

THE SINGLE MARKET OF THE EUROPEAN UNION, A PRE-CONDITION OF ECONOMIC AND SOCIAL COHESION

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Abstract: The establishment of a Single Market within the integrated space has represented an objective stated in the Treaty of Rome, gradually achieved, firstly as a Customs Union and then as the Economic and Monetary Union. The present paper tries to underline the evolution and impact of Single Market seen as a pre-condition of economic and social cohesion, on growth, competitiveness and employment at national and regional level, thus seeking to reduce disparities and generating convergence.

JEL classification: F02, F15

Key words: Single Market, economic and social cohesion, convergence

1. THE FIRST STAGE IN IMPLEMENTING THE SINGLE MARKET - THE CUSTOMS UNION

Internal Market cannot function properly if common rules applicable uniformly at the external borders of the EU are not defined. All of these rules form the Community customs policy, and their observance within the Community territory requires the Customs Union.

Defining the Customs Union requires evidence of two elements: the customs territory and trade policy. As a result, the Customs Union is a single customs territory of the European Union countries and a trade policy common towards third parties⁶⁶.

Treaty of Rome in Articles 23 to 31 did not define the customs union, but stated the measures to be taken to achieve it: import and export duties will be gradually, but completely removed, in trade between EU countries for industrial and agricultural products; quantitative restrictions and non-tariff barriers will be completely, but gradually removed in trade with member countries; establishing a common tax system among member countries; establishment of common rules for the conduct of competition between Member States; development and establishment of a common trade policy towards countries outside the Community.

Customs Union implies, therefore, economic integration without restriction in the Community, a common customs tariff, trade policy towards third parties and absence of customs borders between countries.

⁶⁶ Pirvu Gheorghe, *Politicile Uniunii Europene*, Editura Universitaria, Craiova, 2010, p.7-22.

Creating the customs union had to lead to several objectives of economic integration⁶⁷: promoting fair trade; encouraging world trade; increasing the attractiveness of the EU for foreign investors; protection of Community enterprises in sectors with imports and exports, domestic market protection providing maximum benefits for each member; generalizing a common system of collecting budget revenues (customs duty, VAT, excise duties); contributing to the creation of new jobs; preparing future candidate countries to facilitate their rapid integration in the internal market.

Operation of Community customs union involves, according to the Treaty of Rome: adoption of the Common Customs Tariff; harmonization of national customs laws; abolition of fiscal frontiers and development of common rules on competition. Development of common customs tariff required compliance with the General Agreement on Tariffs and Trade - GATT, according to which "*customs tariff in customs union cannot create additional protective measures against existing tariffs in member states*". Treaty came up with the solution: duties of the new common customs tariff will be determined by the arithmetic mean of the duties of the member countries. Thus, each wave of EU enlargement made it necessary to establish a new customs tariff, in accordance with this method of calculation.

The functioning of the common customs tariff imposed harmonization of national customs laws which led to the adoption of the Single European Act, stipulating the elaboration of a common classification of goods called "*Combined Nomenclature*" where goods had a new classification and introduced a new common customs document, "*the Single Administrative Document*", which replaced the national customs documents.

Some fundamental elements to the creation of customs union and single internal market were considered to be free competition and market confidence in regulatory force. However, the size of internal market have created new difficulties in managing competition which required the adoption of new rules on competition, rules ensuring that the requirements of fair competition on the market will not be distorted. These rules were institutionalized by deepening EU competition policy, policy that is an exclusive component of the Union, managed jointly by the community institutions at supranational level and national authorities (Competition Council) at national level to ensure an adequate level of competition, avoiding market monopolization and abuse of dominant power from big monopolies.

The creation of customs union was completed in 1968, when all customs duties at internal borders and all quantitative restrictions and tariffs between member countries were eliminated and Common Customs Tariff was introduced for trade with third countries.

⁶⁷ Profiroiu M., Profiroiu A., Popescu, I., *Instituții și politici europene*, Editura Economică, București, p.543; Pîrvu Gheorghe, Lolescu Elena, Ramona Pîrvu, Anca Tănăsie, *Economie europeană*, Editura Universitaria, Craiova, 2011, p.29.

