

***Rede anlässlich einer Japan-Reise im Juni 2005
mit dem Deutsch-Japanischen Zentrum vor dem
Japanese Press Club, Tokyo***

I. INTRODUCTION:

It is a pleasure for me to be here today.

I have been asked to speak about Europe's Internal Market one year after the enlargement of the European Union. But clearly, what we are all thinking about these days is the functioning of Europe – including its internal market – after the referenda and the failed council meeting.

I was personally saddened to witness how the ideal of free movement and free competition within and across borders in the European Union became a scapegoat particularly in the French referendum.

The debate between those who argue that the solution to economical depression is to close our borders and those who argue that long-term prosperity and peaceful coexistence go hand in hand with free competition and open borders is not new to the

European continent or my native country, Germany. There has been an ongoing struggle between these two ideological strands which have shaped the Europe we live in today. Every time Europe has chosen the avenue of protectionism and short-term narrow national interest, no one has benefited.

So, in my presentation, I will first give some historical background and examples to help us put the debate on the common market in perspective.

Thereafter, I will share my thoughts with you on the current crisis and make some suggestions as to possible solutions.

I should also point out that I use the terms single market, common market and internal market interchangeably.

II. HISTORICAL REVIEW

As I said the current debate is not new to European politics. In the 18th and 19th century Mercantilism was dominating the European economy with its separated trade and industries. The French Finance Minister

Jean Baptiste Colbert believed that the expansion of commerce and the maintenance of a favourable balance of trade was the key to state wealth. Obviously, this cannot work in the long run as it does not take into account the needs of other nations. although his approach came to be remarkably long lived.

Only a few politicians and intellectuals at that time believed in the advantages of a free trade in Europe. The German Confederation was perhaps the best symbol for Europe at large. Germany, in the heart of Europe, was divided into 39 contending kingdoms, principalities, dukedoms, bishoprics and free cities. Three different monetary systems existed side by side in the German states, and taxes and customs were paid at many borders, making trade difficult for the producers and products expensive for the consumers. Therefore, the creation of the German Customs Union in 1834 was a real breakthrough. In the long run, it was one of the driving forces behind German Unification in 1871. Europe, however, continued to function or rather not to function as a collection of protectionist, mercantilist countries in a divided continent. But even after the First World War, when

the first signs of political multilateralism could be seen in the League of Nations, and when Briand and Stresemann started small steps toward reconciliation between France and Germany, not even then did the countries muster the courage to open their borders to trade. This continued into the 1930s, at what time the German poet Kurt Tucholsky's – a socialist poet, mind you – summed it up in a poem named "Europe" (1932):

Excerpts:

Europe

The wines from the Rhine are good, they say-
but you cannot sell them in the UK-
Buy British!

The people from Vienna make great cakes and pies
which can't be sold under Swedish skies-
Köp svenska varor! (*Translation: Buy Swedish!*)

Oranges rot in Italy-
but we have to protect German farmers, see?
(...)

There lies Europe. What state is it in?
That of a garishly painted loony bin.

The nations indulge in a common sport:
Export! Export!

The Others! Let the others buy!

Let the others import our rye

Let the others rent our ships!

Let the others eat our chips!

We?

import licence and customs raid:

we won't let anything into our state.

Not us. We follow an ideal:

We hunger. But with national zeal.

(...)

The nation is the eighth sacrament-!

May God bless this continent.

That was Europe in the 20s and 30s of the past century and I need not tell you how that story continued. Europe fell into the abyss and lost its position as the cultural, economic and political heart of the world. Only now, against this backdrop, did European politicians take the courageous steps necessary to re-establish Europe as an area of wealth and culture, while clearly realizing that the political hegemony in the West had been assumed by the United States.

The first fruit of the new drive towards integration in Europe after the World War II was the creation of the European Coal and Steel Community in 1952. Five years later, in Rome, the six founder States of the European Economic Community (EEC) agreed to create between them a customs union and to launch a programme for the approximation of their national legislation. On 1 July 1968, 18 months before the end of the transition period laid down in the Treaty of Rome, the customs union became a reality with the disappearance of customs duties and quotas in intra-Community trade. And while all of this may sound very technical, it wasn't! Remember Tucholsky's poem about the consequences of protectionism and you can see that the common market is a historic achievement of the first order.

III. Crisis? What Crisis?

So where are we now? Jean-Claude Juncker, a devoted European and the president of the Council until this weekend was so frustrated with events last week, that he said the following: "It is said that Europe is in a crisis. That is not true. It is in a deep crisis." But is he right? Is Europe really in a state that would

justify such gloomy rhetoric? I don't think so. Europe hasn't always been on track. In the sixties, it was particularly bad. There was intense resistance to European construction on the part of the member states. In 1961, for example, a proposal creating a union whose objective was a common foreign and defence policy was defeated just as the French National Assembly had voted down the European Defense Community in 1954. But this crisis was nothing compared to the next one: As from July 1965, France boycotted the meetings of the Council over – well, you guessed it – the financing of the Common Agricultural Policy. Today, Europe's leaders are berating one another and throwing insults around in a very un-Japanese manner. But back then, France didn't even show up at the meetings to insult and be insulted!

