

Hearings of European Commissioners-designate

Elżbieta Bieńkowska

Internal Market, Industry, Entrepreneurship and SMEs

Hearing due to be held on Thursday 2 October at 13.30 hours.



Elżbieta Bieńkowska, Poland.

EP Committees responsible for the hearing

Industry, Research and Energy (ITRE)
Internal Market and Consumer Protection (IMCO)

Biography

Born in 1964, Elżbieta Bieńkowska holds a Master's degree in oriental philology, a post-graduate diploma from the Polish National School of Public Administration and an MBA from the Warsaw School of Economics. She worked in the Business Department of the Silesia region, where she managed local implementation of the EU's Phare programme. She served as Minister for Regional Development from 2007 to 2013. Since then, she has been Deputy Prime Minister and Minister of Infrastructure and Development.

This is one of a set of Briefings designed to give Members of the European Parliament an overview of major issues of interest in the context of the hearings of the Commissioners-designate. A full set of such Briefings can be found at:

http://epthinktank.eu/commissioner_hearings

Background – Internal Market

The single market is a policy project, an *acquis* of legislation and a set of economic relations. The EU's internal market policy is all about removing barriers and simplifying the rules so that individuals, consumers and businesses may reap the benefits of having access to a European single market. Currently the market involves over 500 million customers, more than 21 million companies, €2 800 billion of intra-EU trade and €1 500 billion in external trade.

The European Commission claims that the single market has helped to enhance competition, reducing prices and increasing consumer choice. It also enables citizens to travel, study, work, live and retire in any EU country. The number of Europeans residing in another Member State on a permanent basis has recently reached 14 million, as opposed to 4.6 million in 1995. The single market has also had a profound impact on the European economy since its creation. The Commission estimates that it generated 2.77 million extra jobs and an additional 2.13 per cent in GDP between 1992 and 2008 (the main empirical studies from the period 1998-2008 also show its positive effect on GDP).

A 2011 Eurobarometer survey showed that European citizens are satisfied with the possibilities offered by the single market, particularly the wider choice of products (74%), more jobs (52%) and fair competition (47%). In a 2013 survey, 25% of respondents said they would consider working abroad in another Member State.

Treaty base and EP competence

Articles 4(2)(a), 21, 27, 28, 29, 114 and 115 of the Treaty on the Functioning of the European Union (TFEU) constitute the legal base of the internal market. The EU has the powers to act in this area by means of 'shared competence' between the EU and the Member States (Article 4(2)(a) TFEU). Articles 114 and 115 TFEU give the EU power to legislate for the single market.

Further relevant TFEU provisions include: Articles 26 and 28-37 (free movement of goods); Articles 3(2), 4(2)(a), 20, 26 and 45-48 (free movement of workers); Articles 49-55 (establishment) and 56-62 (services); Articles 26 and 53 (the mutual recognition of diplomas); Article 6 (d) 195 (title XXII) on tourism. EU competence in the area of tourism is limited to carrying out actions that support, coordinate or supplement Member States' actions.

The European Parliament is mainly involved under the ordinary legislative procedure.

Recent developments

The period 2009-14 was marked by efforts to re-launch the internal market so that it can reach its full potential. The Europe 2020 strategy called for a renewed commitment to make the single market stronger and deeper so that it can serve as one of the main instruments to achieve the strategy's objectives of smart, sustainable and inclusive growth.

Deepening the single market

The 2010 Strategy for the single market proposed a 'package approach' which brings together initiatives from different policy areas aimed at removing remaining barriers, better implementation of the existing rules and a focus on the social dimension. This was followed by the Commission communication 'Towards a Single Market Act' which put up for public debate measures aiming to boost economic growth and create jobs. It paved the way for the 2011 **Single Market Act** (SMA) which proposed 12 measures including, improving access to venture capital for small business, recognition of

professional qualifications, unitary patent protection and litigation, social entrepreneurship funds and revised public procurement rules.

In 2012, the Commission adopted a communication on 'governance of the single market'. It proposed to focus on sectors with the highest growth potential including network industries such as energy and telecommunications, and key services sectors – trade, business services, financial intermediation and transport – and called for improvement in the transposition and enforcement of single market legislation. This was followed by the **Single Market Act II**, which contains 12 further measures focused on four main drivers for growth: integrated transport and energy networks, cross-border mobility of citizens and businesses, the digital economy, and actions reinforcing social cohesion, entrepreneurship and consumer confidence.

