

The Four Freedoms in the European Union

When we talk about the European Single Market and the European Union, we should remember that the heart of the community is based on the four fundamental freedoms: free movement of people, services, goods and capital. These four freedoms belong to all citizens of the EU, still they often seem abstractions instead of profitable rights. However, these rights can shape our everyday life and they contribute to it.

Free movement of goods and capital

Free movement of goods

Free movement of goods is one of the key element of the internal market, established in Article 28-30 of the *Treaty on the functioning of the EU*. It gives access to the Member States' market for producers, and to a wide variety of goods for consumers. **Once a product has been produced and put on market in a Member State it can be sold in the whole EU.**

Development

Free movement of goods was the first one of the four freedoms and it had to come a long way until today. As a primary initiative at the beginning of the integration, it came to fruition thanks to the European Customs Union (now EUCU), established in 1958 (however, the elimination of customs duties was accomplished only in 1968.). As a result of EUCU, countries of the European Economic Community removed customs barriers between each other and applied common customs policy towards third countries. This means that traders did not have to pay duty for exporting their products within EEC.

Customs tariffs were eliminated from 1968 between Member States, but other kind of barriers still impeded free trade of goods. The next necessary step was the **harmonisation of national legislation, as different standards were used in connection with the production and trade** in each country. So *“the problem for the common market was not the existence of national regulations, but the differences between them.”*¹ Producers who wanted to enter with their goods to other countries' markets had to examine and meet the given standards. This caused additional costs to the producers, indirectly affecting free trade among member states. In order **to abolish these**

¹ Europedia: Free movement of goods <http://www.europedia.moussis.eu/books/Book_2/3/6/02/?all=1>

technical barriers, harmonisation directives were introduced, which aimed to converge national regulations.²

In practice

Free movement of goods means that countries of the European Union must not impose any kind of duties on goods produced in the EU when crossing borders and neither goods produced in third country once imported to the EU. These latter also have to be considered as goods of free circulation within the EU. That is why you can choose from a wide variety of products from different countries in the supermarket, from Spanish chorizo till Norwegian salmon. As a result of the Single Market, EU Member States negotiate collectively in the frame of the World Trade Organization (WTO), where the regulations of international trade are laid down.³

Since the beginning of the implementation of this freedom, decision makers had to face the fact that not only customs duties can reduce competitiveness of imported goods but other types of measures too. For example, if a country poses restrictions on the importable amount of a given product, or on the proportion of ingredients, or on the label, they also impede free movement. As a result, **any charge that has equivalent effect on trade or quantitative restrictions on imports are equally prohibited.** Charges that are imposed on imported products⁴ with the same effects as customs duties to protect domestic products have to be regarded as charges having equivalent effects. Also quantitative restrictions or measures having equivalent effects are prohibited.⁵ **In other words, any kind of regulations or restrictions that directly or indirectly hamper free movement of goods is prohibited.** Practically the initial customs union resulted in a principle of totally free circulation of goods: **if a product was made and marketed legally in a Member State, it must be allowed on the market of any other member state (principle of equivalence).** That is why we can read more and more labels “*made in EU*” on different products, instead of a given country of origin.

² Europedia: Harmonisation of legislations:

<http://europedia.moussis.eu/books/Book_2/3/6/02/1/index.tkl?lang=en&all=1&pos=63&s=1&e=10>

³ Eurostat: Statistics explained <http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_of_the_most_traded_goods>

⁴ “Any pecuniary charge, however small and whatever its designation and mode of application, which is imposed unilaterally on domestic or foreign goods by reason of the fact that they cross a frontier, and which is not a customs duty in the strict sense, constitutes a charge having equivalent effect... even if it is not imposed for the benefit of the state, is not discriminatory or protective in effect and if the product on which the charge is imposed is not in competition with any domestic product.”

EUR-Lex <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A61969CJ0002>>

⁵ „All trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions.”

see the judgement of Court of Justice in “Dassonville” Case 8/74

Any discrimination must be justified by non-economic considerations, like public morality, policy or security (for example protection of health and life of humans, animals or plants), always proportionately to the goal.⁶

The free movement of goods also implies common consumer protection. Moreover, European standards for product safety ensure that those goods which do not meet the restrictions will be withdrawn.

