

**Luiss**

Institute for European Analysis and Policy

# **How the political drive behind the Single Market can address Europe's new challenges**

**Riccardo Perissich**

Policy Brief 10/2023

**LUISS**



August 28, 2023

# How the political drive behind the Single Market can address Europe's new challenges

Riccardo Perissich

## The past

The current debate on the difficulty that the EU is having in adapting its economy to the new global challenges inevitably touches the need to strengthen the Single European Market (SEM). Even more than the euro, the SEM is considered to be the heart of the EU. To a certain extent it is possible for an EU member not to be part of the euro, but it would be unthinkable of it not to be an integral part of the SEM. A serious SEM crisis would immediately translate into an existential problem for the EU. In this perspective it is useful to reconsider the factors that made Delors' White Paper, implemented between 1985 and 1992, a success and see how it can benefit the present situation. Many extensive and accurate analyses of that enterprise have been carried out; they concern its legal basis, its economic philosophy and its economic impact. This paper will not attempt to explore that domain again. It will, however, focus on the factors that determined both its success and its shortcomings. Subsequently, it will try and draw some guidelines for the future.

Apart from the general goal of "an ever-closer union", the Treaty of Rome did not contain many specific long-term objectives; notably, the monetary union was not part of them. Instead, the treaty explicitly stated that its goal was to achieve the free circulation of people, goods, capital and services. However, after the completion of the customs union in the late 1960s, little progress was made in the dismantling of the many existing bureaucratic and regulatory obstacles to intra-European trade. European leaders had been absorbed by other priorities, such as the complexity of the agricultural market, how to cope with the difficulty of enlarging the EU to include the UK or to navigate through two energy crises. When in early 1985 the new Commission chaired by Jacques Delors decided to make the completion of the single market the cornerstone of his mandate, many people were skeptical. These same people were even more skeptical when they saw that the Commission's White Paper included some 300 legislative decisions to be adopted by the end of 1992. And yet, not only the program was endorsed in June of the same year by the European Council in Milan, but when the 1992 deadline arrived the undertaking was unanimously regarded as a great success. A US Congress report described the SEM as "the biggest and most successful supply side economic program ever attempted." Nearly 40 years later and in totally different economic and political circumstances, it is interesting to inquire into the reasons for the programme's success, as well as into its shortcomings.

**First, let's recall its economic objectives.** The Commission's communication pointed mainly to the efficiency gains and the benefits for consumers that were expected from the elimination of barriers to intra-European trade. This was also expected to stimulate economic growth. There was nevertheless a second, less explicit although equally important, objective: to create the conditions not only for a single market, but also for

integrated European industry. As we shall see, the achievement of this second objective was far from satisfactory.

**Second, the political drive behind the program.** In the early 1980s, while the US and the rest of the world were recovering from the consequences of the recession that had followed the energy crisis of the previous decade, Europe was still struggling. One of the main topics of public discussion was the causes of and the remedies for this “eurosclerosis”. Influenced by the Thatcher government (as well as other factors), a new wind of liberalisation was blowing on the coasts of the European continent. It is also fair to say that the SEM may have never left the drawing board without robust and determined backing from many outstanding European industrial leaders. People like Peer Gyllenhammar of Volvo and Wisse Dekker of Philips, who chaired the European Round Table of industrialists, deserve as much credit as the politicians who made the decisions. It may be ironical to note that neither Volvo nor Philips made it into the next century as big players, but their contribution, as well as that of many other members of the European business community, must be remembered.