Implementation of the Single Market Acts

In a June 2014 analysis for the IMCO Committee, Policy Department A found that the Commission made 22 proposals for 24 key actions envisaged in the SMAs, with only two remaining to be launched: the right to take collective action and the setting-up of a harmonised electronic cargo manifest.

The study notes adoption by the EP and the Council of three quarters of the actions for the SMA and just under half for SMA II. These cover areas such as access to finance for SMEs, citizens' mobility, public procurement, the digital single market, patent protection, energy and transport infrastructure, simplification of accounting, alternative and online dispute resolution, and reform of the European standards system. Other key actions are either pending in Council (the product safety and market surveillance package) or blocked in Council (review of the taxation of energy products and the electricity framework). Some are also pending in the EP (the revision of the Payment Services Directive and regulation on procurement with third countries).

The report concludes that while the institutions have consistently proposed and examined many technical and complex issues in a short period of time, the deadlines for delivering all the key actions (end of 2012 for SMA and end of the outgoing Commission's mandate for SMA II) have not been met.

Internal market policy

Modernisation of **public procurement** rules included the revision of two Directives, a new instrument for awarding concessions contracts, and a Directive on electronic invoices in public procurement. The reforms aimed to increase flexibility and facilitate application of the existing rules, allow strategic use of public purchasing (for instance for the accomplishment of green, social and innovation-related objectives), increase legal certainty and boost the use of novel procurement instruments such as joint buying and e-procurement.

The 'Agenda for New Skills and Jobs', one of the Europe 2020 Strategy's flagship initiatives, concluded that facilitating **recognition of professional qualifications** would contribute to a better match of skills and jobs on the EU labor market. Consequently, the Professional Qualifications Directive was adopted by the EP and Council in 2013. Its measures aim to facilitate the recognition process while ensuring adequate protection for consumers and businesses, through for example introducing the European Professional Card, common training frameworks and better access to information for citizens.

The 2012 patent package (two Regulations under enhanced cooperation and the agreement on the Unified Patent Court) introduce the **unitary patent** which will be

cheaper than obtaining separate national patents and will provide protection in all the participating Member States.

A first economic assessment after the implementation of the 2006 **Services Directive** was carried out in 2012 and showed gains in GDP of 0.8% at the EU level. Even though all Member States have transposed the Directive in their legal systems, the evaluation shows that national legislation still contains incompatible elements.

In 2010, the Commission adopted a new political framework for tourism that aimed to make European tourism more competitive, modern, sustainable and responsible.

European Parliament

The Lisbon Treaty increased the competence of the EP as a co-legislator with the Council on internal market issues. The ordinary legislative procedure now also applies in Articles 51 (freedom of establishment), 56 and 59 (services). The Treaty also provided for the use of co-decision in the field of tourism. However, tourism does not yet have its own budget under the new Multiannual Financial Framework (2014-20) despite the EP's calls.

While negotiating the new public procurement rules, the EP ensured that the principle of 'most economically advantageous tender' became central in awarding contracts. This allows greater emphasis to be placed on the quality, environment, social aspects and innovation, rather than just the price of what is being procured.

Building on its 2011 own-initiative report, the EP adopted a resolution on modernisation of the Professional Qualifications Directive in 2013. Parliament secured many important provisions, such as the introduction of a **voluntary professional card**, the establishment of an alert mechanism concerning professionals prohibited from practicing in another Member State, the clarification of the rules on partial access to a regulated profession and language skills, and the creation of a mechanism for the mutual evaluation of regulated professions by the Member States.

In 2010 and 2011 the EP adopted four resolutions calling for the introduction of and then responding to the Single Market Act. All these resolutions called for strengthening the **governance of the single market**, and better transposition and enforcement of its legislation. The EP has also been supporting inclusion of an annual single market governance cycle in the European Semester policy coordination exercise.

During the last parliamentary term, the EP prepared three resolutions on the **internal market for services**. The latest, from 2013, dealt with implementation of the Services Directive and concluded that removing remaining barriers and administrative burdens to the single market for services could result in an economic gain of up to 2.6 % of EU GDP in the coming five years.

