Briefing

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Tracking European Commission priority initiatives in 2015 – Number 4.

A deeper and fairer Single Market

New opportunities for business and people

SUMMARY

The Single Market remains incomplete despite the significant progress achieved since its creation in 1993. During the economic and financial crisis the project has been reinvigorated in an effort to create much needed growth and jobs. The majority of research indeed suggests that the Single Market has increased EU GDP and had many positive effects on the economy, such as the creation of new trade and intensifying investment and innovation. Some researchers argue, however, that the results delivered by the Single Market are below initial expectations and that trade and economic integration lost momentum, especially in pre-2004 Member States.

Many hurdles, such as gaps in legislation, administrative obstacles, ineffective implementation and poor enforcement of EU law continue to prevent the unlocking of the full potential of a genuine European market where goods, people, services and capital circulate unhindered. Consequently, one of the ten main priorities of the current European Commission is the creation of a deeper and fairer Single Market. In order to revise and modernise the project, the Commission proposed a new Single Market Strategy comprising a set of targeted legislative and non-legislative actions to be launched in 2016 and 2017.

The Strategy received mostly favourable comments from stakeholders, who welcomed its focus on implementation, enforcement, and facilitating SME growth and cross-border trade. They also stressed the need for the rapid tabling of concrete proposals.

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Introduction

As a concept, the EU's Single Market (SM) is understood as one territory where internal borders or other regulatory obstacles do not hinder the free movement of goods, people, services and capital. Member States expressed their wish to create a 'common market' as early as 1957, with the signature of the Treaty of Rome. From its beginnings as a customs union, the concept has evolved over the years, and gained momentum in the mid-1980s with the Single European Act (1986), which resulted in the adoption of over 280 pieces of legislation aimed at reducing the burden for businesses wishing to market a product throughout the Union. On 1 January 1993, internal border controls between EU Member States were abolished and the Single Market was launched.

The period of financial and economic crisis in Europe was marked by efforts to reinvigorate and re-launch the Single Market, to realise its full potential and deliver much needed growth. In 2010 a new 'package approach' was proposed, which pools together initiatives from different policy areas aimed at removing remaining barriers, improving implementation of the existing rules and strengthening the social dimension of the SM. Seeking substantial and quick returns in times of scarce resources, the Commission also proposed to focus on sectors with the highest growth potential. This approach led to the adoption of Single Market Acts I and II (now under implementation). Nevertheless the commitment to deepen and strengthen the SM remains valid and high on the agenda in EU policy-making.

Economic effects of the Single Market

Quantifying the economic effects of the Single Market is very complex. Providing empirical evidence faces many challenges and the effects of the SM are often impossible to disentangle from those of other parallel phenomena such as globalisation. According to the Commission, the SM generated 2.77 million extra jobs and an additional 2.13% in gross domestic product (GDP) between 1992 and 2008. A 2014 European Parliament (EPRS) study indicates that 'in its twenty years of existence, the European Single Market is estimated to have raised GDP by 5%. When dynamic effects are factored in, the measurable effect can be seen to rise significantly.' The study assesses many papers on the subject and finds differing values between 0.3% and 12.5% of GDP generated due to creation of the SM. Other overviews of existing research also conclude that the SM has increased the EU's GDP – a study by the Institute of Economic Affairs however found that the SM creates more costs than benefits (-2% of GDP).

A common view stemming from empirical evidence is that economic gains exist but since the studies cover different countries and periods, and are based on different models, they are not directly comparable and give very different estimates. Many models indicate that EU GDP has increased by 2-3% due to the creation of the SM. This GDP growth could indirectly or directly be attributed to a multitude of SM effects identified in the majority of research papers:

- reduction of trade costs, resulting in additional trade flows and more benefits from existing trade flows;
- variation of the regional bloc's external competitiveness;
- reduction of production costs due to economies of scale and the elimination of technical inefficiencies;
- better product variety;
- added accumulation of human and physical capital stock;
- additional knowledge and technology spill-overs.

According to Eurostat data, intra-EU trade in goods increased from €800 billion in 2002 to €2 934 billion in 2014. After the decreases in 2008 and 2009 due to the economic and financial crisis, the level of intra-EU trade returned to pre-crisis levels of just under €2 500 billion in 2011. The Commission considers this growth to be due to the creation of the SM. But many researchers suggest that analysing the effects of the SM is not straightforward at all: for example, it is impossible to elaborate an accurate baseline scenario outlining what the trade levels among the EU-28 countries would have been without the liberalisation and integration processes occurring with the development of the SM. Many also argue that the significant rise in intra-EU goods exports has been to a large extent driven by global developments, mainly globalisation (e.g. intra-EU traded goods are subsequently directly exported or used as components in goods exported to third countries) and separating the two is conceptually unattainable.

