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NOTE

From: European Commission
To: The High Level Working Group on Competitiveness and Growth
Subject: Single Market project, next steps/ Competitiveness check-up

Delegations will find in Annex a note by the European Commission on a Single Market project, next steps / competitiveness check-up, in view of the meeting of the High Level Working Group on Competitiveness and Growth on 24 January 2018.

Linkages between Single Market and industrial competitiveness – A sectoral perspective

The establishment of the Single Market implies the elimination of barriers to the free movement of products and factors between Member States, fostering intra-EU trade and regional¹ value chains. A value added approach provides more precise insights about the real impacts of economic integration on relevant structural characteristics of the EU economy including global competitiveness and specialisation.

In previous meetings, the Commission has already reported on results from the application of a value added approach. On 26 April 2018, the High Level Group (HLG) welcomed a Commission presentation on the Single Market and industry, with a focus on ways to assess the economic impact of Single Market integration in terms of competitiveness and productivity across EU Member States and industries. The presentation emphasised how the formation of the Single Market led to the integration of EU industries in European and global value chains and provided descriptive evidence for the positive correlation with internal and external competitiveness. The integration in the Single Market boosts the export potential of EU firms and allows them to benefit from fast-growing final demand outside the EU.

For the upcoming HLG meeting, the Commission pledged to continue the analytical work in order to provide more detailed results at the sectoral level and substantiate previous findings. In particular, the emphasis of the work of the last months was on the potential positive impacts of regional value chains on competitiveness and productivity, based on an improved dataset.

This analysis should be complemented with a benchmarking exercise, taking into account Member States' economies that for geographical and/or historical reasons have different characteristics. For example, most of the Member States that joined the Union in the last fifteen years experienced substantial structural changes, due to industrial and economic transformations.

¹ In the context of this analysis, « regional » should be understood as continental value chains, as opposed to global or purely national value chains.

In parallel, we need to also address the dynamic growth of economies like China and India that stimulated a greater export orientation of the EU economy. New evidence has suggested that the supply of goods and services to consumers creates more effective incentives to increasing structural integration of EU value chains at regional level.

In this perspective, the High Level Group could provide the opportunity to examine the following questions:

- 1) *To what extent have value chains in Europe become more regional during recent years? Have all Member States reached comparable levels of regional value chain integration?*
- 2) *Which are the more and less regionally integrated sectors in the EU? Do different levels of integration mostly reflect the different nature of, say, manufacturing and construction sectors, or could they signal the presence of integration barriers? For which sectors does the Single Market act predominantly as 'consumer market', for which as a 'producer market'?*
- 3) *Which were the structural drivers of the increased EU regionalisation of economic activities?*
- 4) *Finally and most importantly, has a higher degree of integration within the EU contributed to an increase of EU productivity? What has been the impact of Single Market integration on EU competitiveness? Have these developments been homogeneous across sectors?*