Interesting numbers

- Commonly, Member States in the EU traded goods more within the EU than with third countries. In 2013 most countries' overall trade of goods was realized with EU28 states (except the United Kingdom, Greece and Malta).⁷
- Austria, Hungary, Slovenia and Romania also have a high share of export in their total export with EU Member States (between ~70-75%)
- Motor vehicles, trailers and semi-trailers seem to be the most significant goods in EU trade, they keep their top position among most traded goods since 1994.⁸
- Both exports and imports to and from EU-28 countries are slightly growing in Austria, Hungary, Slovenia and Romania

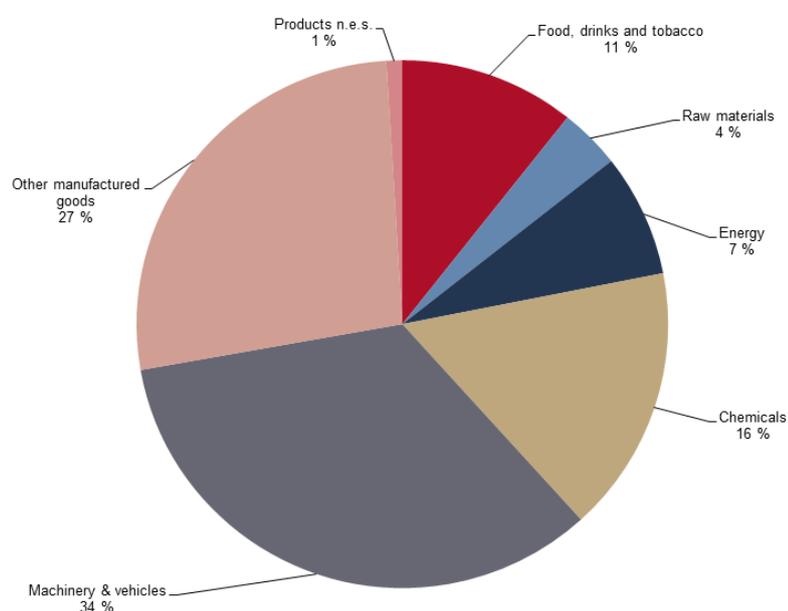


Figure 1. Intra EU-28 exports of goods by product 2013
Source: Eurostat – Statistics explained

⁶ European Parliament: Fact Sheets on the EU

<http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuld=FTU_3.1.2.html>

⁷ Eurostat: Statistics explained <http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_in_goods_-_recent_trends>

⁸ Eurostat: Statistics explained <http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_of_the_most_traded_goods#The_5_most_significant_products_in_intra-EU_trade>