The other political condition concerned the decision-making process. Many of the proposals included in the White Paper had been on the table for a long time, sometimes for years. One reason for the lack of progress was that, according to the treaty, most decisions relevant to the SEM needed unanimity; a requirement almost impossible to meet. Having secured support for the program, Delors’ next achievement in Milan was to convince the European Council that their commitment to it would lack credibility unless they also accepted to enlarge the scope for a qualified majority. The result was the Single European Act that was agreed in 1986 and entered into force in July 1987. As a result, most decisions necessary to implement the program could be adopted by a qualified majority; there were exceptions of course, notably concerning taxes for which unanimity continued to apply. Finally, it should be recalled that the implementation of the program involved the responsibility of the majority of, if not all, the Commission departments. In order to streamline the activity and avoid internal frictions, Delors established an operational coordination at the level of the various departments under the supervision of a senior official and the political responsibility of Lord Arthur Cockfield, Vice President of the Commission.

The Commission introduced three other political elements in the White Paper. The first was the abovementioned 1992 deadline. It was endorsed by the European Council and it made a significant contribution to the public’s understanding of the narrative around the overall objective. The second was the explicit warning that the program was a comprehensive one and the benefits for the European economy could only derive from its complete implementation. The various stakeholders, political as well as economic, could not therefore choose their own priorities. The risk of general cherry picking, either positive or negative, was that the whole effort could encounter the fate of the protagonist from Hemingway’s *Old Man and the Sea*, who, after having caught the biggest fish of his life, watches sharks devour it as he struggles to bring it ashore. The third was that, since the SEM was designed to benefit the entire European economy, no conditions of a different nature had to be attached to it. The Commission was intransigent on this point although it knew that, even if the SEM was obviously for everyone’s benefit, some member states stood to gain more than others. The importance of this question was enhanced by the fact that, in addition to the existing structural divergencies that affected countries such as Italy, Greece and Ireland, the EU was in the process of enlarging the Community to Spain and Portugal, two countries whose economies were less developed than the average. As a result, in

the context of this enlargement, Delors skilfully negotiated the biggest increase in the funding of the cohesion policy. This had the additional effect of consolidating support for the SEM.

**Third, the conceptual framework.** Although the 300 legislative proposals included in the White Paper seemed like a big number, they would have been far more numerous without the legal context created by some innovative interventions of the European Court of Justice. The most important was the so-called “Cassis de Dijon”, a 1978 decision that stated that countries could oppose national regulations to the importation of goods from other member states only if they were justified by the “essential requirements” of public interest specifically listed in the treaty: essentially, safety, security, as well as social, health and environmental protection. In all other cases mutual recognition of national regulations had to prevail. The effect of this interpretation of the treaty was to enormously reduce the need to harmonise national regulations in order to allow for the free circulation of goods. Although not as far-reaching, similar judgements from the European Court also concerned the free circulation of services and people. It should be noted that the whole concept of a Single European Market stands on one principle: the supremacy of European law over national law in the treaty and the authority of the European Court.

The implementation of the programme concerning industrial goods, and in part also services, profited greatly from the established “standard-setting” traditions of some countries, namely Germany, the UK and to some extent France. This contributed to the reputation of excellence of European standards and facilitated their adoption outside Europe. In order to avoid difficult choices between national standard-setting traditions, the approach was chosen of limiting the directives to essential requirements; the adoption of European standards was not binding but represented a presumption of conformity. Apart from the obvious requirements related to the system’s interoperability, the cases in which the adoption of agreed standards was made compulsory were limited. In parallel, the Commission promoted a European standard setting system (CEN, CENELEC, ETSI) largely managed by industry, as well as a network of recognized bodies responsible for conformity assessment. The effect of this approach was to facilitate decision making while at the same time allowing European standards to acquire the de facto general acceptance confirmed by the “CE mark”.

Apart from eliminating the existing obstacles to trade, the big challenge was to avoid the emergence of new ones. A binding system (Directive 83/189) was introduced that obliged member states to notify the Commission about all the new projects of technical regulation. For a limited time the Commission had the opportunity to raise objections or to make a proposal for harmonisation.

