations to enable marginal areas to be used for nature reserves, landscape parks, recreation areas, extensive grazing and forestry.
c. Regulations designed to keep lands in production for nature and countryside conservation. This would not be so much a matter of maintaining traditional agricultural practices (the capacity of which to achieve the aims in question is open to doubt) but of elaborating more specialized policies to stimulate the development of new methods to promote these enduring values.
d. The provision of incentives for the cultivation of crops that do not add seriously to the problem of surpluses.

These might include agricultural products that cannot be produced under advanced technological conditions, such as "craft" and "natural" products.

e. Tapering individual income support to supplement national measures to compensate for the social impact of enforced farm closures.

These measures would be able to reduce the problems created for marginal areas by a more market-oriented policy but would be no more able to solve them than the current price policy. The problem should, accordingly, be dealt with in a broader framework than that of agricultural policy alone by the promotion of an economic structure that would totally or partially replace the traditional agricultural structure. Supplementary Community programmes to improve the infrastructure, for the training or re-training of the working population, and for the provision of the facilities required for the new sorts of activities would form important elements in such a strategy.

In order to smooth out excessive short-term fluctuations, a certain amount of buffering in the form of levies and restitutions at the external border would remain necessary under a more market-oriented policy. A buffered price level will, however, need to reflect the average world price so that the equilibrium between import levies and restitutions is not permanently disrupted, with all the consequences this would have for the Community budget and international relations.

In order to keep the internal market open for goods and services, the more prosperous Member States - including the Netherlands - have a particular interest in freeing the CAP from its present political isolation. The financial resources required for this purpose could largely come out of the present EC budget. As it is, the cost of disposing of surpluses amounts to nearly 15 per cent of the value of agricultural production in the Community, whereas only 1.5 per cent of this contributes (through artificially high prices) to the maintenance of what are even so barely acceptable living standards in the marginal areas of the Community.

4. INSTITUTIONAL PROBLEMS

4.1 Community institutions

In section 1 of chapter 6 the institutional problems of the Community are viewed as deriving from substantive issues. If the EC is to take the minimal steps required for completing the internal market and reforming the CAP, its decision-making capability will need to be substantially enhanced. This will mean that the unanimity principle for Council decision-making will have to be reviewed from area to area of policy and where appropriate abolished. In addition, policy powers will need to be delegated to the Commission on a much larger scale.

The proposals made along these lines in the Single Act of European Union would, if properly observed, effect some improvement, but would not fully satisfy the requirements for a minimal solution to the substantive problems.

In order to improve the democratic legitimation of Community policy, the European Parliament's supervisory powers over the Commission will need to be strengthened and expanded. As the Commission's powers increase - a not improbable development as progress is made towards finishing the internal market - the powers of the European Parliament will also carry greater substantive weight.

In a Community the political structure of which is characterized by tension between Community and national elements and which is consequently weak, the Court of Justice fulfils a key role. Progress towards integration requires strict respect on the part of the Member States for the Community legal order. It is therefore desirable for national legislatures to be kept systematically up to date with the jurisprudence of the Court of Justice, if possible with reasoned explanations of operative and draft legislation and regulations.

The Commission will have to approach the enforcement of Community law more systematically in terms of policy area, policy interest, anticipated (lack of) policy conformity and the consequences for the unity and functioning of the common market. There would be merit in giving the Commission the general powers to dispense with the

preliminary administrative stage and to appeal directly in the Court of Justice against national actions manifestly at variance with Community law.

4.2 The unfinished integration and the Netherlands

In section 6.2 a distinction is drawn between Dutch policy towards and within the Community.

With respect to Dutch policy towards the Community, the following links need to be borne in mind:

a. The link between positive and negative integration. Each step towards finishing the internal market involves a derogation from national capacity to act and therefore raises the question of the extent to which these losses need to be compensated for at Community level.

b. The link between substantive and institutional problems. The further completion of the internal market and the re-orientation of the CAP render an enlargement of the policy-forming and executive capacity of the Community essential, even if solutions are explored under which the allocation of powers between the Community and the Member States is changed as little as possible.

c. The link between the finishing of the internal market for industrial products and that for services and the reorientation of the CAP. In view of the divergent interests in the Member States in the markets for industrial products and services, the aim should be for the simultaneous realization of the internal market for both sectors. A liberalizing Community transport policy should be vigorously pursued. Because the prosperous industrial and agricultural areas often coincide or are in close location, particular account will have to be taken in any reform of the CAP of the poorer, generally peripheral areas. This means that in the Netherlands, too, the interests of industry, services (including transport) and agriculture will need to be approached as a cohesive whole.

The further completion of the internal market will have radical consequences in all sorts of areas for policies hitherto conducted at national level within the Community. To date, the various elements of the Dutch

government would appear insufficiently aware of the implications of the Community as a "fourth estate". Most ministerial departments lack the necessary expertise and tend to concentrate excessively on their own policy setting (i.e. intra- and inter-departmental consultations, contacts with representative organizations, consultations with the relevant standing Parliamentary committee). It would therefore be desirable for a review to be conducted of the policy implications for each area of government likely to be affected by the on-going process of integration. Such a survey could be compiled under the auspices of the co-ordinating committee for European Affairs (the departmental preparatory committee for the Cabinet sub-committee on European affairs), drawing as necessary on outside experts.

At the national political level the setting up of a Standing Parliamentary Committee on EC Affairs could have a beneficial effect on policy cohesion within the Community if it managed to encourage other Standing Parliamentary Committees concerned with policies in the specialist departments to take a more active interest in the Community context. As regards Dutch policy towards the Community, supervision of the dealings of Dutch ministers in Community agencies should remain confined to assessing their overall consistency. As the Danish example has shown, being strictly tied to Parliamentary decisions leads to immobility and deadlock: Dutch parliamentary democracy will have to acknowledge and accept its essential commitment to the Community framework.