Community dimension of the internal market and national interests generated difficulties in applying the common rules which required a set of measures to strengthen customs policy, embodied in a Consolidation Programme, *Customs 2002*.

The Programme specified new tasks of internal and border customs, how to stop fraud under suppression of internal borders, computerization of customs procedures, enhancing cooperation in customs matters between Member States and seminars to identify and disseminate good practices.

2. PRINCIPLES AND ADVANTAGES OF CREATING THE SINGLE INTERNAL MARKET

Treaty of Rome stated that “economic union involves merging the national markets, to ensure not only free movement of goods within the community, but also services, capital and labor”, a process that was to be achieved within twelve years, to December 31, 1969.

Making the Customs Union in 1968 allowed only the liberalization of the movement of goods, other freedoms encountering difficulties in implementation due to the reluctance of member countries, given the outbreak of the economic downturn and rising unemployment.

The adoption of the Single European Act was the decisive moment which mobilized Member States to complete the creation of the internal market, which proposed a new mobilizing calendar: “the community will make all necessary arrangements to progressively achieve the single market during a period that will expire on December 31 1992”.

As some countries still expressed doubts regarding the single market in the EU Council, the Single European Act has changed the rules of decision-making from unanimity to qualified majority and introduced the cooperation procedure regarding the Single Market, between Parliament, Council and European Commission.

Strengthening the single market required the adoption of laws, rulings and decisions of the Community institutions to suppress physical obstacles, technical and fiscal developments that hindered economic integration: physical obstacles - customs controls on goods and people were abolished through better police cooperation, technical obstacles - recognition of the right of national goods to be sold on the market of any other Member State and fiscal obstacles - the elimination of customs duties on inner boundaries and harmonization of VAT.

Economic and political evolution of Community countries has increased the single internal market issues, which led to the intervention of the Community institutions to initiate a process of rethinking its role and moving to a new stage in the development process. Thus, analyses were undertaken, programs, resolutions and communications of the Community institutions were designed.

European Economic and Social Committee adopted a document *“Single Market Review”* in 2007, seeking to present advantages of internal market and obstacles to freedoms promoted inside the internal market.

Committee of the Regions, drafted, in 2007, a document *"Future of Single Market"* presenting priorities for single internal market development, especially from a social perspective.

The European Commission, in 2007, published a communication *"A Single Market for Citizens"* submitted to the European Council, assessing the future of the single market in the XXI century, proposing measures to increase efficiency, decentralization and to consolidate its response capacity to the challenges of globalization and to adapt to new economic and political realities⁶⁸.

In 2007, the European Parliament, based on the analysis undertaken by the European Commission, the European Economic and Social Committee and the Committee of the Regions adopted the document *"A Single Market for 21st Century Europe"* supports the revision of the single market in order to reposition it in Europe and world economy so as to promote social services of general interest, the EU economy to become the foundation of European competitiveness and promote a new vision for social policy in the European Union, to stimulate innovation and to help to maintain a high level in the fields of social protection and environmental protection.

The functioning of the single market should create an increasing freedom of movement in order to buy, work or live in another EU country than the origin for EU citizen, to benefit from greater opportunities and to consume goods and services at better prices offered by the market.

Businesses, on abroad market, have access to new national markets, can restructure and adapt production to new requirements and to compete with community and transnational partners.

Therefore, the single internal market justifies its existence and operation through *advantages* it creates for countries, businesses and individuals:

1. Community countries, which in their evolution have reached a certain specialization, while the Single Market suppress obstacles to economic exchanges, will produce what is efficient from their point of view. In such circumstances, there will be an increase of social productivity and, consequently, an increase of the standard of living. On the other hand, businesses are free from the constraints of international trade, and will produce cheaper, but more qualitative goods to withstand the competitive struggle.

2. Internal Market consolidates national markets and expands competition, attracts a large number of producers and consumers for people who benefit from a greater variety of goods at low prices, compared to narrow, domestic markets, where competition is restricted, only the prices are higher, and where administered or monopoly prices can be practiced, with negative consequences for consumers.

