# EUROPE'S SINGLE MARKET – EXPLOITING UNTAPPED POTENTIALS

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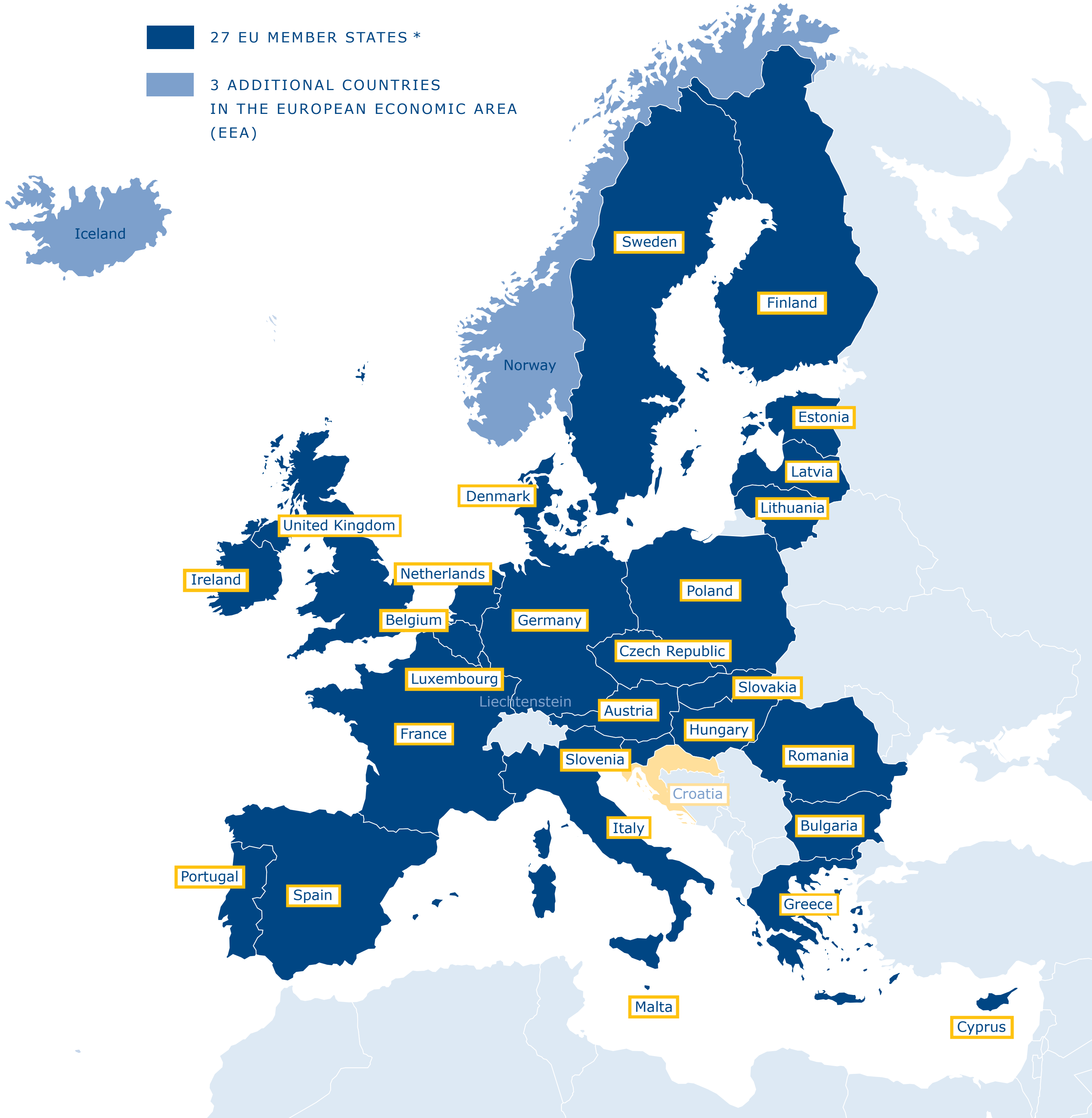
## THE EUROPEAN SINGLE MARKET




** On 1 July 2013 Croatia joined the European Union as 28th member state. There are transitional periods, for example, for the freedom of movement. Thus, not all Single Market freedoms are granted directly.*

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# Summary


**By realising the Single Market Project, the European Union (EU) has deepened economic and political integration considerably.** Not only has it been possible to strengthen competition internally and produce greater growth and employment through the free movement of workers, goods, services and capital. The external dimension is also of importance. The Single Market has strengthened the EU's position in global competition and represents an asset in bilateral free trade agreements.