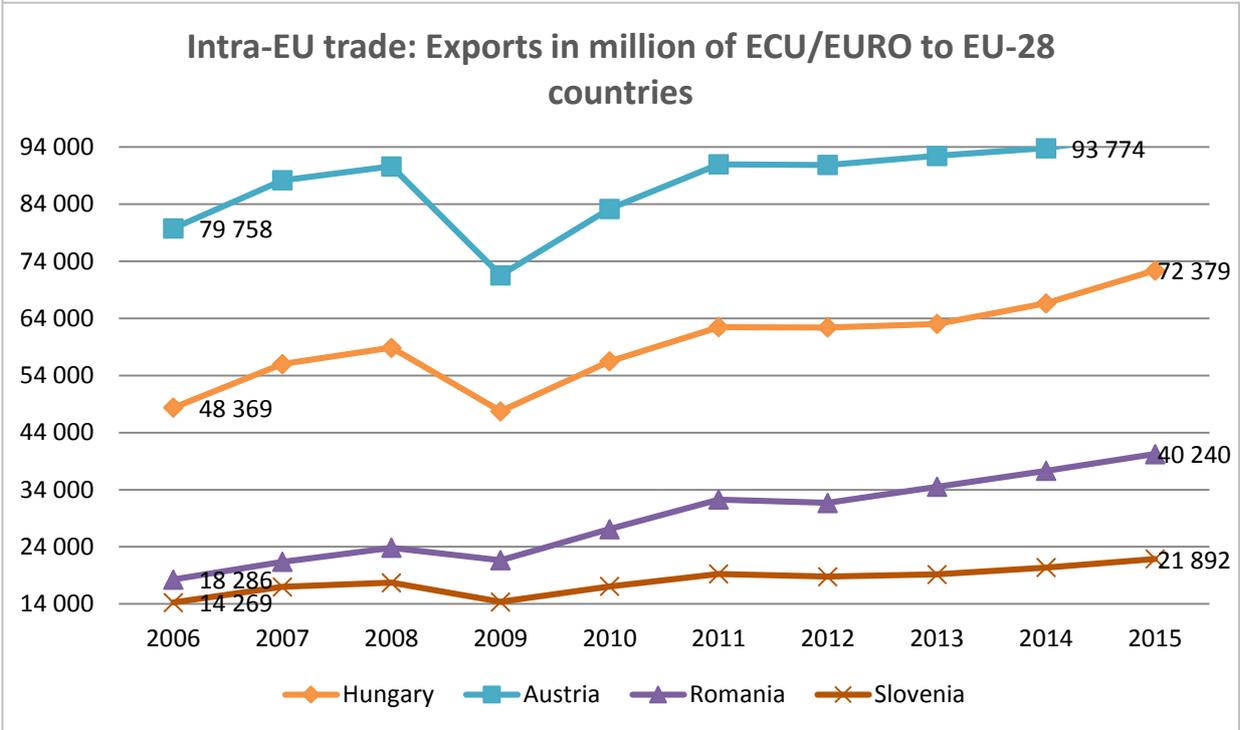
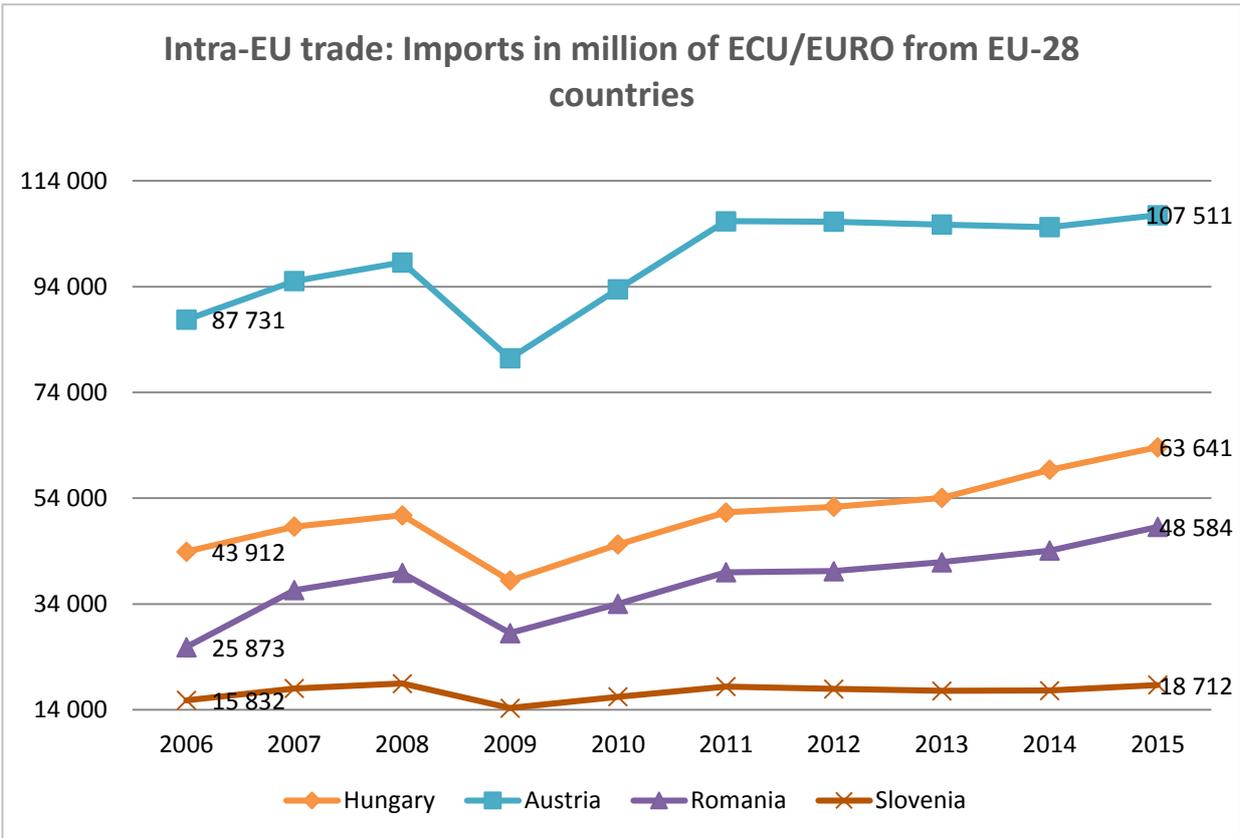