3. an internal market changes significantly demand, favoring producers who can achieve large scale production which will reduce production costs and prices.

⁶⁸ Totilca A., Bratu R. St., - *Young people and the labor market in Romania*, Annals of the University of Craiova, Economic Science Series, Publishing House Sitech Craiova, Year XLII, No: 42, 2014, vol. 1, page. 164 -171.

4. in a Single Market a redistribution of capital invested as a result of freedom of movement will be achieved, leading to an optimization of capital investment in the community. National constraints on export and import being eliminated, domestic production will be sized to the needs of the whole community, but also for export to third markets.

5. the free movement of capital will be accompanied by free movement of labor which will result in a rational and efficient use of labor. This will generate employment and work in such a way as to eliminate disparities between EU countries and a better wage system.

In conclusion, the creation of the single market is beneficial for both producers and consumers as it expands competition, liberalized market, the movement of capital and labor, reducing costs and putting pressure on prices, leading to maintain a high standard of living. Citizens, as consumers, have the possibility to choose goods and services based on quality and price, and businesses, as producers and suppliers, have access to new markets and national competition and will be forced to restructure their production according to the structure and size of demand.

3. THE ESTABLISHMENT OF FREEDOMS OF MOVEMENT WITHIN THE SINGLE MARKET

The content of the single internal market is given by the four freedoms of movement and the policies promoted by the European Commission and Member States to manage them.

Free movement of goods. Treaty of Rome considered the free movement of goods (Articles 24-31) as part of the content of the customs union and consisted in eliminating customs duties, quantitative restrictions on trade and establishing a single external tariff.

Setting Internal Market further required steps on the movement of goods, measures that aimed at removing all physical, technical and fiscal barriers so that goods move freely in an area without borders, like the inside of a national market.

Lisbon Treaty, in Title II, Article 28, referring to the movement of goods, states: *"the Union consists of a customs union which shall cover all trade in goods and involves the prohibition between Member States of customs duties on imports and exports and any charges having equivalent effect and the adoption of a common customs tariff in relations with third countries"*.

Consequently, the free movement of goods exists only when measures that restrict trade are removed, ie all protectionist measures, which requires harmonization and convergence of national customs policies, while the concepts of import and export cease to exist in relations between member countries.

Managing the free movement of goods by the Community and national policies did not eliminate the requirement of quality control of goods which does not benefit from liberalization. Quality control continues to be an obligation to comply with standards: safety regulations, technical standards, environmental standards and health products etc. (Article 36). Also, the need to respect the principles and rules of

competition is underlined, which prohibit agreements between companies leading to limit free movement of goods or to gain monopoly positions.

Being a part of the customs union, free movement of goods required the development of the common customs tariff that regulated trade relations with third countries and harmonization of national customs laws leading to convergence of national interests of the community states.

EU enlargement in Central and Eastern Europe has complicated the internal market functioning and imposed the adoption of new measures by the European Commission in order to achieve economic cohesion. To this end, in 2007 the European Commission adopted a Communication 35/2007 entitled "*The Internal Market for Goods: a Cornerstone for Europe's Competitiveness*" comprising a package of laws containing a number of initiatives on the development of the internal market and improving the free movement of goods, simplifying and modernizing internal market rules and principles and product safety rules.

Freedom to provide services is a reference point for the institutional internal market since 1986 and involves removing restrictions that limit freedom of movement and residence of the self-employed, employees and their families throughout the community. "*Restrictions on freedom to provide services within the Union are prohibited in respect of nationals of Member States who are established in a Member State other than that of the persons for whom the services are intended*"⁶⁹.

Institutionalization of free movement of services was made slower compared with achievements in other sectors, requiring additional regulations on the harmonization of the laws of the activities of transportation, banking and financial and tourism services and telecommunications.

As the single market consolidated, the Community institutions sought to harmonize national interests of Member Community regarding legal framework regulating the freedom to provide services, to eliminate obstacles to the freedom of establishment for service providers and the free movement of services between Member States, that is the liberalization of services in the European Union.