A 2014 European Parliament (DG IPOL) study on measuring the performance of the SM goes as far as to say: 'the longer the causation chain, the more nuanced the effects and the more complex the interrelationships. The economic analysis cannot always say … whether the Single Market has, in theory, and has had, in practice, a positive or negative effect on many of the economic impacts'. From a review of existing economic literature it can therefore be concluded that neither empirical research nor theoretical models have been able to quantify precisely the added value generated by additional exchanges created by SM.

However, most literature agrees that the SM created new trade, decreased negative border effects on trade volumes, boosted competition in the manufacturing sector bringing down prices, increased firm size in sectors sensitive to the Single Market, intensified investment in innovation, and increased foreign direct investment (FDI) activity in the EU. Recent empirical analysis argues that EU membership and economic integration increased the incomes of 18 post-1970 members by 12% on average (although with considerable heterogeneity among individual countries).

EU-15 and EU-13 dichotomy?

The Commission argues that the dynamics of Single Market integration vary among the pre-2004 Member States (EU-15) and post-2004 Member States (EU-13). Both trade in goods with the EU and intra-EU investment in the EU-15 has stalled for over a decade. On the other hand the EU-13 have undergone a very dynamic process of integration and eventually achieved higher integration indicators than the EU-15. Furthermore, the Commission concludes that the increasing overall economic convergence among EU Member States has been largely driven by the dynamism of the EU-13. The more sluggish performance of the EU-15 may be explained by the higher level of maturity of the Single Market in those countries, while a dynamic evolution in the EU-13 could result from the catching-up process since joining the EU. According to the Commission, this trend for the EU-15 can be reversed if further SM reforms open up new economic possibilities (e.g. in services) and the implementation of reforms is strengthened.

On the other hand, a more critical view argues that the SM has neither succeeded in reversing the declining trend in EU productivity growth nor eliminated the productivity gap with the USA. Furthermore, some empirical research suggests that trade integration lost momentum over the past 15 years and there is no clear evidence behind the claim that previously untapped economies of scale can be exploited due to the SM. A report by the Bruegel think-tank argues that the results delivered by the SM are somewhat below initial expectations (as envisaged in e.g. the Cecchini report of 1988) due to existing barriers, insufficient complementary policies to support the SM (e.g. harmonisation of fiscal rules), and anti-competitive national practices (such as supporting national champions or rigid labour market rules). Furthermore, even if single market integration triggers positive and significant aggregate effects in the EU, it does not mean that these effects are positive and significant for every sector.

Upgrading the Single Market

Remaining obstacles

Completing the Single Market is an ongoing policy project, building on an *acquis* of legislation and strengthening economic relations and integration among the Member States. The Commission considers that gaps in legislation, administrative obstacles, ineffective implementation and poor enforcement still prevent an unlocking of the SM's full potential. This is broadly consistent with the view expressed by citizens and businesses.

In a recent assessment of SM integration published in October 2015 by the European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (GROWTH), the main structural and regulatory barriers include: weak demand (declining internal consumption coupled with limited access to external markets of often EU-focused value chains), inefficiencies in infrastructure (e.g. air traffic management capacity), skills mismatch on labour markets (either over- or undereducated employees) and for SMEs and start-ups, high fixed entry costs to export markets, difficulties accessing capital, and fragmentation of the SM into national markets with national regulations. The Commission sees significant potential for integration in public procurement, services and construction. However it argues that in manufacturing, after a long period of improving the allocation of production and resources, stagnation is looming and the removal of additional barriers is needed to create further gains.

Creating a Single Market for Services

Trade in goods significantly exceeds trade in services. For example, in 2013, intra-EU exports of services amounted to €842 billion, while the goods trade amounted to €2 800 billion. This can partly be explained by the nature of some services, which makes them inherently harder to transfer abroad. However, according to the OECD the tradable services sector in developed economies is growing and can sometimes be larger than the manufacturing sector (e.g. in the UK). United Nations data shows that while global exchanges in services grew by 4%, intra-EU exchanges increased by 2.5% in 2013.

