

**Euro-Mediterranean Economic Transition Conference
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The ENP and the European Internal Market

As Commissioner Ferrero-Waldner just mentioned, improved and deepened relations with our neighbours is a priority for the European Union. The aim of the Barcelona process and now the European Neighbourhood policy is in the economic field to create an area of shared prosperity and development.

These noble objectives were behind the conclusion of Association Agreements, which now are in force between EU and almost all our neighbours. The Barcelona process has been a very important instrument to promote regional cooperation in the Mediterranean region, but at the 10th anniversary last year, we had to conclude that trade flows had not developed as much as we had hoped and that only a meagre two percent of EU foreign direct investment went to Mediterranean countries.

The European Neighbourhood Policy opens a number of new Partnership Perspectives, amongst them "The perspective of moving beyond cooperation to a significant degree of economic integration, including through a stake in EU's Internal Market, and the possibility to participate progressively in key aspects of EU policies and programmes".

These are wide reaching perspectives our Governments have agreed to. They set out the objective and the direction, but we know at this stage very little about where to start and how long the journey will take. I am therefore particularly happy that this year's Euro-Mediterranean Economic Transition Conference will permit us to analyse together the challenges we face in order to find for each of us the best way to move forward.

The ENP is a great opportunity. There are real potentials to exploit, but it will demand a lot of efforts, particularly in the short term, and we must be sure that we get the priorities right.

The Internal Market

If our objective is to get a “stake in the Internal Market”, we must first know what the Internal Market is and how it functions. Let's get things right. The Internal Market is not just an upgraded Free trade agreement with some regulatory ingredients added. It is something completely different in nature. Trade agreements deal with measures at the borders. The Internal Market deals with everything inside the borders.

The basic principle is that goods, services, capital and persons can move freely without controls at the internal borders because all participating countries of the market have the same system and the similar rules. I would almost say the same type of society. Applied levels of consumer protection or environmental standards in one country are accepted in all the other countries.

In order not to distort competition between companies which are trading freely all over the Internal Market, basic conditions must be the same. The same regulatory requirements and the same competition rules must apply. And there must be some kind of arbitrator making sure that the rules are respected.

The EU Internal Market is based on a comprehensive Community legislation in a wide number of areas such as standards and conformity assessment of goods, regulated services type financial services and rules for network industries such as energy, transport, post and telecommunication. There are also horizontal measures such as Company law, Intellectual property rights, Public procurement and Competition rules. All in all there are today over two thousand Directives and Regulations governing the Internal Market that Member States have to respect and apply.

The Internal Market is an ongoing process. It was envisaged already in the Rome Treaty almost fifty years ago, but got its decisive push by the so called "White Book" presented back in 1985 by the then Commission President Jacques Delors. And there are still important gaps which have to be filled, particularly in the field of services.

"A stake in the Internal Market"

Given this background, is it possible for you as neighbours and ENP partners to get a "stake in the Internal Market" and what would that involve? Is it possible to get "EU membership" in only one or two selected areas, or are we obliged to go for the all-embracing model of the European Economic Area, EEA?

The EEA is an agreement which gives full access to the Internal Market for Norway, Iceland and Lichtenstein. The agreement covers all areas of the Internal Market giving these three countries the same rights and obligations as Member states. Not only do they have to follow and implement existing acquis, they are also committed to take on all new relevant EU legislation, without having a say when the rules are drawn up!

In addition, new special institutions had to be created. The EFTA Surveillance Authority, which is a copy of the Commission in reduced format, has the task to ensure that the acquis is correctly applied in the EEA countries. In addition, an EFTA court of justice deals with legal disputes related to the EEA agreement.

I am not ready to suggest such heavy institutional machinery for the ENP area, at least not in the near future. It is neither realistic nor desirable. Let us instead be pragmatic and see in which areas there is a possibility to advance within existing structures. How can we best use the agreed Neighbourhood Action Plans to make progress? That should be our task for the coming two days.

But before jumping in to the technical discussions, let's stop for a while and ask ourselves why we do this? The Internal Market is not an end in itself. It is a tool to create prosperity. To create jobs for everybody so they can give their families a decent living. To stimulate economic growth so that governments can invest in schools, hospitals and infrastructure.

Increased trade with the EU is a vector for growth, but not the only one. Economic reform that will attract investment and make better use of domestic production factors is another one, perhaps even more important. Regional economic cooperation is a third option. In fact, these are not options. All three actions are necessary to create sustainable economic development.

