

CONTRIBUTION OF THE INTERNAL MARKET AND CONSUMER PROTECTION TO GROWTH

Study conducted by Civic Consulting for the Internal Market and Consumer Protection Committee of the European Parliament

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Outline of the study

1. A general perspective: contributions of the single market and consumer protection to growth
2. The single market and consumer protection through the lens of the Europe 2020 flagship initiatives
3. The single market and consumer protection beyond the Europe 2020 flagship initiatives
4. Conclusions and recommendations

Overview of methodological tools

- Extensive literature review. Over 800 documents, focusing on impact assessments and relevant studies
- Individual or group interviews with more than 30 experts from all Commission DGs relevant for flagship initiatives, industry, consumer organisations, and research institutes/universities
- Case studies on achievements relevant for the single market or consumer protection and related contributions to growth under flagship initiatives

Indicators of single market integration

- *Intra-EU trade in goods*: From 12% to 22% of GDP over 1992 to 2012. → But trade volume in EU is 7.5 times higher within than between states; only 2.6 in US
- *Intra-EU capital flows*: Intra-EU FDI increased from €64 billion in 1992 to €260 billion in 2010. → But cross-border purchases of bonds and shares have dropped after 2007
- *Price convergence*: Variation in prices for household goods from 40% down to 25% over 1995-2011
→ But price dispersion for tradable goods between state capitals is higher in the EU than in the US
- *Labour mobility*: Share of EU citizens working in another MS from 1.5% to about 3% over 1990-2011. → But annual mobility across state borders is 8 times higher in the US

Theoretical benefits of a single market

- Economies of scale because of bigger markets
- Stronger competition thanks to lower barriers to entry
- Lower transaction costs relating to cross-border trade due to the abolition of border formalities and national regulations
- Lower financial transaction costs because of greater financial integration
- Better allocation of resources (capital, labour), as a borderless market allows resources to move to where they are most needed

Impact of the single market on growth /1

- Many studies have quantified the impact of the single market on growth, both ex-ante and ex-post
- One of the most-often quoted ex-ante studies is the Cecchini report in 1988, which estimated an impact of 4.25-6.5% increase in EU GDP as a result of the Single Market Programme of 1992
- More recent studies of elimination of intra-EU goods and services barriers have made even higher estimates

Ex-ante analyses

Impact measured	Estimation of increase in EU GDP	Information concerning methodology	Source
Effect of single market	4.25-6.5%, and 7% in the long run	Covers EU Member States in 1988	Cecchini et al. (1988)
	0.5% for immediate static effects, 1.2-2.6% including dynamic long-run effects	General equilibrium model	Harrison et al. (1994)
Elimination of intra-EU goods and services barriers	10% in the long run	General equilibrium model applied to goods and services. Estimation based on long-run steady state accounting for dynamic effects.	Straathof et al. (2008)
	14% by 2020	Based on the MIRAGE computable general equilibrium model (CGE) simulations covering 2011-2020, accounting for dynamic effects.	Aussilloux et al. (2011)

Ex-post analyses /1

- Ex-post analyses have since measured the observed impact of the single market on growth
- They have mostly estimated the real gains to be smaller
- The estimated impacts in the ex-post analyses increase with the time period under analysis, but there is little discrepancy amongst them

Ex-post analyses /2

Impact measured	Estimation of increase in EU GDP	Information concerning methodology	Source
Effect of single market	About 1% over 1992-1996	Aggregation of 38 studies and one business survey	Monti (1997)
	1.8% over 1992-2002	Using Commission's QUEST model	EC (2003)
	2.2% over 1992-2006	Using Commission's QUEST model.	Ilzkovitz et al. (2007)
	4.8-5.7% over 1987-2011	<i>Unidentified</i>	EC (2010)
	2.13% over 1992-2008	<i>Unidentified</i>	EC (2012)
European integration process	2-3% over 1958-2005	Gravity equation model accounting for trade diversion effects	Straathof et al. (2008)
	5% over 1950-2008	Assessment based on each individual step of European integration	Boltho and Eichengreen (2008)