**Fourth, the scope of the program.** The Commission’s White Paper set the goal of eliminating all the obstacles to the free circulation of goods, capital, services and people. Even the authors were obviously conscious that the word “all” contained an element of hype. Nevertheless, the program was comprehensive enough to make a significant difference. Admittedly, it was more far-reaching for industrial goods than for services, capital and people. This reflected the importance of manufacturing as it was perceived at the time, as well as the somewhat weaker legal ground to sustain the liberalisation in the other sectors. Energy was intentionally left slightly at the periphery because member states’ policies and priorities were deemed to be too different.

## What happened in practice

In real life there is always a gap between theory and reality; to fill it is the role of politics. After a rather lazy start, the decision-making apparatus of the institutions began to move in a more determined way in the second half of 1986 in anticipation of the entry into force of the Single European Act. The momentum acquired by the institutions emboldened many in the business community who had been supportive in principle but sceptical about the politicians' will. This in turn encouraged the institutions to increase the effort. As early as 1988, the Commission managed to convince the European Council to endorse the statement that progress towards the SEM had become "irreversible". At the end of 1992, the established deadline, the completion of the program was declared a success. Or was it?

It cannot be denied that the majority of the commitments of the White Paper had been fulfilled. The ensuing impact on the free circulation of goods was considerable and very visible in European supermarkets, where customers could enjoy a much bigger selection at often lower prices. Companies were quickly adapting their marketing strategies and investment decisions to the new situation. Admittedly, not all had been perfect. The political process had required compromises over the conceptual purity of the original design. The drafting of some of the directives was far from perfect, which made the subsequent implementation and enforcement even harder. The distinction between mutual recognition and the need for harmonisation in practice proved to be less clear than some legal experts had expected. Despite being soundly established by law, the criteria that could justify legislation at European level were not fully accepted by member states and some parts of the public opinion. In some cases, the flag of "cultural traditions" was waved to justify the remaining restrictions to free movement. Not surprisingly, many of the issues that acquired epic proportions in the public debate of some countries concerned the media and the food industry: TV fictions, beer, pasta, yoghurt, chocolate, to name only a few. Some of the least satisfactory compromises had occurred in matters involving taxation, such as the harmonisation of VAT regimes; and this was not surprising since they still required unanimity.

Free circulation of goods was only one of the objectives. What about the other three? The establishment of complete freedom of circulation of capital was undoubtedly one of the main achievements of the program. It was accompanied by some legislation concerning banks and other financial institutions. But it stopped short of establishing a fully unified European financial market. The goal of a European capital union is unattained to this day.

The possibility for European citizens to move, study and work freely across the territory of the Union (then still the EEC) was greatly enhanced. Considerable progress had also been made to have European citizens practise the somewhat abusively called "liberal" professions. This progress had been possible thanks to some far-reaching decisions of the Court of Justice that had helped to overcome strong corporatist resistance within the professions, as well as the objective difficulty of reconciling national traditions that were sometimes rather different.

Services was a more complicated matter. It should be noted that work in this field went well beyond the 1992 deadline and much of the significant progress took place in the following decade. As already mentioned and despite some helpful decisions by the Court of Justice, the legal basis established in the treaty was less clear-cut than in the case of goods. The question was nevertheless of great importance, if only because services were

rapidly becoming the biggest sector of the European economy. Without going into too much detail, some major obstacles are worth mentioning.

The first concerns labour laws. Europe is rightly regarded as one of the areas in the world with the highest level of social protection. However, rules, traditions and practices show considerable differences. The same is true for labour costs. The importance of the problem increased considerably after the EU brought in the former communist countries of eastern Europe. These differences did not represent a big obstacle in the field of manufacturing goods. Instead, they did in some cases for services. We all remember the “Polish plumber” syndrome and more specifically the long controversy around posted workers, particularly in the fields of road transport and construction. It is fair to say that a satisfactory compromise has never really been found.