Figure 2. Intra-EU trade: Exports and Imports to EU-28 countries
 Source: Eurostat, 2016 Dataset [\[ext_lt_intratrd\]](#)

Challenges

- **Harmonisation is still in progress**; the series of measure is not complete yet. It causes difficulties mainly to the small and medium-sized enterprises (SMEs). These companies cannot adapt certain national regulations on technical requirements for those products which are not harmonised yet, so they focus their activity on domestic area instead of competing with bigger companies in the European market.⁹
- **Only 25% of EU-based SMEs export at all and an even smaller portion export beyond the EU.**¹⁰
 - To enhance competitiveness, the Commission aims to help SMEs to facilitate their access to the Market. That is why COSME, *Europe's programme for small and medium-sized enterprises* was founded. You can find more information [here](#) and [here](#).
- **Lack of enterprising attitude** (compared to the USA).¹¹
 - The Commission promotes entrepreneurship through an [Entrepreneurship 2020 Action Plan](#) (adopted in 2013), which aims to encourage people to enterprise. It includes an educational framework, making entrepreneurship education a basic feature in education systems¹², and the reduction of administrative regulations and burdens as well.¹³
- **Technological developments, innovations and different new products also pose challenges, as regulations often cannot keep pace with them, causing barriers in their trade.**
- Similarly, **new ways of trading emerged thanks to the Internet (such as online shopping) which mean new areas to be covered by EU regulations.**

⁹ European Commission Enterprise and Industry: *Free movement of goods. Guide to the application of Treaty provisions governing the free movement of goods*

¹⁰ European Commission: SMEs <https://ec.europa.eu/growth/smes/access-to-markets_en>

¹¹ European Commission: SMEs <https://ec.europa.eu/growth/smes/promoting-entrepreneurship_en>

¹² European Commission: SMEs <https://ec.europa.eu/growth/smes/promoting-entrepreneurship/support/education_en>

¹³ European Commission: SMEs <https://ec.europa.eu/growth/smes/cosme/improving-conditions_hu>

Free movement of capital and payments

Free movement of capital is the latest of the four freedoms and also the broadest one with its third country dimension.¹⁴ **Cross-border capital transactions – such as purchase of currency, buying real estate, company shares and loans, operation in accounts, financial assets, or foreign direct investment – cannot be limited.** Free movement of capital contributes to the introduction and strengthening of the European currency and European Monetary Union (EMU). **This freedom is also considered to be a supplementary element of the three others.**

Development

Originally the Treaty of Rome did not require the full liberalisation of capital movements, it prescribed only the necessary extent for the common market (*“to ensure the proper functioning of it”*¹⁵). Already that time some Member States decided to abolish restrictions on capital movements.¹⁶ When in 1988 European Monetary Union became an objective, Council Directive 88/361/EEC introduced complete freedom for capital movements. However, countries could take certain restrictive measures – under the so-called safeguard clause – in limited number when capital movements could disrupt monetary policy. Since the introduction of European currency only those Member States can apply this which do not have euro yet. Temporary restrictions were also allowed in some cases. **The Treaty of Maastricht consolidated the freedom through declaring the prohibition of any kind of restriction on capital transactions and payments between Member States and also between member states and third countries.** Exceptions are mainly related to capital movements with third countries.¹⁷ Also, transitional periods were allowed to the new Member States for capital operations including the purchase of real estate.¹⁸ **Nowadays completely free capital movements are realized in the Eurozone where, thanks to the common currency, there are no transaction costs.**