Even though new communication technologies bolster the tradability of services, continuing fragmentation of the services markets in the EU still prevents the achievement of a genuine SM in this field. The 2006 Services Directive is instrumental in creating an SM for services. Early evidence from implementation of the Directive suggests that significant positive effects are likely to materialise. However, the Commission argues that after initial advances, the 2012-2014 period has been characterised by stalled progress in reforms and limited economic gains (0.1% of GDP instead of the projected 1.8% gain), and that strong enforcement of the legislation by Member States is pivotal in overcoming these difficulties. Furthermore, barriers to access and exercising professions across the EU remain strong.

New efforts by the 2014-2019 Commission

It is clear that some problems persist despite significant progress achieved since 1992 and, by the EU's own admission, further development of the SM needs to be continued. Consequently, one of the ten main priorities of the 2014-2019 European Commission is the creation of a deeper and fairer Single Market, which is also manifested in the 2015 and 2016 Annual Growth Surveys. In the document accompanying the State of the Union 2015 speech, the Commission outlines progress made in enhancing the SM since September 2014. Apart from mentioning efforts to integrate energy markets and boost the Digital Single Market, it also highlights recent SM initiatives such as making the proposal on automatic exchange of information on tax rulings, launching the Action Plan for Fair and Efficient Corporate Taxation, and outlining proposals to be tabled for a Capital Markets Union (adopted on 30 September 2015), a Labour Mobility Package and an Internal Market Strategy for goods and services.

Commission proposal

Accordingly, on 28 October 2015, the Commission published its communication entitled 'Upgrading the Single Market: more opportunities for people and business' and focused on goods and services markets. The document identifies the main remaining obstacles to a fully integrated SM: 'Barriers to the free exchange of products and services, inadequate enforcement of existing rules, low levels of cross-border public procurement and insufficient political support for structural reforms limit the opportunities for businesses and citizens, resulting in fewer jobs and unnecessarily high prices.' The document also mentions that the strategy takes innovation and global value chains which create both opportunities and challenges for businesses and customers into account. In order to revive and modernise the SM, the Commission proposes a set of targeted actions in three areas:

- **Creating opportunities** for consumers, professionals and businesses by promoting balanced development of the collaborative economy, creating opportunities for SMEs and start-ups to scale up and expand internationally, unlocking investment (in particular for SMEs), launching a 'services passport' for companies to ease administrative burdens, modernising the regulation of professions, tackling restrictions in retail establishment and preventing unjustified discrimination against consumers and entrepreneurs;
- Encouraging and **enabling modernisation and innovation** in Europe through boosting the transparency, efficiency, sustainability and accountability of public procurement, bolstering innovation procurement, consolidating the EU's intellectual property framework, and modernising the standardisation system; and
- **Ensuring practical delivery** that benefits consumers and businesses in their daily life, by taking a new holistic approach to policy-making (particularly enforcement and implementation), improving the delivery of the Services Directive by reforming the notification procedure (of national regulatory measures) and reinforcing the Single Market in goods through the improved application of mutual recognition and actions against illegal and non-compliant goods.

To achieve these aims the Commission proposes a detailed list of legislative and non-legislative initiatives to be launched in 2016 and 2017 (see Annex). Within two years the Commission will review progress on implementation and assess the need for complementary proposals.

European Parliament

The European Parliament (EP) is a long-standing advocate of the removal of all obstacles preventing the SM from reaching its full potential. The Parliament backed the launch of the SM in 1992, and in numerous resolutions issued responses to every major initiative in the field consistently supporting the deepening of the SM and boosting its potential to create growth and jobs. In its resolution of 11 March 2015, the EP underlined that the SM has not been completed yet, mainly because the Member States have not fully transposed or implemented the often complex legislation, and MEPs called on the Commission to better assist national authorities to that end. The EP also stated that the SM strategy requires a holistic approach, cross-cutting through all policy areas and based on a comprehensive and wide-reaching agreement supported by the Member States and the EU institutions.

Some of the EP's calls for legislative action with a view to further exploitation of the potential of the Single Market were not addressed, either due to a lack of action from the Commission or from an inability to reach political agreement on existing proposals. The EP's report on outstanding legislative demands of the seventh term (2009-2014) mentions five areas where further action is needed: **Single Market for Industrial Goods** (examples include European origin marking labelling); **Financial Services** (e.g. Investor Compensation Scheme Directive or Insurance Guarantee Scheme); **Digital Single Market** (e.g. European financial instrument for credit and debit cards); **Single Market in Services** (the current transposition deficit of 0.7% is higher than the 0.5% called for by the EP); and **Cooperation in Public Services** (e.g. recognition of social services of general interest). It remains to be seen how much progress will be achieved in these fields over the coming years.