Priorities and challenges

Commission President-elect Jean-Claude Juncker has declared that building on the strength of the single market and fully exploiting its potential in all its dimensions will be one of his main priorities. He will focus on completing the internal market in products and services, and supporting labour mobility, especially if it helps with skills shortages and mismatches. In Bieńkowska's mission letter, he also mentions reviewing the principle of mutual recognition; contributing to the European Semester by identifying new sources of jobs and growth; and encouraging Member States to cooperate better in defence procurement.

One of the main challenges in the internal market area is likely to be the review of progress on the Europe 2020 strategy, especially in strengthening the single market. In addition, the **shadow economy** – which was estimated in 2012 to be worth some €3.25 billion – will need to be addressed. Constant development of the single market either in established areas such as procurement, or in new areas that need regulating, will also be important. The Commission's use of implementing and delegated acts will also need to be scrutinised by the EP. Parliament will also monitor implementation of internal market legislation at national level (possibly by using redefined governance instruments).

Background – Industry, SMEs and Entrepreneurship

Industry

Industry accounts for more than 80% of Europe's total exports and 80% of private research and innovation expenditure. Nearly a quarter of all private sector jobs are in industry', and each additional job in manufacturing leads to the creation of between half and two further jobs in other sectors. In June 2013, industry accounted for 15.1% of EU GDP.

EU policy aims to create favourable conditions for industry to increase its competitiveness and, in effect, boost economic growth and employment in Europe. Industrial policy is also incorporated into a range of EU policies such as research, innovation, employment, trade and energy, since they all have an impact on the competitiveness of industry.

SMEs and entrepreneurship

There are about 23 million SMEs (firms with fewer than 250 workers), representing 98% of all European businesses. Of these SMEs, 90% have fewer than 10 employees (micro-enterprises). Two of every three jobs in the EU are in SMEs, which also provide five out of every six new jobs. SMEs are responsible for over half of the total value-added created by European businesses, which makes them the main contributor to Europe's GDP. About 25% of SMEs are involved in cross-border trade.

The EU seeks to improve the business environment for SMEs by deploying policies, actions and programmes that are friendly to small businesses. These initiatives aim to increase the attractiveness of the EU as a place for establishing a company and conducting business.

Treaty base and EP competence

Article 173 TFEU is the basis for measures to support industry. The European Parliament is co-legislator with the Council. While the EU sets the framework conditions to boost competitiveness of industry, the main responsibility remains with the Member States.

Recent developments

The seventh legislative term was marked by the adoption of the Europe 2020 strategy. Three of its seven flagship initiatives concern competitiveness, SMEs and industrial policy: 'Innovation Union' (a strategy to create an innovation-friendly environment which facilitates turning ideas into products and services); 'An industrial policy for the globalisation era' (a strategy for strong, diversified and competitive European industry); and 'New Skills for New Jobs' (a strategy to boost employment).

Industry

In various documents, the Commission has set out a strategy for revival of European industry. It has proposed to focus on competitiveness in the preparation of policy proposals and trade agreements. It has promoted micro-/nanoelectronics, nanotechnology, photonics, advanced materials, industrial biotechnology, and advanced manufacturing technologies. It set the target of **increasing industry's share of EU GDP** to its pre-crisis level of 20% by 2020. It aimed to speed up the inclusion of design in innovation policies, boost the adoption of advanced manufacturing, and at fostering growth and jobs, with priority given to selected areas such as access to energy and raw materials, utilising financing instruments, and restoring lending to the real economy. The Commission has also adopted a number of industrial plans and strategies aimed at stimulating innovation, growth, and boosting competitiveness in sectors such as automotive manufacturing, commodity markets / raw materials, steel, defence and security, construction, fashion and high-end industry, shipbuilding and industrial products.

SMEs and Entrepreneurship

The Commission has adopted a number of proposals aiming to **improve the business environment** for SMEs. Easier access to finance has been supported by the Competitiveness and Innovation Framework Programme (€15 billion in 2007-13), and the European Investment Bank and the European Investment Fund (€13 billion of loans on favourable terms in 2012). This support will continue in the 2014-20 period through the COSME and Horizon 2020 programmes. Improvements in the regulatory framework included the review of the Small Business Act (SBA) for Europe, the Regulatory fitness package and the 'top ten' burdensome laws (identified for review or repeal). The Entrepreneurship 2020 action plan suggested a series of measures to enhance entrepreneurial education, and support business creation in Europe.