In practice

¹⁴ European Parliament: Fact Sheets on the EU

<http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuld=FTU_3.1.6.html>

¹⁵ EUR Lex: Article 67 of EEC Treaty <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A61980CJ0203>>

¹⁶ European Parliament: Fact Sheets on the EU

<http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuld=FTU_3.1.6.html>

¹⁷ ibid

¹⁸ European Commission: Capital Movements <http://ec.europa.eu/finance/capital/overview_en.htm#when>

As a European citizen, you can conduct several financial operations: opening bank accounts, buying real estate and company shares, or investing in any of the Member States. Also companies can invest in and own other firms, manage affiliates in other Member States, raising money where it is the cheapest and creating jobs. Governments also profit from it as they can borrow on lower rates.¹⁹ Within the Eurozone it has even more impact: you do not have to count how much certain thing costs in your domestic currency. **Thanks to this freedom European individuals and businesses have the access to all kind of financial services (loans, insurances, securities) available in the EU.** It contributes to the everyday life and economic prosperity in the whole market.²⁰

According to our online questionnaire, the great major of citizens considers the possibility of setting up a business in any EU Member State as a good thing.

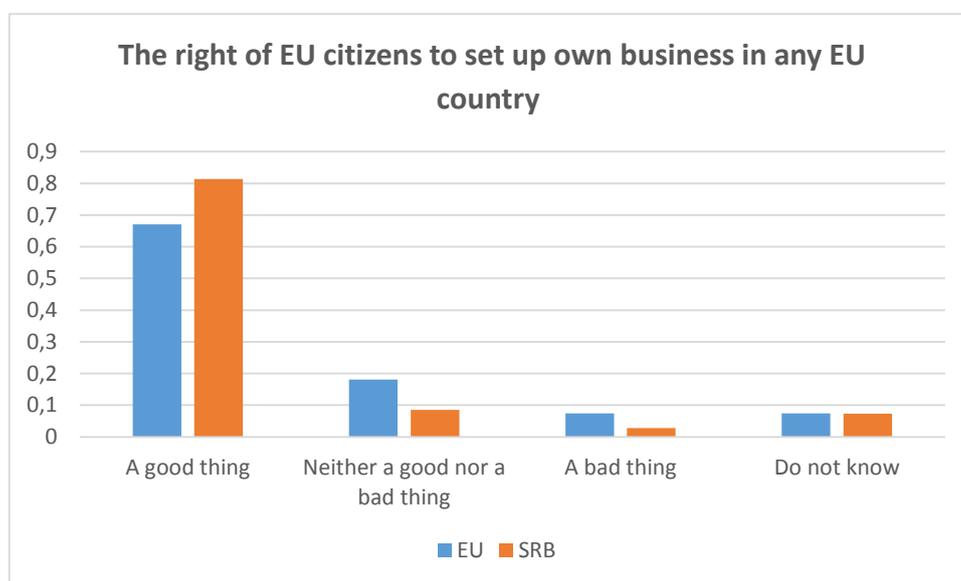


Figure 3. The right to set up own business in other Member States
Source: based on EU3doms questionnaire

Exercise your rights – examples of SOLVIT

[SOLVIT](#) is an organization under the European Commission which aims to help European citizens and their family members to exercise their rights.

Some successful stories are gathered how SOLVIT solved problems related to the right of free movement of capital:

¹⁹ European Commission: Capital movements <http://ec.europa.eu/finance/capital/overview_en.htm#why>

²⁰ Europedia: Free movement of capital <http://www.europedia.moussis.eu/books/Book_2/3/6/07/?all=1>

- *“A Slovenian national working and living in Spain applied for a refund for tax on his savings (€207.86), which had been automatically withheld by his bank. But the Spanish authorities did not refund the amount – in contravention of EU law designed to stop double taxation of savings income. After SOLVIT's intervention, the Spanish authorities refunded the amount held by the banks.”²¹*

²¹ SOLVIT <http://ec.europa.eu/solvit/problems-solved/taxation/index_en.htm>

Interesting numbers

- The free flow of capital among EU Member States resulted in growing scale of capital investment across countries. One of the best indicators measuring this growth is the inward Foreign Direct Investment stock presented in the percentage of gross value added.

