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NOTE

From: Presidency
To: Permanent Representatives Committee/Council
Subject: 25 years of Single Market: way forward

Delegations will find attached a discussion paper from the Presidency on the above mentioned topic.

25 YEARS OF SINGLE MARKET: WAY FORWARD

I. BENEFITS OF THE EU SINGLE MARKET

- 1) The Single Market of the EU is one of the **great global success stories** of the past decades. It has benefited citizens, providing more and better jobs and opportunities, lower prices, more choice and above all, **more freedom**. It has had an important economic impact - over the period of 1992 to 2006 alone, it has increased GDP and employment by 2.2% and 1.4%¹ respectively, a total gain of 233 billion EUR and 2.8 million jobs². It has reduced price differences, expanded labour mobility, and represents a major asset for the attractiveness of the EU, stimulating trade, foreign direct investment and capital flows.
- 2) The benefits come both from the **removal of border costs, as well as increased and fairer competition** thanks to the greater ability of EU buyers to substitute among the products of different EU producers. The increased competition more than doubles the estimated benefits, and the steady growth effect more than quadruples the welfare gains. The increased competition comes notably from the opening up of national markets (transport, telecoms, energy), application of EU competition rules, from Single Market standards replacing (at least) 28 national ones, common government procurement rules, and dynamic learning effects.

¹ Mr. Patrice Muller, Mr. Shaan Devnani, Mr. Rohit Laher, Ms. Marguerita Lane Better Governance of the Single Market. European Added Value Assessment EAVA 2/2013, Executive summary, P. 9., European Added Value Unit of the Directorate for Impact Assessment and European Added Value, within the DG IPOL of the GS of the EP, http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/494463/IPOL-JOIN_ET%282013%29494463_EN.pdf

² E Casalprim, The Added Value of the European Single Market, DG EPRS, European Parliament June 2013. http://www.europarl.europa.eu/RegData/etudes/divers/join/2013/494462/IPOL-JOIN_DV%282013%29494462_EN.pdf

- 3) The Single Market is **essential for European manufacturers**, providing market access for both end products and intermediate ones, and creating the space for truly European value chains to emerge. It also serves as a catalyst for entrepreneurial activity of all levels, including SMEs. These benefit from lower trade costs, access to cross-border eco-systems to invest and innovate, and dedicated support networks and services such as SOLVIT, Your Europe Business, and the Enterprise Europe Network.
- 4) **It is at the core of European integration**, underpinning the Euro. Together with other policies such as structural funds, it has led to **real convergence across and within the Member States**, reducing the differences that existed along the East-West and South-North European axes. And it has helped increase the resilience of the EU economy against shocks like the financial crisis of the last decade.
- 5) It **has** helped globally too. Thanks to its overall size and technological leadership in many sectors, the EU now enjoys significant **global market power**, shaping international standards and regulations in many areas. The EU's external regulatory influence has emerged predominantly as an "unintentional by-product" of the Single Market, thus improving the competitive position of European firms.
- 6) After 25 years, **work on this process remains ongoing**. Currently the institutions are working on important proposals for an Energy Union, a Digital Single Market, a Capital Markets Union and to further deepen the Single Market.

II. THE UNTAPPED POTENTIAL

- 7) Despite all this, more can and needs to be done. In certain areas, the Single Market has still not been fully implemented. More worrying, in some instances, it has been reversing.
- a. First, **barriers** remain in many areas such as differing regulations in non-harmonized sectors and insufficient mutual recognition, not optimal coordination between different policy instruments and their inconsistent implementation, insufficiently open public procurement, and administrative barriers and other disincentives to the **free flow of capital and labour**. This reduces as a result the allocative efficiency of the EU economy and hampers on competitiveness. The restrictions to the movement of **labour** can also lead to employee shortages in some countries and sectors at the same time as unemployment in others. On the other hand an incomplete internal market of **capital** constrains the scaling up of innovative firms³.
 - b. Second, there has been insufficient progress in **complementary policies** to support the further deepening of the Single Market, reducing room for entrepreneurial dynamism. This includes differing tax codes, discrepancies in environmental and consumer protection, insufficient investment in infrastructure, insufficient administrative capacity in certain Single Market areas and overdue structural reforms⁴ (such as for instance rigid labour market regulations, education system reforms, and cumbersome procedures to set up new businesses).

³ In this perspective, the Capital Markets Plan, launched in 2015, aims at creating stronger capitals markets to strengthen investment in Europe for the long term by 2019. A lot has already been achieved but there is still work to be done on important topics such as sustainable finance, FinTechs or the cross-border distribution collective investment funds.