The 1970s weren't much better. The end of the Bretton Woods system, the failure of the first attempt at economic and monetary union and the oil crises all dealt severe blows to the economies of the EEC Member States. These events put the brake on steady progress towards the single market and, at the beginning of the 1980s, the atmosphere was one of "euro-pessimism," even "euro-sclerosis."

For so far, the common market existed in law and in theory but not really in practice and political integration was progressing at a very slow pace indeed. Things started to look up only when Jacques Delors, arguably the greatest Commission President ever, took the initiative for the creation of a real Single European Market by 31 December 1992

I am sure that many here recall the symbolic year of 1992 and the enthusiasm that accompanied it. I remember vividly being in the US at the time as a graduate student and I recall the awe with which the Americans looked across the Atlantic. But even that year was overshadowed by three crises:

- Firstly, Europe went through a serious and deep economic downturn;**
- Secondly, there were serious monetary tensions challenging the European Monetary System and the objective of the economic and monetary union (EMU);**
- Thirdly, in the crisis of Yugoslavia war came back to our continent after many years of peace.**

In that context, it was remarkable that a major breakthrough for the finalization of the internal market

occurred with the signing of the Maastricht Treaty. establishing an area without internal borders for goods and services. Today, there is an ongoing process of improvement, which involves proper enforcement of the rules, making sure regulations are easy to understand and apply, and strengthening the Single Market in certain sectors.

IV. THE INTERNAL MARKET TODAY

That brings me to the challenges we face in the internal market of today. I would like to focus on the broad lines of what has been done by examining three of the four freedoms and then go on to what we need to do to maximise the Internal Market's effect for growth and competitiveness.

First, we need higher levels of growth in Europe - not for its own sake, but to sustain and enhance our quality of life and prosperity. The Internal Market is a means to this end.

The logic behind integrating markets is compelling. More competition spurs innovation. Companies that innovate and that have access to a large growing market create employment. Since the removal of our internal frontiers 13 years ago, the common market has created at least 2.5 million extra jobs and added

some €900 billion to our prosperity EU 15. That is nearly €6,000 per household on average.

1. Trade in goods

The principle of free movement of goods is one of the cornerstones of the internal market. Nevertheless it remained theory for decades. Technical harmonization of all different kinds of products took years.

Additionally, the free movement of goods was heavily affected by a growing number of restrictive measures set by Member States.

This was ended by the groundbreaking judgment delivered by the European Court of Justice in 1979 in the "Cassis de Dijon" case. It states that any product lawfully produced and marketed in one Member State must, in principle, be admitted to the market of any other Member State.

Opening up domestic markets is not only good economic policy. It is also good social policy. By increasing the quality and quantity of employment opportunities people of all social levels benefit. More competition accompanied by appropriate protection is also good for consumers who get more choice, better quality and usually lower prices. Everybody wins.

Take my own country as an example. Germany is largely dependant on exports. Last year 56 % of our total exports went to the EU15. A smaller country with an open economy like the Netherlands exports up to 77 %. Since the creation of the Internal Market, Germany's exports increased from 344 billion Euros in 1992 to 734 billion Euros in 2004. This is an increase of 113 %.

2 . Freedom of movement

Here, I bring you good news: Just recently a success story in the field of the freedom of movement in the Internal Market was achieved with the adoption of the new directive governing the recognition of professional qualifications in the EU.

As the Member of Parliament in charge within my political group, I am convinced that this Directive will open new opportunities for professionals migrating within our Internal Market. It will improve conditions of free movement and ensure a simpler management of the system. This is particularly important in view of the newly-enlarged EU.

One key element of the new Directive is the facilitation of temporary and occasional provision of services, in particular through easier formalities and through a

limitation of the prior check of qualifications to professions which have health or safety implications. The final result strikes a balance between the right to free movement of fully qualified professionals and the need to protect consumers.

A second element in this realm is the so-called Bologna Process which was launched in 1999. The Bologna process also aims more flexible programs to foster student mobility both across universities and disciplinary fields. It does so through a Europe-wide Credit Transfer System and is a drive to improve the quality of higher education and, in turn, human resources across Europe.

Taken together, the Bologna Process and the directive on the recognition of professional qualifications will play a key role in achieving greater freedom of movement for Europeans in the medium term.

4. Free movement of services

This brings us to the free movement of services. The undeniable successes of the single market must not blind us to its shortcomings. While remarkable progress was made in the field of the free movement of goods, the real challenge of today is integrating the services markets which constitute about 70% of our

GDP. There are still considerable differences between Member States in their detailed legislation, which is a barrier to the free movement of services. These barriers affect all stages of the business process from the establishment of the business right through to after-sales service, which deters companies, and particularly small and medium-sized enterprises, from operating in another Member State. Therefore the European Commission has presented a Directive on Services in the Internal Market to improve economic growth and employment in the EU – It is the most important piece of legislation in this term and it has been met with an incredibly active and emotional discussion both within the Parliament and without, i.e. in the broader public.