Impact of the single market on growth /2

Explanations for difference ex-ante/ex-post estimates:

- No clear control group or counterfactual
 - Technological and structural changes make estimations difficult (e.g. dramatic changes of telecoms market)
 - Often estimates focus on *static* effects on growth (e.g. from immediate savings), *dynamic effects* due to longer term productivity changes harder to measure
 - Potential bias regarding assumptions made (e.g. perfect integration) and the (often) desired aim of the studies (i.e. showing a positive impact on growth)
- Overall, a strong case can be made for the potential for the single market to contribute to growth and jobs

Impact of consumer protection and empowerment on growth

- Consumer protection fosters the confidence and trust to sustain consumption and to shop cross-border, empowerment drives competition through e.g. switching providers, both contribute to growth
- A significant body of literature confirms these theoretical benefits, but little empirical evidence has been identified
- Nonetheless, a major EU-wide survey in 2010 concluded that total ex-post consumer detriment – based on financial losses reported from problems experienced – was equivalent to 0.4% of EU GDP

The single market and consumer protection and empowerment through the lens of the Europe 2020 flagship initiatives

Case studies on flagship initiatives

- Description of all 7 flagship initiatives and summary of progress in achieving Europe 2020 objectives (only 3 of them presented here)
- Identification of key achievements during the 7th legislature relevant for the single market & consumer protection in the sectors/areas covered
- Presentation of evidence of actual or potential contributions on growth in the sectors/areas covered by the flagship initiative
- Conclusions

Flagship 1: A digital agenda for Europe /1

Achievement	Effects
Adoption of Telecoms Package	Updates the regulatory framework for electronic communications Introduces a range of new protective measures concerning e.g. switching, information requirements, internet freedom
Adoption of Single Euro Payments Area Regulation	Establishes a single market for online payments
Adoption of Regulation on eID and trust services	Creates a European internal market for electronic Trust Services
Adoption of Directive on e-invoicing	Harmonises e-invoicing systems for public authorities
Proposal for a Connected Continent Regulation	Would further update the regulatory framework for electronic communications New measures, concerning e.g. switching, information requirements, internet freedom, end of roaming premiums
Proposal for a revised Payment Services Directive	Would improve low-cost internet payment services

Flagship 1: A digital agenda for Europe /2

Achievement	Effects
Adoption of Consumer Rights Directive	Introduces a range of new consumer rights applying to goods and services markets and online.
Adoption of ADR Directive/ODR Regulation	The ADR Directive ensures that disputes between consumers and traders in almost all business sectors can be submitted to an ADR entity; the ODR Regulation introduces an EU-wide online platform for disputes relating to online purchases
Adoption of Collective Redress Recommendation	Sets out a series of common, non-binding principles for collective redress mechanisms
Proposal for a Common European Sales Law	Would give traders choice to sell products to non-domestic citizens according to a single set of contract law rules
Proposal for a General Data Protection Regulation and Directive	Would further harmonise data protection requirements Would introduce a range of new measures, including a right to be forgotten and data portability

Selected indicators – digital markets

- *Telecommunications*: Overall prices sunk by 30% in the past decade
- *E-commerce*: The proportion of European population buying online from other EU sellers rose from 6.3 to 11% over 2008-2012

However:

- *Telecommunications*: The telecommunications sector has the highest rate of problems and complaints
- *E-commerce*: 44% of Europeans are discouraged from making cross-border purchases of goods and services due to uncertainty about their rights

Potential contributions to growth – digital markets

- If the digital single market were completed, it could result in:
 - 2-4% additional GDP growth for the EU27 over 2010-2020;
 - Welfare gains of €27-55 billion per year
- If the share of e-commerce in retail sector were 15% and single market barriers were eliminated it could result in annual consumer welfare gains of €204 bn
- The creation of the Single European Payments Area was estimated to result in annual savings of €21.9 bn