⁴ cf. Annual Growth Survey 2018

- 8) The resulting fragmentation hurts in particular innovative start-ups which could potentially benefit from the 510 million consumers market to scale-up quickly in order to gain a critical mass and become world leaders in their domain. The entrepreneurial success of all kinds of SMEs and especially those with scale-up potential largely depends on policies supporting their access to funding, capacity to innovate and to overcome obstacles such as cultural barriers and regulatory diversity.
- 9) Improving cross-border trade **in services** would have an important **positive direct impact on professional services and retail trade, notably on-line**. In 2017, only 10% of retailers sold on-line to customers in other countries⁵, mainly due to risks of fraud and differences in tax regulations but also in national contract laws, consumer protection rules and potentially higher costs for solving disputes cross-border. There are clear potential synergies between the development of the Digital Single Market, the collaborative economy and on-line financial services. If e-commerce were to grow to 15% of the total retail sector, and Single Market barriers were eliminated, the total long-term consumer welfare gains are estimated at around 204 billion EUR, equivalent to 1.6% of EU GDP⁶. According to the World Bank, service sector reforms can increase EU productivity by an average of 5%, provide more and better jobs, stimulate investment and further deepen integration.

⁵ According to the Digital Economy and Society Index: Graph: „The Digital Economy and Society Index - DESI by components Indicator - 4b e-commerce / Period - 2017“
[https://digital-agenda-data.eu/charts/desi-components#chart={\"indicator\":\"DESI_4B_ECOMM\",\"breakdown-group\":\"DESI_4B_ECOMM\",\"unit-measure\":\"pc_DESI_4B_ECOMM\",\"time-period\":\"2017\"}](https://digital-agenda-data.eu/charts/desi-components#chart={\)

⁶ [http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603239/EPRS_STU\(2017\)603239_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603239/EPRS_STU(2017)603239_EN.pdf) Mapping the Cost of Non – Europe 2014 – 19. Fourth Edition. P. 12. EPRS | European Parliamentary Research Service European Added Value Unit PE 603.239– December 2017

- 10) There would also be further economic gains from investment in physical **infrastructure**, such as energy interconnectors, and from better integrated and more competitive European electricity and gas markets; agreeing on the common use of radio frequencies would also be beneficial.
- 11) Large public infrastructure investment themselves would bring higher social return if there were more efficient and professional **public procurement**. This not only leads to high value for money but it also generates positive secondary effects on governance mechanisms in the national administration. Altogether, fully delivering and further developing the Single Market in the fields of free movement of goods and services, public procurement and developing the consumer acquis could generate 615 billion EUR per year or 4.4% in GDP across the EU as a whole⁷.

III. CHALLENGES AHEAD

- 12) The Single Market also needs to address the concerns of citizens over its **distributive effects** and ensure equitable distribution of the benefits of integration across societal groups, regions or sectors. The benefits of the Single Market should spread more evenly across Member States as well as within Member States.
- 13) Moreover, the Single **Market needs to adapt to new market realities and challenges including globalisation, changing business models and technologies**. The emergence of new technologies calls for more efficient Single Market rules to prevent the creation of new barriers to trade and investments.

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[http://www.europarl.europa.eu/RegData/etudes/STUD/2015/536364/EPRS_STU\(2015\)536364_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/536364/EPRS_STU(2015)536364_EN.pdf) Mapping the Cost of Non – Europe 2014 – 19. Fourth Edition. P.18.
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- 14) The untapped potential mentioned above can only be seized if Single Market policies work seamlessly with other EU policies to create an **integrated ecosystem**. Smart specialisation, for instance, can help SMEs become more competitive, provided our Single Market policies are combined with targeted R&D investment, increased innovation and digitalisation capacities, as well as revamped regional cohesion policy. On the other hand, unintended distributive effects of open competition on disadvantaged social groups can be reduced if training systems are better linked to the labour market needs; social systems to new demographic trends and business models (e.g. collaborative economy).
- 15) It is essential that Single Market policies are also accompanied by **intensified communication** efforts. Citizens and businesses need to be empowered to better understand what the Single Market delivers to them (e.g. not only benefits to those actively involved in cross-border transactions) and how they can influence its rules.

IV. QUESTIONS FOR THE POLICY DEBATE

In the light of the overall context described above, the Presidency invites Ministers to address the following questions:

- 1) *In the context of the ongoing discussion on the Future of Europe⁸, what are the medium and long-term visions of Member States for the further advancement of the Single Market in an increasingly digital environment?*
- 2) *How can we better cooperate for improving the enforcement of Single Market rules?*
- 3) *How can we best ensure an even distribution of benefits of the Single Market across various regions and societal groups? And how can we increase understanding of these benefits across all socio-professional categories?*

⁸ https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf WHITE PAPER ON THE FUTURE OF EUROPE, Reflections and scenarios for the EU27 by 2025, European Commission COM(2017)2025 of 1 March 2017.