There is concern in some quarters that the draft Services Directive, particularly its 'country of origin' provision, may lead to “social dumping” and a 'race to the bottom' in the quality of the services offered.

I do not share these concerns but it is important to realize that this debate takes place against a specific economic backdrop. The slow-growing so-called old Member States, especially Germany and France, fear

competition from the fast-growing new Member States, especially regarding salaries which are of course the main cost in services. While annual GDP per capita in Germany is €26.400, in Poland, it is €4800. Wage levels are correspondingly diverse. Some of the old Member States, including Germany, are afraid of the influx of job-seekers from the East by the principle of free movement of workers. Therefore a seven-year transitional restriction on the movement of the labour force from the new Member States has been offered as an option to the old Member States which all of them use today except the UK, Sweden and Ireland.

Let me give just a very brief explanation of the Services directive. There are many instances of service providers, in particular SMEs, reporting that they lost contracts because of long delays involved in getting the necessary authorisations or in fulfilling other administrative formalities, and that eventually they gave up trying to offer their services in other Member States.

(to give you some examples: in some Member States, service providers have had to produce specific documents such as certificates of nationality or

residence, certificates of solvency, tax compliance or general reliability in a particular format. Companies also complain about costs and delays resulting from systematic requests for certified copies or certified translations).

The directive therefore aims at removing the red-tape currently strangling efforts to establish or provide services on a cross-border basis. It applies the logic of the “Cassis de Dijon”-case to services: Once you are legitimately established in one Member State, you can offer your service in all other states as well. This is called the “country of origin” principle which is the core element of the directive and therefore of the discussions about it as well. If we manage to keep it and hence the entire directive, we will make a real contribution to entrepreneurship, growth and job creation.

If we are to let our economies develop and grow we must maintain a clear focus on the services market. This is what the single market in services is about. It will increase competition, stimulate entrepreneurial interests and provide new opportunities for service providers which will give a much needed boost to the EU economy. It will create new employment

opportunities and provide consumers with a broader range of services from which they can choose.

As the great heavy-weight boxer Joe Louis once said to one of his opponents: "You can run but you can't hide". So too, the EU cannot hide from the pressing reality that it must become a much more competitive economy and a much more rewarding place to do business. In that, we share a challenge with Japan. Both of us need to revive our economies and the best way to do so is through open markets and competition. Let me say in this context that I hope very much that the new Commercial Code in Japan, especially its Article 821, will be passed in a way that is best for Japanese and foreign companies. When I was here last September, I was very encouraged by the aggressive manner in which Prime Minister Koizumi is pursuing the increase of inward investment into Japan. I hope that this policy will continue and that the legal framework for European companies will allow them to operate in a cost-efficient manner as well as in an environment that provides legal certainty.

V. THE EUROPEAN UNION OF TOMORROW

(Note to translators: This will be delivered on the basis of bullet points, so no finished sentences to be expected here.)

In economic area, two competing views for the EU of tomorrow: French and English.

1. The French believe there is a so-called “European Social Model”

- Most important: State lays down the basic rule concerning employment relationship
- social protection systems “part of identity and culture”
- protection against hazards of existence
- guaranteed income after retirement
- role of the social partners is acknowledged
- France wants systematical consultations on all social topics and the future of social protection within the "Standing Committee on Employment"

2. The English or Anglo-Saxon Model

Two philosophies:

- adversarial principle
 - challenge of the rival theories against each other until one comes out the winner - until it faces a new challenger. It is through these ritual

combats that new theories replace the old and that scientific progress is made.

- **evolutionary principle**
 - theory of change and approach to it. Change is not best accomplished by sudden and violent disruptions which overthrow the status quo, but by a process which allows continual modifications to be made and incorporated

Both principles go a long way to explain why the Anglo-Saxon model of capitalism resists tendencies to restrict competition within it, and resists tendencies which might make it less flexible and adaptable.

Labour markets - flexible

Social Costs – to be kept low for the sake of competitiveness

Welfare - rapidly becoming the biggest single obstacle to competitive and evolving economies

Regulation - largest obstacle to the evolutionary principle but also the competitive model of capitalism seeks to restrict regulation to the minimum

VI. CONCLUSION

Little story from the EP: Juncker last Wednesday – accusations against Britain, great applause.

Blair on Thursday – first heckles and boos but at the end of the speech even greater applause from the parliament. This is good. Irrespective of whether one favors the one model or the other, one thing is clear: Europe debates its future with great intensity and without the usual diplomatic reservations. Citizens can see two models between which they can choose. This is good, this is what Europe needs.

Ladies and Gentlemen –

we have talked about Europe’s current crisis but we have also seen that there were times when it was much worse. Crisis means “turning point” – Europe must use this crisis to turn itself around, especially in the economic realm. We need higher levels of growth in Europe - not for its own sake, but to sustain and enhance our quality of life and prosperity. The Internal Market is a means to this end. How do we get there? Looking at the competing economic models as well as at the growth rates in their respective countries, the answer is obvious: The French model is no longer viable, we need to move on to a market-based rather than a state-based philosophy. Only then will we be

able to continue to reap the benefits of the Internal Market with more jobs and higher growth.