The other question concerned the so-called networked services (Telecom, Energy, Transport, Postal Services). They often operated in the context of a monopoly, in many cases wholly or partially state-owned (a situation protected by the treaty) and being at least partially state-owned meant also being protected by the treaty as providers of “services of general interest”. Therefore, the cliff to climb was in some cases rather steep. One difficulty lay in the very nature of the networks themselves, which had been designed on a national basis and presented important gaps of interconnection and even interoperability if considered from a European perspective. A program to complete the missing European links was therefore adopted. Important gaps still exist to this day.

Not surprisingly, many member states showed rather modest appetite for more liberalisation. The Commission had to tread carefully and on a case by case basis. The biggest effort was made in the telecom sector. The adopted tactic was to use the available legal tools to destabilise the privilege of monopoly and the comfort of state ownership in order to push the most recalcitrant member states to accept the need for a regulated but competitive system: a sort of “legal guerrilla war” in which the Court of Justice was of great help. For example, it was established that state-owned companies, despite being protected by the treaty, were nevertheless subject to the obligation to act according to the “private investor principle”. This tactic eventually also contributed to the great wave of privatization at the end of the 20th century. Another factor that pushed towards liberalisation was technological progress. These were the years of speedy development in mobile telephony and European companies such as Nokia, Alcatel and Siemens, through the promotion of the GSM that became a world standard, had placed themselves at the forefront of the process. The digital revolution was still to come, but the first impact of the Internet was starting to cross the Atlantic. It would have been impossible to fully exploit the potential of the new technologies in a closed and fragmented market.

Similar progress was also possible for air transport and to a lesser extent for postal services, rail transport and energy. The Commission also tried a more horizontal approach through the so-called “Bolkenstein directive”, an attempt to complete the liberalisation of the service sector through a blanket initiative. It was nevertheless a “one size fit all” approach that led to poor enforcement and possibly created more controversy than practical benefits.

Implementation and enforcement was and still is a major challenge. In Europe, harmonisation usually takes the form of directives that must be transposed into national law. Member states have significant scope in interpreting the directives and in doing so they are inevitably influenced by their different legal systems and traditions. Both enforcement of the directives and respect for mutual recognition is in the hands of national

authorities and national Courts; the European Court is the last resort. National courts were and are often still not well equipped to enforce European law. Discrepancies and some distortions are therefore inevitable. This in part explains why to the surprise of many, a call for more harmonisation comes often from the business community that gives priority to increased legal certainty over the simplicity of mutual recognition.

Another difficult issue derives from the fact that in many cases the harmonised rules do not settle the issue once and for all, but require constant monitoring and adaptation. Liberalisation needs to be managed. The problem is that, while the legislation is common, this management is decentralized and left in the hands of national bureaucracies or in some cases of independent regulatory authorities with little or no binding coordination at European level. In many cases this has led to less than uniform enforcement. In fact, the only sector where the Commission succeeded in establishing a centralised authority was the European Medicine Agency (EMA), which has the task of examining and approving new medicines.

All this leaves us with the need to also assess the programme's second goal: that of establishing integrated European industry. Here the results have been far less satisfactory. Some transnational consolidation has taken place, particularly in the field of manufacturing (steel, for example), but important sectors are still fragmented and predominantly national. This concerns sectors that are critically important in the present geopolitical situation: telecom, energy, defence, banks. There is also a dangerous tendency, when consolidation becomes inevitable, to promote it at national level. The reasons are multiple. Incomplete harmonisation of company law and the remaining fiscal obstacles play a role, as does, in some cases, the difficulty of coping with different labour market regulation. It should be accepted that to fully harmonise all these factors is unrealistic, but also probably unnecessary and perhaps counterproductive; some healthy competition between rules can be beneficial. The Commission has sometimes been criticised for applying criteria that are too strict for its appreciation of mergers of European companies. There have been individual cases in which this criticism can be justified but, while it is right to ask the Commission to constantly adapt its methods to changing circumstances, the general criticism is unfair. The habit of criticising the Commission conceals the fact that the main obstacle to trans-European consolidation is the will of many governments to preserve what they regard as "national champions". The casualness with which the word "strategic" appears in the public political debate is a good example.