Flagship 4: Resource-efficient Europe

Achievement	Effects
Adoption of Third Energy Package	Introduces common rules for generation, transmission, distribution and supply of electricity and gas, inter alia Introduces universal service obligations and series of consumer rights in relation to electricity and gas provision
Adoption of Renewable Energy Directive	Sets out a common framework for the promotion of energy from renewable sources
Adoption of Energy Efficiency Directive	Introduces measures for consumers to better manage energy consumption
Adoption of Bus and Waterborne Regulations	Establishes rules for the rights of passengers when travelling by bus and coach/sea transport
Proposal for a Fourth Railway Package	Would reduce fragmentation of the internal market in passenger rail services
Proposal for an update of the Single European Sky Package	Would enhance safety standards and overall efficiency for general air traffic in Europe
Proposal for a Blue Belt package	Would reduce administrative burden for intra-EU maritime transport to a level comparable to that of other modes
Proposal for a Regulation on air passenger rights	Would further strengthen air passenger rights

Selected indicators – energy and transport markets

- *Wholesale electricity markets:* Major European wholesale electricity benchmarks have decreased by 35–45 % over 2008-2012
- *Air transport:* Air fares have dropped significantly since market liberalisation in the 1990s

However:

- *Retail electricity markets:* Retail prices increased by more than 4% a year between 2008 and 2012
- *Rail transport:* In 16 out of the 25 Member States with rail, incumbent rail operators' market share remains above 90%

Potential contributions to growth: energy markets

- If electricity and gas markets were fully liberalised, this could result in an increase of 0.6-0.8% in EU GDP over 2011-2020
- If gas and electricity markets were fully integrated, respectively €30 billion or €12.5-40 billion per year could be saved
- If a true common market for renewable energy were established, €16-30 billion per year could be saved
- If regulated prices were phased out, €9.5 billion per year could be saved

Potential contributions to growth: transport markets

- The continued liberalisation of air transport was estimated to result in a 1.8% and 1.3% increase in EU25 GDP over 2005-2025 from supply- and demand-side impacts respectively
- Updating the Single European Sky regulations could result in an increase in EU GDP of €750 million per year by 2020 and €900 million per year by 2030
- In the railway sector, savings of between €1-2 billion per year could be achieved through further liberalisation until 2034

Flagship 6: Agenda for New Skills & Jobs

Achievement	Effects
Adoption of a revised Professional Qualifications Directive	Modernises the existing directive
Adoption of Directive on supplementary pension rights	Establishes minimum standards for the protection of mobile workers' supplementary pension rights
Adoption of Posting of Workers Enforcement Directive	Improves the application of the Posting of Workers' Directive
Establishing the European Classification of Skills/Competences, Qualifications and Occupations	Identifies and categorises skills, competences, qualifications and occupations relevant for the EU labour market and education and training.
Proposal for a Regulation on EURES	Would enhance provision of intra-EU labour mobility support services

Selected indicators – labour mobility

- *Labour mobility:* Scale of free mobility in Europe has risen sharply following EU enlargements in 2004 and 2007. In 2011 intra-European free circulation of people was four times more common than migration from outside of EU27/EFTA

However:

- *Living in another Member State:* In 2012 only 3.1% of the EU workforce was living in a Member State other than their own
- *Working in another Member State:* Only 25% of EU citizens would even consider working in an EU Member State other than their own

Potential contributions to growth – labour mobility

- Cross-border free mobility within EU27/EFTA may have lowered unemployment by 6% over 2001-2010
- The movement of 4 million people from the countries that acceded to the EU in 2004 excluding Cyprus and Malta ('the EU8') could lead to a 0.6% increase in the enlarged EU's GDP in the long run.
- Ex-post studies estimate the impact of recent intra-EU mobility until 2010 to be an increase in EU GDP of around 0.2% or 0.3%
- Economic gains are not distributed equally throughout the Union: while GDP of receiving countries may rise, those sending may suffer

Beyond the flagships: cross-cutting achievements and other key sectors

- Cross-cutting single market/consumer protection initiatives run alongside the flagship initiatives – the Single Market Acts I and II and the Consumer Agenda – although many of the actions come within the scope of the flagship initiatives
- There are also key areas/sectors relevant to the single market that are not explicitly or comprehensively covered by the flagship initiatives in terms of policy actions to deepen the single market

