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**NOTE**

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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	<i>Preparation of the Competitiveness Council (Internal Market, Industry, Research) on 6 March 2025</i> Towards a horizontal strategy for a modernised Single Market: A need for an action plan for services - <i>Policy debate</i>

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Delegations will find attached a Presidency background note on “Towards a horizontal strategy for a modernised Single Market: A need for an action plan for services” with a view to the policy debate at the Competitiveness Council on 6 March 2025.

**DISCUSSION PAPER**

Meeting of the Competitiveness Council

Brussels, 6 March 2025

*Towards a horizontal strategy for a modernised Single Market: A need for an action plan for services*

The European Union's Single Market has been a cornerstone of our collective economic success, yet significant untapped potential remains. In particular, the integration is very slow in the services sector, which constitutes nearly 70% of the EU's GDP and employment<sup>1</sup>. In fact, the share of EU GDP represented by trade between EU Member States for services is only 8% today, while for goods it is 24%. Contrary to the goods sector, trade in services within the EU is not higher than trade in services with non-EU countries<sup>2</sup>.

As a result, this poor integration in the services sector undermines our common economic interest. The International Monetary Fund estimates that the ad-valorem equivalent of the remaining barriers constraining intra-EU trade in services sector can be compared to tariffs of around 110 percent<sup>3</sup>. In addition, low labour productivity in services negatively impacts EU manufacturing industries due to the increasing phenomenon of servitization<sup>4</sup>.

The Polish Presidency is convinced that the upcoming Single Market Strategy should respond to the current geopolitical challenges and boost the services integration which is indispensable for the EU competitiveness with regards to our main competitors. Following the recommendations from the Draghi and Letta reports, boosting integration of services in the EU would create opportunities for the EU companies in the services sector to grow faster and globally.

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<sup>1</sup> 2025 Annual Single Market and Competitiveness Report, p. 6

<sup>2</sup> Ibid.

<sup>3</sup> 2025 Competitiveness Compass for the EU, p. 19

<sup>4</sup> Ibid.

For these reasons, we first urgently need to streamline regulatory frameworks, promote mutual recognition and harmonize standards where appropriate. The current legal framework leaves a large regulatory margin to Member States. Different national regulations and standards create unnecessary complexity and costs for businesses seeking to operate across borders, especially for SMEs. The right to exercise free movement of services goes hand in hand with the free movement of people. Protection of social rights is often used as protectionist measure taken disproportionately in services. While reflecting national priorities, these measures come at a collective cost to the EU economy. The point of view of stakeholders depends very often on the country they come from – i.e. certain industries and professional groups may resist reforms, fearing increased competition. All these factors create rather a complex picture, in which the right place for action at EU level must be found.

Secondly, we need to set measurable and at the same time realistic targets. For instance, we could set a target of e.g. 30% increase of intra-EU trade in services by 2035 and hence increase the current indicator for service integration as a % of trade for services in the EU's GDP. Alternatively, we could set a target of 1/3 gap reduction between the level of integration in the Single Market for services compared to that of Single Market for goods. Besides, the alternative measuring of the service market integration should be developed and decided to better track its progress.

### **The way forward**

The ongoing preparation of the new Single Market Strategy offers a chance to address the long-standing issue of poor integration of the services sector and set a bold vision for the future. As it turns out, it is a matter of unlocking billions of the European Union's GDP, strengthening the EU's global competitiveness and increasing the development of the European industry. Better integration of the services sector into the Single Market seems to be both an economic imperative and a political challenge. To succeed it is essential to have a strong political will to act boldly and decisively, as well as a correct identification of areas in which horizontal measures would be beneficial and those in which policies targeted at specific services could contribute to reducing market fragmentation.

We should stop focusing on the competitive position of our national companies vis-à-vis companies in other Member States. Some Member States are afraid that opening up the services sector further will lead to job losses and alleged social dumping. In this way, rejecting the possibility of looking for solutions that promote both social issues and freedom of activity for entrepreneurs, we create a situation in which our companies cannot develop properly in the Single Market and, even more so, cannot spread their wings outside this market in the global market. On the contrary, evidence suggests that increased competition can lead to higher productivity, innovation, and overall economic growth, ultimately benefiting all Member States. To overcome the mentioned challenges, we need to adopt a more ambitious approach to services sector integration. This requires a long-term vision that prioritizes the overall competitiveness of the EU over short-term political gains. We must resist the temptation to resort to protectionist measures that may provide temporary relief but ultimately harm our economies in the long run.

### **Questions:**

Against this background, the Presidency would like to raise the following questions for discussion:

- 1. What actions should be included in the roadmap for services in the first place in order to achieve a tangible and measurable change in intra-EU trade in services, for example an increase by 30 % in one decade?*
- 2. Which barriers in the services sector should be primarily removed to help EU companies scale-up? What actions related to barriers regarding posting of workers, recognition of professional qualifications and permitting should be undertaken in the roadmap?*