Added value of further integration

According to the EP's European Added Value Unit, a series of policy actions at European level to complete the Single Market could bring about important gains to EU GDP. Potential advantages from ending market fragmentation and addressing gaps and shortcomings, particularly in the fields of free movement of goods, services, public procurement, the digital economy, and consumer laws **could result in annual gains** of between **€651 billion** and **€1.1 trillion per year** (between **5% to 8.6%** of EU GDP). The latest edition of the Cost of Non-Europe Report (April 2015) argues that completing the SM in goods and services, as well as the Digital Single Market, and creating an integrated financial services sector and energy market could bring about efficiency gains of as much as **€1.36 trillion**. The Commission estimates that improved implementation of the Services Directive would yield a further 1.8% to EU GDP.

Stakeholder views

The **European Policy Centre** (EPC) argues that the European Commission has now reinforced its Single Market focus in an integrated vision comprising goods, services and 'flanking measures' such as public procurement and the mutual recognition of qualifications. However, the EPC sees challenges in making decisive progress on the SM, due to the difficulty in finding one harmonised regime for 28 Member States. At the same time, the frequent use of directives in the field has already caused a high degree of variation in implementation, which creates legal uncertainty, obstructing market integration and deterring private investment. Analysts advocate a new approach to market integration: open markets based on radical mutual recognition. They recognise however that in the current environment, persisting crises and less focus on the EU's long-term development are likely to limit future ambitions.

BusinessEurope welcomed the strategy, underlining that it correctly focuses on improving application and stronger enforcement of EU legislation. It also supported the reform of the notification procedure announced in the Communication. Business representatives urged the EU to rapidly deliver concrete proposals as signalled in the strategy and stressed that removing barriers to the free movement of people, goods, services and capital could add up to 5% to EU GDP.

Eurochambres also supported the focus of the strategy on compliance and enforcement arguing that it suggests 'doing better, not more', and that the Commission has rightly positioned itself as championing internal market implementation rather than producing new legislation. Eurochambres welcomed the proposals to improve the notification procedure and to revise the mutual recognition regulation. It argues that the main drawback of the strategy is the absence of initiatives to improve the Points of Single Contact for cross-border service providers, which have good potential to assist businesses, but reportedly underperform at present.

The European Small Business Alliance (ESBA) welcomed the focus of the strategy on measures helping SMEs and start-ups to scale up and expand. ESBA commended the Commission for proposing an Action Plan to reduce the administrative burdens of VAT by creating simplified regulation for SMEs. The organisation also welcomed introduction of a services passport and measures to tackle remaining regulatory barriers, and expressed its willingness to examine more concrete proposals when tabled.

Cooperatives Europe argued that the SM strategy is a step in the right direction and that the focus of the document on the collaborative economy is correct, since this new business model has significant economic and social impacts which need further examination. The cooperatives welcomed the measures to support SMEs proposed in the strategy, but regretted that the Commission has not proposed revision of the Small Business Act to increase its scope to cover all SME-related policies. Furthermore, the cooperatives supported the fact that the strategy includes measures to increase the transparency, efficiency and accountability of public procurement procedures.

The European Trade Union Confederation welcomed the recognition in the Communication of the need to protect workers. ETUC stressed that before the construction sector is stimulated to expand cross-border, certain issues such as undocumented work, exploitative use of sub-contractors, and false self-employment should be tackled first. Trade unions also supported recognition by the Commission that certain employment issues in the collaborative economy, such as social security payments and health and safety need to be addressed. However, ETUC argued that proposals to declare void any new regulatory measure (affecting the services sector) that has not been notified to the Commission is disproportionate and may cause significant harm. According to Politico, some elements of the strategy, such as promoting the sharing economy and relaxing labour mobility rules are likely to be opposed by the trade unions.

The Council of European Professional and Managerial Staff, **Eurocadres**, underlined that the strategy will have a profound impact on EU labour markets. Eurocadres argues that the sharing economy, while inevitably on the rise, poses many unanswered questions in the area of employee protection, equal treatment health and safety and social security which require a common European answer. Eurocadres prefers to see an evaluation of the situation in regulated professions, in cooperation with social partners and professional organisations, before implementing the reforms in the strategy. The trade union is determined to closely monitor initiatives on modernising intellectual property frameworks as well as the services passport, which will have an impact on workers' rights and collective agreements.