The Barcelona process was focussed on trade as a motor for growth. The Neighbourhood policy puts economic reform in the centre. Continued regulatory and institutional reform will create an environment conducive to growth. The EU is ready to accompany and support reform efforts for those countries which are ready and willing. But the ENP partner countries will have to make their choice themselves.

Sectors in the Internal Market

Let us briefly look at some major sectors of the Internal Market, which are also included in the Action plans, and see how they work in practice.

In the Internal Market industrial **goods** can move freely from one Member State to the other without any controls or formalities at the borders. This has been possible thanks to the principle of mutual recognition. Each Member State recognises that the regulations of other Member States, while different, provide equivalent levels of protection. Products lawfully placed on the market in one state can therefore be traded without any additional testing in the other countries. This principle requires a considerable amount of trust between the Member States if it is to operate effectively. For other products which are potentially damaging if not produced according to strict rules, it has been necessary to negotiate common standards.

Most industrial goods from the Mediterranean countries can already today be sold to the European market free from custom duties. But the real problems lie in the so called non-tariff barriers. All products sold to the EU have to comply with the technical regulations and standards I just mentioned. There are ways, however, to reduce these technical barriers, for example by concluding so called Agreements on Conformity Assessment and Acceptance of industrial products. Such agreements would considerably facilitate the access of industrial products from the Mediterranean partners to the EU internal market and vice-versa.

Another area of special importance in the Internal Market is **services**. Services account for 60-70 % of our GDP and for almost as much of employment. The situation is roughly the same in the Mediterranean countries. And still there is very little trade in services. The Mediterranean region currently represents only 3.5% of EU's total services trade, mainly in tourism and transport, but it could be considerably developed in other sectors such as financial services, telecommunications, and energy. Similarly, there is very little cross-border establishment. Only 2% of EU's foreign direct investment goes to our Mediterranean partners.

There are considerable potential gains from services liberalisation. The World Bank has estimated that the potential gains for developing countries from increased services trade are much higher than the benefits from merchandise liberalisation or agriculture. The reason is that services trade directly contribute to the development of the backbone of a growing economy; banks, transport and telecommunications. Increased trade in these sectors will import skills and bring technology and experience. It will also boost investment, both foreign and domestic.

I must immediately admit that trade in services is the weak point of the European Internal Market. There are many reasons for this. Member States have over the years developed a web of regulatory restrictions for different legitimate

reasons; health and consumer protection, market stability, environmental concerns etc. But such measures also constitute obstacles to trade in services.

In order to improve this situation, the Commission made a proposal for a Directive on services in the EU single market which aims to reduce regulatory fragmentation and to encourage and facilitate growth in cross-border services provision. It will also improve consumer protection and facilitate cooperation between Member States to ensure effective supervision of businesses. Specifically regulated services sectors are excluded from the Directive. The draft Directive was amended by the European Parliament in its first reading, and last week the Council could reach a political agreement on the new text.

As you understand, work on creating a real functioning Internal Market in services is still very much in progress and I would not suggest at this stage to try to identify a "stake" in this market for our Mediterranean partners. This must be regarded as a long term objective. At the same time, we should make all efforts to improve trade between us in services and promote regulatory convergence where necessary and appropriate.

An ideal tool for this will be the negotiations of **Free Trade Agreements in services and establishment**, which the EuroMed Trade Ministerial Conference in Marrakesh in March decided to launch. These agreements will constitute an important contribution to the creation of a Euro-Mediterranean Free Trade Area by 2010.

Bilateral FTA:s in services will be negotiated with all Mediterranean countries, if and when they feel ready to do so. I'm happy to note that perhaps as many as seven countries will participate in the first round starting this summer. The FTA:s, which must be in conformity with relevant WTO /GATS rules, will cover common principles, complemented by binding commitments on market opening in a large number of specific sectors. The agreements will also cover better conditions for establishment as well as government procurement.

All agreements should include regional Most Favoured Nations clauses. This is very important since Mediterranean parties are encouraged to conclude FTA:s among themselves, thus creating a real Euro-Med Free Trade Area in services. The dynamic effects of opening services and establishment will be much greater if there is a regional market making investment more attractive and profitable.