There is perhaps another factor that merits attention. Whoever has some experience in international business cannot fail to notice the success with which American multinationals have managed to establish a corporate culture that allows them to operate smoothly across the world and recruit, integrate and move around executives, including top managers, from different countries. The corporate culture of European companies, including multinationals, is still very "national". In some cases, this has resulted in significant difficulties in the completion or management of transnational mergers and acquisitions.

**Finally, the longer-term effects.** Economists have debated at great lengths the economic impact of the SEM program. Predictably, without agreeing among themselves. This should not be surprising since, despite its importance, the SEM developed in a context, domestic as well as global, that was influenced by many other factors. For instance, while its implementation was supported by the generally favourable economic climate of the late 1980s, the assessment of its impact was influenced by the changing circumstances of the end of the century. It is easier to assess the political impact. There are three interesting examples.



Many people were surprised, most of all the UK government itself, by the unity with which the other 27 members of the EU resisted first the British requests prior to the Brexit referendum and later in the negotiations that followed its outcome. This was all the more surprising since the 27 members included a number of countries deemed to be sympathetic not only to the UK but also to some elements of its vision of European integration. One consideration was clearly overwhelming: the attachment to the benefits of the single market that, well beyond the simple instrument of free trade, confirmed to be the real cornerstone of the whole enterprise.

The other two examples can be considered a test case of the famous “bicycle theory”, which describes European integration as a process in which every moment of progress creates a situation that makes the next step necessary. One is the importance of the SEM creating the conditions for the adoption of the euro. We are talking about an enterprise that had many highly political and economic motivations. However, one factor was undoubtedly the situation induced by the famous “incompatible triangle” described by Tommaso Padoa Schioppa: the impossibility of managing an economic system with complete freedom of capital movement, fixed exchange rates and purely national monetary policies. It is true that the treaty admits that membership of the euro and of the single market should not necessarily coincide. However, it cannot be denied that in the case of the UK the increasing difficulty of managing the divergence between being a member of the single market but not of the euro had become increasingly hard and contributed to the political climate that made Brexit possible.

The second example concerns the movement of people. The White Paper set the objective of a “market without borders”. However, the Commission never stated explicitly that it would also imply the abolition of passport controls at internal borders. Some in the Commission thought that it was implicit, but others and most member states objected that it raised delicate political issues related to security and illegal immigration. In the end, the more ambitious interpretation prevailed and it would be interesting to understand why. As the elimination of border checks on goods and transport progressed and the circulation of both goods and people increased exponentially, it appeared that maintaining passport controls was having an inevitable impact on the cost of the transport of goods. In addition, the abolition of passport controls was also a considerable symbolic and political achievement. As a result, five like-minded countries (Germany, France and the Benelux), which share a long common border, decided to undertake the abolition of controls at their mutual borders. The move also had practical reasons, since realism suggested that their long and densely populated common border was difficult to police anyway and it was more efficient to focus on the external border. Therefore, they undertook to work together to cope with the serious problems related to security, drug smuggling and illegal immigration. After some hesitation, the Commission decided to back this project, provided it was conceived as open to all other member states that filled the conditions. The Schengen Agreement, named after the place of its signature, was rejected by the UK, which claimed a special position as an island. However, practically all the other member states were keen to join it, even if many of them had to struggle to meet the conditions. Schengen is now part of the treaty and almost all EU members are part of it. It is interesting to note that, although member states retain the right to reintroduce controls for the legitimate reason of national security, instances of control are rare and even when serious events such as terrorist threats have pushed them to do so, in practice the controls have often been more theoretical than real. There are a few reasons for this: the fear of political backlash but also the realistic assessment that, given the volume of traffic, the introduction of strict controls would be impractical, too costly or, more probably, both. In the end, the implementation of the SEM



on the circulation of goods not only led to the total abolition of border controls, but also paved the way to close European cooperation in the field of immigration and internal security.