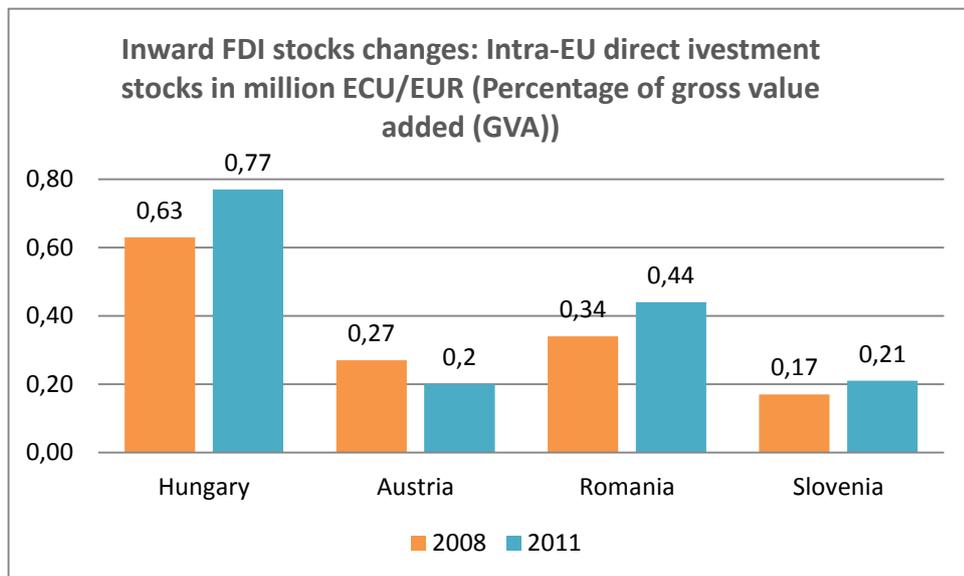


Figure 4. Inward FDI stocks changes: Intra-EU direct investment stocks in million ECU/EUR
Source: Eurostat, 2015 Dataset [\[eqi_fii_pn\]](#)

Practically, it means, that e.g. the incoming stocks of

foreign capital is measured 21% of gross value of goods and services produced in Slovenia by 2011.²²

- Impact of foreign controlled enterprises can be measured by the number of enterprises and by the number of persons employed by them. Romania has the highest number.
- Foreign direct investment net inflows had a very sharp decline after the economic crisis of

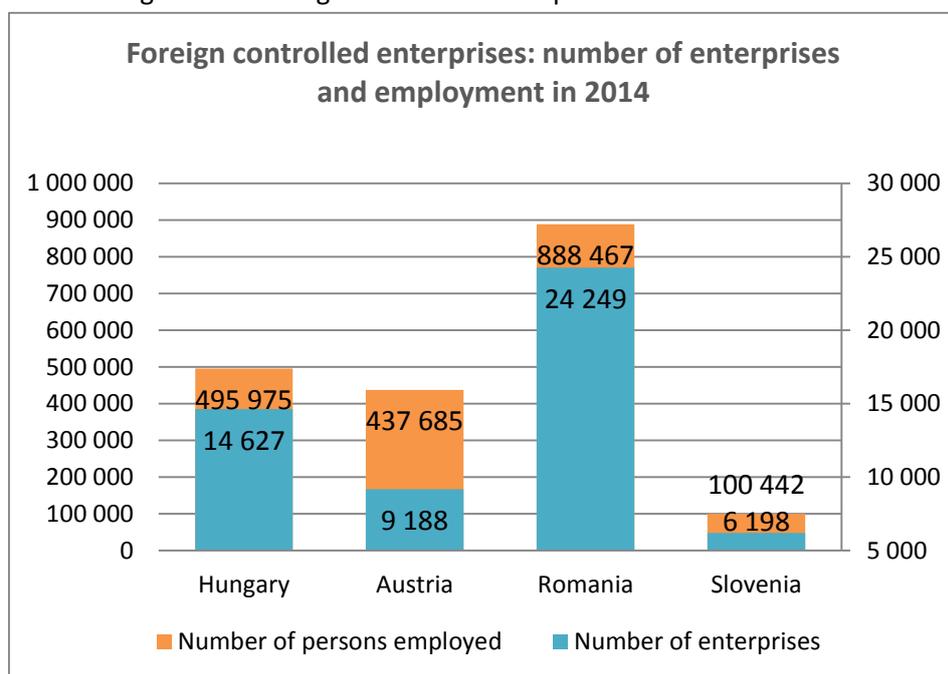


Figure 5. Foreign controlled enterprises: number of enterprises and employment in 2014
Source: Eurostat, 2017 Dataset [\[fats_q1b_08\]](#)

²² Eurostat <http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=eqi_fii_pn&lang=en>

2008.