In this respect, the European Commission strengthened the basic Community legislation in the field of services through several directives that took into consideration: - Directive 71/1996 concerning the posting of workers in the framework of the provision of services; which can be done on their account or through a specialized body through an employer temporarily; - Directive 74/2003 concerning services for businesses, which makes an analysis of the role of services in the European economy in achieving economic cohesion and increasing competitiveness; - Directive 113/2004 on promoting the principle of equal treatment between men and women as regards access to service delivery and to establish compensation for services supplied; - Directive 123/2006 on services in the internal market ("*Bolkenstein Directive*"), known a new legal framework on establishment of service providers and the free

⁶⁹ Lisbon Treaty, 2013, chapter 3, art. 56.

movement of services between Member States, ie the enactment of services liberalization in the European Union.

Thus, a legal framework was created, allowing individuals to provide a service in a different Member State, to establish in the State where the service was provided, and the State of destination would have to ensure free access to services.

However, the possibility for Member States to restrict the freedom to provide services from another Member State is also stated, but limitations should be justified on grounds of public policy, public security, public health and food or environmental protection.

The Directive specifies the categories of services that can be provided on the free Community market and services not covered, with a country-specific national legislation:

1. services that can be provided on the free market: services of general economic interest (services providing electricity distribution, water supply, waste water management, waste treatment); business services (management consultancy, advertising); services provided to businesses and consumers (legal advice, real estate services, construction services, commercial distribution, organization of trade fairs); services to the population (tourism services, sports centers, amusement parks);

2. services not covered by the directive: health services, audiovisual services, social services, services provided by notaries, private security services, gambling and lottery services in the field of taxation, temporary work agencies services, public education.

The directive, through its imperative content, brings relevant detail regarding freedom of establishment; easing restrictions; application of country of origin principle which encourages service providers to provide activity without obligation of stability; mutual assistance between States to harmonize provisions on consumer protection, quality of services, the rights of providers etc.

The Lisbon Treaty has brought new specifications and regulations relating to services:

- it reaffirms the equal treatment of internal and external service providers by eliminating any discrimination based on nationality and requires the application of measures to facilitate the services *"the service provider may temporarily pursue his activity in the Member State where the service is provided under the same conditions as are imposed by the State on its own nationals"*;

- it redefines generally free movement services, ie those services normally provided for remuneration: *"are considered services normally provided for remuneration ... services that include in particular activities of an industrial and commercial character, activities of craftsmen, activities of the professions"*⁷⁰;

- it distinguishes between freedom of establishment, which is the possibility for a Member State enterprises or self-employed workers to settle in another Member State that is sustainable, and the freedom to provide services, which has a temporary

⁷⁰ Lisbon Treaty, chapter 3, *Services*, art 57-58.

character. Free movement of capital is an important component of the internal market, able to facilitate the development of countries and regions and to foster economic cohesion. Free movement of capital covers only those movements of capital in the financial operations linked to the investment of funds for economic activity, it does not include remuneration for services rendered which represents payments.

Therefore, the physical transfer of banknotes is not considered a capital movement, when it seeks to settle the payment obligation resulting from a transaction of goods or services or related to tourism or to commercial, educational travel, medical treatment, which represent payments.

Free movement of capital is motivated by the need to undertake investments in EU countries to contribute to harmonious and balanced development of economic activities, to approach the levels of development of regions and strengthen economic cohesion. As regards the objectives concerning liberalization of capital movements, the Lisbon Treaty states in Article 63, paragraph 1: "all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited". This includes removing all restrictions on capital movements, contribution of liberalization to strengthening the single market and foster economic process by promoting efficient investment in competition.

Community legislation stemming from the Treaty provisions sits at the base of liberalization of capital movements principles: effective removal of controls on capital movements to the origin or destination of capital; only residents have the right to freely carry out transactions of this type, not the citizens; freedom of movement does not to be accompanied by authorization; some general exceptions to this freedom arising from national policies for security and public order will, however, remain available. Since the free movement of capital is accompanied by the transfer of payments related to salaries for service, repatriation of profits, interest payments owed to the creditor, the Treaty provides measures to eliminate restrictions on payments between Member States and between Member States and third countries. "*All restrictions - it is stated in Article 63, paragraph 2 of the Treaty - on payments between Member States and between Member States and third countries shall be prohibited*".