The cumbersome institutional set up of the EU, where heads of government are constantly involved in decisions that often require unanimous consent, makes it very difficult to handle more than one big priority at a time. For a long period between the 1980s and the 1990s the SEM enjoyed that privileged status. When other important projects such as the euro and Schengen took the centre stage, the SEM tended to fall back in the scale of priorities. One could say that in a way it was a victim of its own success. There were other reasons why the political drive around the remaining steps gradually weakened. The global economic climate around the end of the century was less favourable to large-scale liberalisation. Despite strong support from both the public and the business community, protectionist and corporatist resistance had never fully disappeared. The somewhat decreasing drive behind the project allowed it to become more vocal. This in turn influenced the political climate. The virtuous circle mentioned above stopped functioning. More specifically, the Commission was criticised for interfering too much in matters that should have been left to member states. The process to create the conditions for the euro proved to be bumpy and controversial, which in turn led to claims that more attention should be paid to the unintended effects of market liberalisation. The reaction was to introduce into the political equation two new principles: subsidiarity and proportionality, both aimed at better defining and limiting the scope for intervention from Brussels. These were useful developments. However, their value was more conceptual than operational; both subsidiarity and proportionality are concepts to which one can easily subscribe in principle, but they are also highly subjective in practice. Various attempts have been made by the Commission to re-establish some sort of political drive behind the SEM. The most significant was the report drafted in 2010 under the supervision of Mario Monti, former European Commissioner. It contained many useful suggestions, but it did not change the prevailing political climate.

## **And the future?**

The reason why the SEM has again become central in the political debate is related to the previous experience, insofar as it is again motivated by a deep concern about the loss of competitiveness of the European economy, which is faced with the double challenge of globalisation and the digital revolution; the syndrome of eurosclerosis is back in another form. However, the present debate is also motivated by another factor: the fear that other new priorities, such as the climate transition or the increasing importance of economic or geopolitical security in a deteriorating global political environment, could lead to national decisions that have a negative impact on the SEM. One preventive measure for all this would be to give new impetus in the political debate to various forms of “industrial policy”. In this new context, the SEM is both a potential source of strength in the pursuit of the new priorities and their victim; for all the talk on industrial policy at European level, its actual implementation is more often national than European. The objective is therefore twofold: to complete what remains to be completed and to adapt it to the new environment, but also to protect what has been achieved. The political challenge is to recreate the drive that made Delors’ enterprise possible. To what extent can the factors that contributed to that success still play a role today?

First, do we need another comprehensive program? Yes, but. It would no doubt increase the political appeal and it would help to build a better narrative. On the other hand, we are not starting from an (almost) blank

page, let alone a single and simple unifying message. This time the program will require several focused priorities. Second, can we again make it the principal if not exclusive focus of the EU's strategy? This is unlikely because so much of what needs to be done depends on other policy objectives. Third, will the Commission need to streamline its operations? Yes, it will and it will be more difficult with a body of 27 Commissioners. Before asking the two final questions, let's now go through the program's priorities. We will list 9 of them.