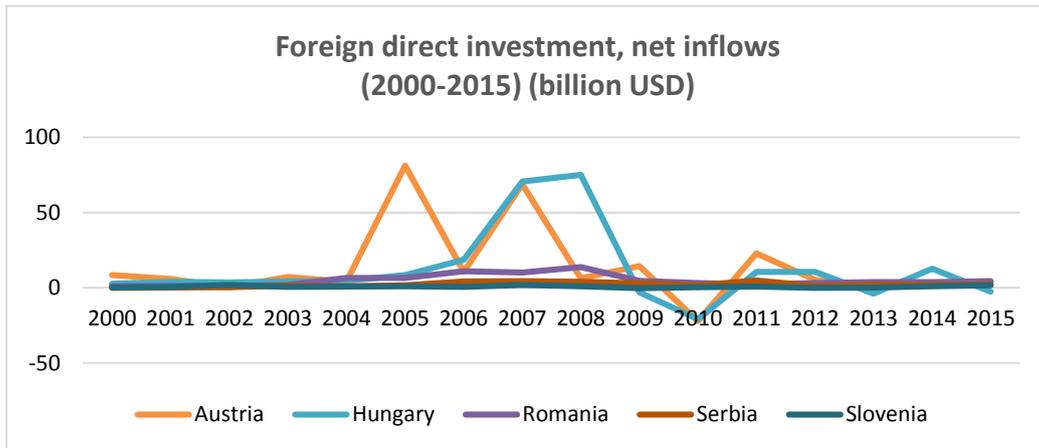


Figure 6. Foreign direct investment, net inflows (2000-2015)
Source: World Bank, 2017 Dataset

Challenges

- **The latest financial crisis shocked the Eurozone** (example of Greece), and it has overwhelming impacts: countries which have not joined to the Eurozone yet, have clear concerns.
- Foreign capital flows are not equally distributed between regions: more developed regions attract more foreign investment
 - According to a study of Copenhagen Economics, those regions that have borders with other countries, or have international airports are usually more attractive for FDI.²³

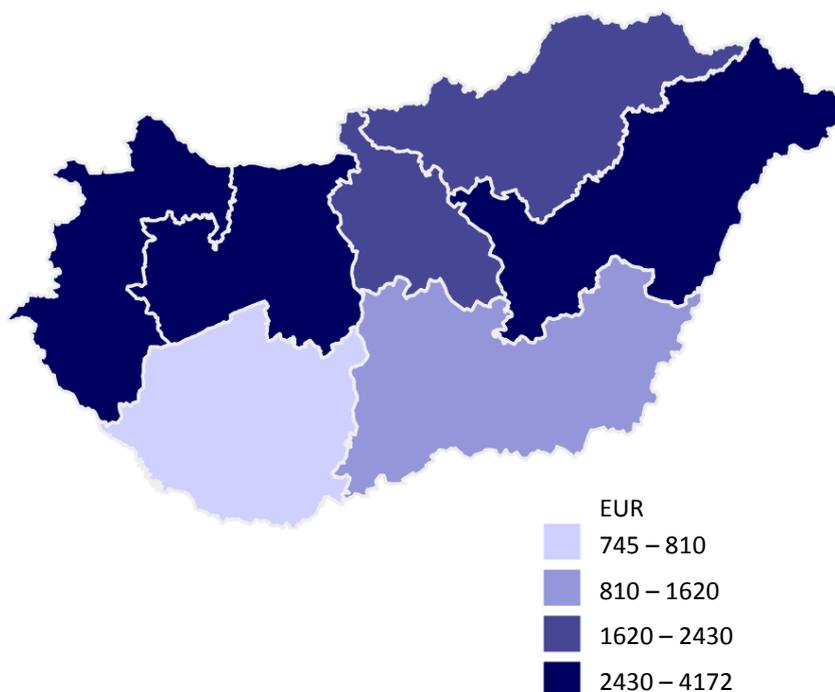


Figure 7. Amount of FDI per enterprise (thousand HUF) in 2012
Source: KSH, 2012 Dataset