Conclusions and recommendations

Conclusions on achievements

- Some major achievements relevant to single market and consumer protection have been made in selected flagship initiatives
- Many achievements in the digital sector, due to novelty of challenges (e.g. data protection) but also potential cross-cutting impact of connectivity (e.g. lower transaction costs) for the single market overall
- In several areas a comprehensive legal framework is now laid down (for goods already for a while, but also several network services are in their 3rd or 4th wave of internal market legislation); the focus could therefore turn to implementation and enforcement

Conclusions on economic impacts

- Evidence shows that actions relating to the single market or consumer protection in sectors covered by the flagship initiatives could lead to significant increases in GDP or in efficiency/savings
- However, in several others sectors/areas which do not fall explicitly or comprehensively within the scope of the flagship initiatives (e.g. services falling under the Services Directive, financial services, public procurement), research shows there is potential for growth and/or savings if relevant actions were implemented

Summary of contributions to growth – areas covered by the flagship initiatives

- *Goods markets*: 2.2-8.8% increase in EU GDP in the very long run – due to full integration of goods markets
- *Digital*: 2-4% increase in EU GDP over 2010-2020 – due to completion of the digital single market
- *Transport*: 1.8% and 1.3% increase in EU GDP over 2005-2025 – supply- and demand-side effects of air transport liberalisation respectively
- *Energy*: 0.6-0.8% increase in EU GDP over 2011-2020 – liberalisation of gas and electricity markets
- *Labour markets*: 0.6% increase in EU GDP in the long run – due to population flows from 8 countries that acceded to the EU in 2004

Summary of contributions to growth – areas not explicitly/comprehensively covered

- *Services*: 2.6% increase in EU GDP
since the Services Directive was adopted, if it is properly implemented
- *Mutual recognition*: 1.8% increase in EU GDP
due to perfect operation of Regulation 764/2009
- *Financial sector*: 1.1% overall or 0.025% per year
increase in EU GDP
full integration of financial markets in the long run or over 1999-2010
respectively
- *Public procurement*: 0.1-0.5% increase in EU GDP
over a decade – thanks to original EU public procurement directives, if
they applied to all public procurement in the EU

Preliminary recommendations /1

1. The single market and consumer protection and empowerment should **continue to be considered as a key tools for reigniting economic growth in the EU**, in the context of the mid-term review of the Europe 2020 strategy, without neglecting their other benefits (e.g. increased choice, increased trust)
2. **Further explicit emphasis** in the Europe 2020 strategy / relevant flagship initiatives could be applied to addressing in priority sectors/areas with **untapped growth potential**, i.e. where there is evidence of remaining barriers and there is significant potential for growth (e.g. services covered by Services Directive, energy and transport, financial services)

Preliminary recommendations /2

3. Where a comprehensive legal framework has already been laid down, **country-specific recommendations developed during the European Semester** could be fully exploited to provide impetus to the implementation of legislation relevant for internal market and consumer protection in the Member States, combined with further reinforcement of **cooperation between national competent authorities**
4. It could be considered to include a **headline target for internal market integration** in the Europe 2020 strategy to measure and catalyse progress, potentially based on a **well-defined aggregate indicator** considering economic, legal, and survey data

Preliminary recommendations /3

5. **Additional Single Market Acts** focusing on policy actions aimed at remaining single market barriers could function as a supporting tool to flagship initiatives, starting with a Single Market Act III
6. Many studies reviewed, particularly impact assessments, have lacked clear information as to the methodologies applied for estimating impacts on growth and their potential limitations. Appropriate methodological details should be provided in **impact assessments**, in order to ensure the credibility of the results obtained

Preliminary recommendations /4

7. If the overall approach based on flagship initiatives is to be maintained, **further clarity could be sought in both the coverage of areas/sectors** of each of the flagship initiatives and their presentation (Digital Agenda is good example, where actions are grouped in pillars, and are linked to specific indicators, with updates on progress achieved)
8. Further research could be conducted into internal market barriers and associated growth potential, but focusing particularly on where there is comparatively **less evidence of potential economic impacts of deepening the single market** (e.g. the business environment, but also capital and labour markets)