EuroCommerce broadly supported the SM strategy and insisted that rapid implementation is crucial for its success. The trade association appreciated measures to benefit the retail trade, such as facilitating the set-up of businesses; enhancing the mutual recognition principle; revision of the notification procedure; a reinforced commitment to compliance and enforcement of EU law; and measures to improve the business environment for SMEs. It was disappointed, however, at a lack of guidance on the horizontal framework for non-food products and absence of an assessment of national requirements on re-testing or relabeling which are not harmonised at EU level.

The Association of Chartered Certified Accountants supported the strategy, but stressed that its implementation would require the strong accord and commitment of all parties: the EU institutions for a balanced design of legislative measures; and the

Member States for their implementation. ACCA commended the Commission's intention to tackle the main difficulties identified in the strategy faced by SMEs and start-ups throughout their lifecycle, i.e. identifying and meeting regulatory requirements; access to funding; legal uncertainties and fear of failure; and the complexity of taxation. ACCA also welcomed the proposal for a new VAT action plan.

Interel, a consultancy, suggested that the strategy needs greater ambition to boost the economic potential of the Single Market. Interel argued that the services passport may improve access to information, but will not ultimately lead to EU-wide harmonisation of requirements. It also recommended a rethink of instruments used for SM legislation: while directives are politically attractive as they allow local adaptation, they increase the administrative burden. A genuine single market should be governed by directly applicable regulations, rather than directives that lead to 28 national measures.

British business seems to hold mixed views: the Confederation of British Industry and Federation of Small Businesses welcomed the initiative, while the British Chambers of Commerce called it 'more cosmetic than substantive'. Prime Minister David Cameron stated recently that 'the new plans to deepen the single market ... will mean new opportunities for millions of British businesses to operate more easily anywhere in Europe.'

The German Engineering Federation (VDMA) criticised the strategy and argued that it ignores digitisation in industry and therefore neglects the opportunity to create a modern Single Market able to reap the benefits of a new industrial revolution (Industry 4.0). The Federation would like to see a Europe-wide debate on data protection and data security in industry. Furthermore, the VDMA called on the Commission to review whether the existing regulations governing the Single European Market are still relevant in times of ever stronger digitisation.

Main references

European Commission's website on the Single Market and Single Market Strategy, 2015.

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EPRS study 'The Cost of Non-Europe in the Single Market. Cecchini revisited', September 2014.

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Annex – Roadmap to delivering on the Single Market Strategy

Actions	Timetable
I. Creating opportunities for consumers and businesses	
European agenda for the collaborative economy including guidance on how EU law applies to collaborative economy business models	2016
VAT Action Plan to reduce administrative burdens	2016
Legislative initiative on business insolvency, including early restructuring and a second chance to address fear of failure	2016
Initiatives to facilitate the use of digital technologies and solutions throughout a company's life cycle. Possible **new rules** on cross-border mergers and divisions	2017
Start-up initiative to assess and reduce regulatory requirements for start-ups	2016
Guidance on reform needs for Member States in regulation of professions	2016
Developing an analytical framework for Member States to use when reviewing the existing or proposing additional regulation of professions	2016
Legislative action to address specific regulatory barriers in key business services and construction services	2016
Legislative initiative to introduce a 'services passport' for key sectors of the economy such as construction and business services to facilitate cross-border expansion	2016
Communication setting out best practices to facilitate retail establishment and reduce operational restrictions in the Single Market	2017
Legislative and enforcement actions to prevent discrimination against consumers based on nationality or country of residence	Mid-2016
II. Encouraging modernisation and innovation	
Joint initiative on standardisation agreed with EU standardisation community	2016
Dedicated guidance on service standardisation	2016
Public procurement: stepping up voluntary *ex ante* assessment mechanism for certain large infrastructure projects	2017
Initiatives for better governance of public procurement through the establishment of contract registers, improved data collection, providing legal and technical assistance and promoting networking between review bodies	2017-2018
Initiatives to consolidate and modernise the intellectual property rights (IPR) framework, including a **review** of the European IP enforcement framework	2016-2017
III. Ensuring practical delivery	
Development of data analytics tool for monitoring SM legislation	2017
Regulatory initiative for market information tools allowing the Commission to collect information from selected market players to monitor and enforce rules	2016
Legislative proposal modelled on the successful features of the current notification procedure under Directive (EU) 2015/1535 for services currently not covered by that Directive (to increase legislative transparency)	2016
Action Plan to increase awareness of the mutual recognition principle in the EU	2016
Revision of Mutual Recognition Regulation	2017
Comprehensive set of actions to strengthen efforts to bar illegal and non-compliant products from the EU market (a possible **legislative initiative**)	2016-2017

Source: European Commission.