European Parliament

Parliament sought to influence the policy debate surrounding Europe 2020 and its flagship initiatives with own-initiative reports and oral questions. Moreover, during the seventh parliamentary term, through codecision procedures, resolutions on topical subjects or own-initiative reports, Parliament has systematically advocated simplifying access to finance for SMEs, reducing administrative burdens, creating favourable conditions for revival of European industry and boosting innovation.

In particular, the EP found agreement with the Council on the Programme for the Competitiveness of Enterprises and SMEs (COSME). This programme is dedicated to facilitating SMEs' access to finance and promoting entrepreneurship. With a budget of €2.3 billion in the 2014-20 period, COSME is expected to mobilise up to €25 billion, through leverage effects, in the form of loan guarantees and equity. MEPs ensured the allocation of at least 60% of the budget to financial instruments such as the Equity Facility for Growth and the Loan Guarantee Facility. These funding mechanisms will support SME funding through risk capital or loan guarantees.

Main priorities and challenges ahead

The recovery of industry from recession has been slow and only partial. In total, 3.5 million jobs have been lost in manufacturing during the crisis. To reverse this situation the Commission set the target of industry's contribution to GDP to rise to 20% by 2020. However, its contribution fell from 16% in 2012 to 15.1% in June 2013. The EP and the Commission will be monitoring further developments with an impact on the

achievement of this target. The EP expects further efforts from the Commission on SMEs, especially to improve their **access to finance** (as it is a constant challenge to their growth) and further **removal of administrative burdens** which affect them disproportionately. In particular, on the basis of the review of the Small Business Act (SBA), the Commission can be expected to adopt a revised SBA soon.

Commission President-elect Jean-Claude Juncker has stated that supporting European SMEs and strengthening the industrial base are among his top priorities for the new Commission. He intends that the Commission, EP and Council identify European and national 'red tape' – especially in the rules affecting SMEs, innovation and competitiveness. In order for industry to reach the GDP target by 2020, the new Commission will focus on stimulating investment in new technologies, improving the business environment, facilitating access to markets and to finance (particularly for SMEs), and ensuring that workers' skills match industry's needs. In his guidelines, Juncker also mentions efforts to increase the share of renewable energy in industrial use, and support for strategic sectors such as automotive, aeronautics, engineering, space, chemicals and pharmaceutical industries.

The March 2014 European Council requested the Commission to develop a roadmap on **industrial competitiveness**. During the informal Competitiveness Council in July 2014, its four pillars were revealed: access to markets (removing internal market barriers and improving access to external markets), access to inputs (finance and energy), smart industry and innovation (using Horizon 2020 and Structural Funds to develop industrial innovation) and a business-friendly regulatory framework (more systematic and effective use of assessments, tests, and competitiveness proofing – particularly concerning SMEs – for European and national legislation). Furthermore, the Commission emphasised the integration of industrial competitiveness into all relevant policies by improving the coordination of all levels of industrial policy decision-making.

Another issue likely to be addressed by the EP and the Commission in the near future is the impact of **high prices of energy and raw materials** on the competitiveness of European industry. Fifty per cent of the costs of European firms come from these two items, (in comparison, labour accounts for only 20%). 'Green' ways to moderate these costs such as energy and resource efficiency are likely to be examined. The EP will also scrutinise the implementation of COSME with a view of ensuring that the funds intended for SMEs reach them efficiently. The impact of future trade liberalisation agreements on industry and SMEs is also likely to be examined carefully by the EP. MEPs will also seek to address the issue of SMEs' access to markets outside their home country and measures to facilitate it (possibly building on the Enterprise Europe Network).

European Added Value

According to the EP's European Added Value Unit, completing the existing single market for goods, services and capital could bring about a significant boost to GDP over time (€300 billion annually). Furthermore, integrating security and defence markets would give economies of scale resulting in efficiency savings of about €26 billion per year. Closer cooperation in energy policy, aimed at increasing energy efficiency, has the potential to boost competitiveness and lower net energy costs by around €50 billion per year, and according to some calculations by as much as ten times as much by 2050. SMEs, which rely on banks for external funding, may gain up to €53 billion per year from more effective integration of financial markets.

Further reading

[Internal Market and Services](#), European Commission website.

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