- **Foreign investments can boost the economy but they can also weaken small and medium-sized enterprises**, which typically has interests on domestic markets. Free movement of capital does not always result in equal chances for the different players.
 - Tourism is one of those economic activities that offers wide range of possibilities to smaller enterprises and country side regions as well. Sustainability is a key consideration for the EU's tourism approach, including cycling routes, sports and wellbeing tourism, nature tourism, and cultural routes.²⁴
 - Also, cross-border cooperation in tourism – especially for border regions – is a good way for economic growth and investments for smaller towns that cannot compete alone with bigger tourist attractions (e.g. thematic routes that are touching upon more countries).

²³ Copenhagen Economics in cooperation with Professor Magnus Blomström. (2006). Study on FDI and regional development.

²⁴ European Commission: Sustainable Tourism

- According to a study of the Commission and the Council of Europe cultural routes have enormous potential for small and medium-sized enterprises, for small business generation, as they promote clustering, intercultural dialogue, and image of Europe in general.²⁵

Tourism, as potential breaking point

Tourism and travel will have the fourth biggest annual growth (bit more than 3% is forecasted) between 2015 and 2025 according European Investment Report. This means, that the sector will contribute to approximately 38 million jobs by 2025. Governments and sub-national levels (regions, municipalities) should focus on smart well-targeted investments in the tourism sector, that can keep up with the latest trends and the changing needs. Creative funding options such as public private partnership (PPP) or crowdfunding are potential new ways for investments, where traditional funding is not working for different reasons.²⁶

Good practices

We are enlisting some good practices realized in the tourism from a British study (*Enhancing the Competitiveness of Tourism in the EU*)²⁷

- The project called *I Briganti di Cerreto* in Italy aimed to revitalize an almost depopulated village in Emilia-Romagna through “Community Tourism”. Young resident of the village set up a Cooperative, using their different professional backgrounds to introduce activities that can boost tourism (producing traditional food, opening café and restaurant, rental business for hiking equipment, etc.). **Engagement of local people is indispensable in tourism activities.**
- **One of the main factor to be considered in changing tourism trends is the information and communication technology (ICT), namely how the tourism industry can communicate with consumers.** *Digital Tourism Business Framework programme* in Wales, UK, aimed to improve competitiveness of small and medium tourism businesses through the development of an ICT based community. Different tools included direct support to tourism SMEs, financial and logistical support for the formation of collaborative digital communities, or promoting user-generated content sharing processes.²⁸

²⁵ European Commission: Cultural Tourism <https://ec.europa.eu/growth/sectors/tourism/offer/cultural_en>

²⁶ Oxford Economics: European Investment Report, 2015

²⁷ Centre for Strategy and Evaluation: Enhancing the Competitiveness of Tourism in the EU

²⁸ *ibid*

- *Merrion Square Innovation Network* in Dublin, Ireland brought together 40 different stakeholders in hospitality and cultural sectors to create a network and to develop a new cultural area. This project is a good example of **how cluster of cultural (and related) organizations can strengthen identity and community.**²⁹
- *Dark Sky Alqueva* project in Alentejo, Portugal is a very good initiative in **fighting against the effects of depopulation and regressive economic activity, proving that weaknesses can be turned into strengths.** The region has a very low rate of light pollution and as a result it is a perfect place for stargazing. Nowadays such a clear and “unpolluted” sky is very rare in Europe, so the region could profit from it, attracting professional and amateur astronomers. Alqueva is now recognised as Starlight Tourism Destination by the UNESCO and the UNWTO. The project resulted in impressive increase in occupancy and in the number of foreign tourists, and it also had a positive impact on other sectors (handicraft and gastronomy). **The project’s lesson is that unique characteristics of a place can offer incomparable benefits if they are well-used.**³⁰

²⁹ Centre for Strategy and Evaluation: Enhancing the Competitiveness of Tourism in the EU

³⁰ *ibid*