1. The completion of the SEM in some important areas where work has not been finished is still necessary. The most important issue probably concerns the financial markets and the full achievement of a European Capital Union.
2. In order to better guarantee a level playing field, member states should also be convinced that things cannot be left in the hands of national regulatory authorities with little European binding coordination. Greater centralisation in the management and enforcement of regulation in critical sectors such as telecom, the digital economy and financial markets, either by granting more powers to the Commission or establishing independent European authorities, will be necessary.
3. Overcoming the fragmentation of some critical sectors of the European economy that negatively influence the competitiveness of the EU should become a priority. To this end, a thorough examination should be carried out of the factors that unduly hamper transnational consolidation. It should include aspects of company law, as well as the impact of taxation and public procurements. The Commission should also be encouraged to reassess, with this perspective in mind, the enforcement of competition rules. Market-friendly solutions should always be preferred in determining the remedies.
4. The renewed interest in industrial policy and the need to react to measures taken by the EU's competitors has led to a relaxation of the control on state aid. Inevitable as it is, this evolution presents the serious danger of distortions. For example, about half of the state aid recently approved by the Commission was German. An effective solution will need a bigger European central fiscal capacity, but an accurate control of national aid will also be necessary.
5. It would be unrealistic and potentially counterproductive to aim at ambitious harmonisation of taxation and labour market policies. However, specific targeted intervention could be necessary to eliminate serious distortions. The changed context requires a different work force. A reappraisal of policies in the field of education, from higher education to professional training, will be necessary. Although the competence is largely national, some European guidelines could be useful.
6. Horizon and other European research programs should become a powerful instrument to promote better coordination and integration of national research programs. The EU should also promote through Erasmus-type programs greater integration of higher education as well as a more complete mutual recognition of professional qualifications.
7. Individual citizens have acquired considerable rights in free movement and access to study, work and public services, including health services. However, there is room for improvement and progress in this area would carry a significant political benefit.

The next suggested priorities are of a different nature and aim at guaranteeing that other policy priorities of the EU benefit from and do not have a negative impact on the SEM.

8. The most important priority concerns the climate transition, the digital transition, control of immigration, and to strengthen European resilience in the case of new pandemics. Another factor is the impact of the changed international environment that is increasingly influenced by security

considerations. Its impact is visible in the need to streamline the supply lines of some critical technologies and materials, as well as the increasing use of international sanctions and export controls. The response to all these new challenges requires a specific policy response that goes well beyond the scope of this paper. There is general agreement that they should be dealt with at the European rather than national level. However, they also have in common the fact that political authorities can be presented with sudden and unforeseen challenges with an emotional public opinion claiming for quick answers. Unfortunately, the nature of the EU's institutional apparatus is complex and by definition slow. Besides the possible disagreements about the desired European solutions, domestic pressure can push member states to use the freedom they enjoy if a European solution is not agreed, or their right to protect national security and act unilaterally. Presented as an anticipation of European decisions, they can in practice make a common solution harder to agree. Similar moves obviously carry with them the danger of fragmenting the SEM. We have seen several examples of this. A recent one concerns possible market distortions deriving from the proposed German law on the replacement of gas boilers. The most important precedent was related to the initial response to the Covid pandemic. At the start of the pandemic, pressed by public opinion, many governments took unilateral national measures to protect their stock of medicines, creating the danger of serious distortion and potentially disrupting the entire European market. Had it been sustained, that situation would have led to a serious political crisis that would have affected people's confidence in the European project. The worst was fortunately avoided, largely thanks to a swift reaction by the Commission that managed to replace national measures with a largely centralised approach. As a result, not only severe damage to the SEM was avoided, but the overall European response to the pandemic gained in efficacy. Since it would be impossible to deprive member states of their right to act in cases of national emergency, it would be appropriate to introduce a binding requirement of prior consultation that would allow the Commission to check the proportionality of the measures envisaged at national level and if deemed necessary, to propose a common solution.

9. Finally, the international dimension. Despite some botched attempts in the US and elsewhere to describe the SEM as "fortress Europe", Delors' program was generally well received internationally. Such a reaction was also helped by the parallel European engagement in the conclusion of the ambitious multilateral trade negotiation that went under the name of Uruguay Round. But the most important factor was that, in establishing European rules and standards, the EU largely regulated sectors and technologies that it could master. That success is at the basis of what is called "the Brussels effect": the alleged dominance of European rules and standards. The present situation is very different. The general appetite for multilateral solutions is seriously weakened all over the world, while key technologies that dominate the digital revolution and to some extent also the climate transitions very often see Europe's role relegated to a marginal level. Regulating things that one does not control, particularly if technological development is very fast, is always a dangerous exercise. The European approach in the regulation of emerging technologies is also criticised for the excessive use of the "precautionary principle", which, in the case of rapidly evolving technologies, can have the unintended effect of preventing innovation. As some critics say, "Europe regulates, America innovates."