Free movement of persons is closely linked to the free movement of goods, services and capital as suppliers, purchasers and capital investors.

Given its operation, it is no longer possible to exist internal borders that limit and restrict the free movement of persons. The content of this freedom changed its meaning over time, moving from free movement of persons as economic agents or employers or service providers, which has enabled labor mobility in the Community and in certain periods excess labor regulation, to a broader meaning, referring to all EU citizens, independent of any economic activity or nationality.

Amsterdam Treaty referring to the free movement of persons brought into Community legislation the concept of "freedom, security and justice zone " without checks of individuals, regardless of nationality and established common standards for checks at the external borders of the Union.

Lisbon Treaty, in Article 45, states: "*Freedom of movement for workers shall be secured within the Union. Such freedom of movement shall entail the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment*".

However, the Treaty states the coordinates of labor movement: - to accept offers of employment actually made; - to move freely within the territory of Member States for this purpose; - to stay in a Member State for the purpose of employment; - to remain in the territory of a Member State after having been employed in that State⁷¹.

There are also situations in which free movement is restricted: when one considers that the employment of persons who are not nationals of that State, even though they belong to an EU member state, is contrary to the legitimate interest of the State and for reasons of public order, public security or public health.

As a result of harmonizing national interests and convergence of economic and social policies, the free movement of persons is accompanied by measures of social security measures established by regulation aimed at coordination of social security schemes so that national treatment can be applied to workers from other states in the Union, which allows these workers to obtain social benefits. This makes the Member State to apply the law to foreign persons employed within its territory.

Free movement of persons experienced a significant improvement of mobility management mechanisms of EU citizens with the creation of the area of freedom, security and justice as a result of the Schengen agreement. The Schengen Agreement is a form of enhanced cooperation, participating States removing internal border controls and creating a single external border. Schengen area is the first case of differentiated integration in the field of free movement of persons. The Schengen Agreement sought to clarify to whom freedom of movement may apply: only to citizens of certain EU countries, to all EU citizens and to those outside the EU.

Ensuring freedom of movement within the Schengen area imposed a series of additional restrictive measures which implies greater cooperation between the police, customs, judicial, and measures to combat terrorism and organized crime⁷².

Among the EU countries the UK, Ireland, Romania⁷³, Bulgaria and Cyprus are outside the Schengen area. Though, Switzerland, Liechtenstein, Norway and Iceland are not members of the European Union, they are part of the Schengen area.

"Schengen area – it is stated in the Treaty of Lisbon, article 326–does not undermine the internal market or economic, social and territorial cohesion....does not constitute a barrier to or a discrimination in trade between Member States".

Within the Schengen area citizens from different countries feel more close to each other. A new sense of belonging of population to a new community was created.

⁷¹ Lisbon Treaty, 2007, art. 45, alin.3

⁷² Magda Crişan, *Spaţiul Schengen s-a născut la o bere*, (www.adevărul.ro), p.28-32.

⁷³ Totîlca A., Bratu R. St., - *Actions to reduce unemployment in Romania*, Annals of the University of Craiova, Economic Science Series, Publishing House Sitech Craiova, Year XLII, No: 42, 2014, vol. 1, page. 13 - 22.

4. CONCLUSIONS

Economic and political evolution of Community countries has increased the single internal market issues, which led to the intervention of the Community institutions to initiate a process of rethinking its role and moving to a new stage in the development process. Thus, analyses were undertaken, programs, resolutions and communications of the Community institutions were designed. The creation of the single market is beneficial for both producers and consumers as it expands competition, liberalized market, the movement of capital and labor, reducing costs and putting pressure on prices, leading to maintain a high standard of living. Citizens, as consumers, have the possibility to choose goods and services based on quality and price, and businesses, as producers and suppliers, have access to new markets and national competition and will be forced to restructure their production according to the structure and size of demand.

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