Particular attention should be given to reform in the **financial services sector**, which is at the heart of all economic development. In the EU Internal Market all Member States have adopted comprehensive prudential regulations aiming at

consumer protection and market stability. The strict implementation of these regulations is monitored by efficient and independent supervisory bodies. This is a necessary condition for the establishment of a so called "European passport". It means that once a bank or an insurance company has been legally established in one Member State it has the right to provide services in all the other Member States without any further licensing procedures.

Although a type of "ENP passport" can not be envisaged in the nearfuture, ENP partners are strongly recommended to take inspiration from the community acquis and relevant international standards when reforming their financial sectors. These rules constitute the best guarantee for the development of solid, trustworthy and efficient banking, insurance and capital markets. But creating new rules is just the first step of the process. Special attention must also be given to well functioning institutions.

The need for regulatory convergence is even more obvious in relation to the **Information society**. Mobile telephone calls and electronic mail do not know any national borders. In order to reap the maximum benefit of the IT revolution, Euro-Med partners have all interest to continue the liberalisation of their markets and complete the regulatory framework in close cooperation with the EU. Well functioning electronic communications can radically improve the development potential even in the most remote regions of any country.

A "stake in the Internal Market" can also be envisaged in even more concrete terms with regard to **transport** or **energy**. One of the objectives of the Neighbourhood policy in these areas is to link the Mediterranean countries to the trans-European transport networks where appropriate, while at the same time strengthen regional infrastructure projects. With regard to energy, the objective is likewise to develop regional interconnections on oil, gas and electricity and to gradually integrate these with the EU markets where appropriate.

Horizontal policies

I will not bother you with a description of all sectors covered under the Internal Market. Let me instead highlight some horizontal policies which are absolutely necessary for a well functioning internal market where companies can compete on an equal basis.

First of all, full implementation of Community **competition rules** is necessary to ensure a level playing field for market actors. This is not yet the case in the Euro-Med region. The Association Agreements and the Action Plans only cover prohibition of agreements between undertakings and abuse of dominant position. For any sectors which should participate in the EU Internal Market, there would

have to be in force a State aids control regime and a legislation meeting the requirements of the EU acquis. This is a point which will have to be fully taken into account when we discuss future possible alternatives for having a sector specific "stake in the Internal Market".

Another important horizontal measure is the protection of **Intellectual Property Rights**. It is not primarily a question of protecting European manufacturers of expensive handbags or perfumes, as some might think. It is an essential element for stimulating innovation and attracting investment. Who would risk his money on new projects if there is a major risk that the whole concept is copied before he has got any reasonable return on investment? Counterfeiting also constitutes a growing risk for health since more and more of medicines sold on the internet or made available to developing countries are imitations. Most ENP countries have introduced IPR regulations, but there remains much to be done with regard to its effective enforcement.

Government procurement is covered in all Association Agreements and in all Action Plans, but with no legally binding commitments. Government procurement rules, based on the principles of transparency and non-discrimination, coupled with a credible remedies mechanism are part and parcel of the Internal Market. In addition, such rules constitute an efficient protection against corruption and would automatically lead to a better use of public funds.

Conclusion

The purpose of this exposé is not to discourage you from taking part in the Internal Market. On the contrary, I have tried to give a fair presentation of the basic principles underpinning the Internal Market as well as the main sectors and how they work in practice. I hope this can serve as a useful background for our discussions these two days on possible ways and means for "giving the Neighbours a stake in the Internal Market".

As I have tried to show, there could be different ways of participating in the Internal Market. No one has today a ready "blueprint" for what a cooperation envisaged under the concept "a stake in the Internal Market" would look like. Such enhanced cooperation will have to develop over time and will depend on each countries capabilities and needs.

When the basic conditions and requirements for closer cooperation are clear, I encourage you to analyse in your own country the potential costs and benefits of such closer cooperation sector by sector and take the decisions against the background of your own economic development plans. It is important that all

stakeholders take part in this reflection since reforms will be better accepted and yield better result if there is consensus from the outset on the necessary actions.

Our joint objective is to try to find solutions with maximum development potential for each participating country. There are no clear-cut solutions and no "one size fits all". Each of us has to reflect on what type of cooperation for what sector would best suit the particular needs of his or her country.

The Neighbourhood policy gives us the framework for developing deeper cooperation and integration. We are all neighbours. If we work together we will all be stronger in the face of global challenges. The Neighbourhood policy has a lot of potentials. I hope our discussions here we help us to fully exploit these possibilities.

Thank you for your attention