For all these reasons, not only the pursuit of the new policy priorities but also the very strengthening of the SEM cannot avoid taking into account the international dimension. To this end, two other factors must be considered. Thirty years ago, the rules of the international economy were largely in the hands of a limited

number of industrialised, mostly western, countries; namely the US, the EU states and Japan. With the rise of China and other Asian countries, the present situation is very different. This new “multipolar” situation is characterised by strong geopolitical tensions. Multilateral cooperation has become harder to maintain. Furthermore, the regulation of new digital technologies and even more so of Artificial Intelligence is no longer guided primarily by technical or economic considerations, by definition negotiable, but by values such as the respect for individual freedom, privacy and freedom of expression. Many of those technologies also have dual military and civilian use. International rules involving countries that do not share the same values are objectively hard to agree on. While continuing to pursue the most comprehensive international cooperation possible, in many cases the EU will make privileged agreements with the US and other like-minded countries. Insofar as rules need standards to make them operational, this will also inevitably impact the scope and effectiveness of the international standard setting system, until now actively supported by the EU.

A related issue that requires new attention, taking into account the impact of globalisation and of the technological revolution (including AI), is that of intellectual property - one of the SEM's most important achievements. In a radically new environment, established concepts in the field of patents and copyright will need to be revisited. The objective should be to avoid the risk that rules developed since the start of the industrial revolution with the aim of protecting and promoting innovation now hamper it.

In this context, the consequences of Brexit are also worth mentioning. It is now generally acknowledged that Brexit seriously damaged the British economy, but the departure of a major European industrial country at the forefront of many technological developments and the host of Europe's main financial centre has been a loss also for the EU and in particular for the SEM. The recent domestic political evolution in the UK can improve matters. To envisage the UK re-joining the EU or even only the SEM in the foreseeable future is probably unrealistic. However, a pragmatic, gradual case by case improvement now seems possible, paving the way to a more structured relationship in the future. It would not only be beneficial for the European economy as a whole, but it would also strengthen the hand of the EU in the wider relationship with the US and other important countries in the Indo-Pacific.

## Conclusion

This analysis has left us with two important questions. As mentioned earlier, one key factor for the success of Delors' White Paper had been open, unconditional support from important elements of the business community. While business leaders are at present vocal in drawing attention to the weak spots of the European economy and the dangers it faces in a turbulent world, there is no unified business voice behind a credible project, as was the case 30 years ago. This is a serious weakness that should be addressed.

The second question concerns the institutions. It is generally accepted that they are not well adapted to the challenges of the present world, but also that it would be unrealistic to expect major changes in the near future. However, there is also an increasing consensus that to talk of radical reforms without keeping in mind the EU's upcoming enlargement to include Ukraine, Moldova and the Western Balkans would be self-defeating. What we know at this stage is that the process will be long and that, in order to avoid the pitfalls of previous enlargements, it will have to be gradual and radically different. Together with the development of a centralised

European foreign and security policy, the gradual integration of the new members in the SEM will be a critical issue. Institutional reform will also be central. Many leaders have expressed opinions on this aspect, among them, notably, German Chancellor Olaf Scholz in his speech in Prague. It will be necessary, on the one hand, to further elaborate on the key issues of subsidiarity and proportionality, but on the other, on how to make the institutions more legitimate and more effective. The unsettled issues, such as the requirement of unanimity and the structure and role of the Commission, will also have to be dealt with. This means that the EU will have to answer the existential question it has carefully avoided so far: what is the purpose of the whole enterprise?