**The Single Market has also acted as an engine for further steps towards integration.** One measure to be mentioned in this context is **EU citizenship**, whereby people's freedom of movement has been uncoupled from their economic activity as employees or self-employed persons. Another is the **creation of the single currency**. While opinions may differ about whether the Single Market actually requires a common currency, turning back the wheel is hardly an option. Individual countries leaving the eurozone or it actually breaking up would have severe repercussions for the Single Market. It is no longer possible to separate the two. In any case, it is highly likely that it would result in the four fundamental freedoms being curtailed and in protectionist tendencies being encouraged.

**It is of course true to say that the Single Market has not been completed.** There are actually further important ways in which the four fundamental freedoms, and thereby also competition within the EU, can be strengthened. As **strengthening competitive intensity** is an important tool for boosting growth, productivity and competitiveness, it is particularly important at this time to place the deepening of the Single Market onto the policy agenda.

**Deficiencies in the implementation of internal market integration** to date are immediately obvious from the large number of infringement cases, which the Commission is conducting against Member States not complying with the legislation. An analysis of the four fundamental freedoms uncovers existing potentials for strengthening the Single Market. The **freedom of movement across borders in the EU is relatively modest compared to other trading areas. The free movement of services is still meeting with various barriers,** which even the watered down Services Directive has not been able to eliminate entirely. One important indicator for the obstacles in the cross-border trade in services is that although there has been a price convergence in the trade in goods this has not been replicated in the trade in services. **The movement of capital has been hampered because of the crisis in the eurozone.** So there is no doubt that potential for strengthening the Single Market exists.

**In fact, the EU has undertaken various activities to further improve the functioning of the Single Market.** With the Single Market Act I of 2011 and the Single Market Act II of 2012, the Commission is addressing some areas where the potential of the Single Market could be utilised to greater effect. These initiatives generally aim in the right direction. But some criticism of the Commission's approach is justified, particularly the fact that it partly links internal market aspects with other policy areas such as social policy in its proposals without always bearing in mind the principle of subsidiarity.

**In this study, important starting points for further strengthening of the Single Market are identified – based on the Commission initiatives:**

- **Infringement cases that the Commission is conducting against non-compliant Member States take up too much time,** particularly when the dispute is taken all the way to the European Court of Justice.

- To improve the free movement of workers, **mutual recognition of qualifications should be facilitated.** In addition, institutions that provide information about work opportunities in other EU countries, relevant regulations and the required qualifications should be supported or created.

- **The Services Directive must be applied more consistently, and the duplication of regulations needs to be reduced.** Above all, there should be no economic needs testing, and the situation regarding the single points of contact needs improving. Requirements for a particular type of business structure can be dispensed with. But a universal change to the country of origin principle is probably a more long-term option.

- **The high level of concentration in the electricity markets in some Member States (Greece, Portugal, Estonia, Lithuania, Latvia, Italiy, France) and the distinct price discrepancies illustrate that greater competition is required in this area.** The implementation of the different energy packages should therefore be driven forward more forcefully, which means that production and distribution should be unbundled and the independence of the regulatory authorities enforced. In addition, any remaining restrictions on competition should be eliminated in order to create a genuine internal market for energy.

- **Finally, there is considerable room for improvement with respect to transport and infrastructures in the Single Market.** However, if the European Council's decision to cut funding in the multiannual financial framework stands, the cuts will hit precisely those areas where funds from the European budget should be used to finance projects that would achieve added value for Europe.

- **The numerous infringement cases relating to public procurement** demonstrate that there is room for improvement where the application of legislation by Member States is concerned. During the planned review of the legislation on procurement within the EU, care must be taken to ensure that it will not be overburdened with criteria that are not directly related to the awarding of contracts.

- While the creation of a **banking union** did not form part of the original remit of the Single Market Programme, it **may help to boost the cross-border movement of capital.**

Strengthening the Single Market should be an important part of the reform agenda under the Europe 2020 strategy. **Furthermore, revitalisation of the Single Market can also be part of the strategy to combat the current debt crisis.** Managing the partly severe debt problems will only be possible if there is new growth.

# The Single Market as the Key Cornerstone of European Integration and Part of the Future Policy Agenda

## HISTORIC ROLE PLAYED BY THE INTERNAL MARKET IN EUROPEAN INTEGRATION

With the White Book [1] on Completing the Internal Market published in 1985, the Commission initiated a further deepening of European integration. The declared aim was to create a single market by eliminating the physical, technical and fiscal barriers. The Commission picked up on the goal of gradually creating a Common Market, which had previously been agreed in the 1957 foundation treaty of the European Economic Community (EEC). The customs union that this entailed, i.e. the abolition of all customs duties within the area and the common external tariff, was realised on 1 July 1968, 18 months earlier than had been agreed in the EEC Treaty. [2]

*The crucial lever whereby the Single Market Programme can encourage growth is the strengthening of competitive intensity. There is an urgent need for new impulses for growth, particularly for the countries affected by the euro crisis.*

However, the Community was not able to maintain this tempo in all areas. As early as 1965, France triggered a constitutional crisis in the Community when it refused to participate in the work of the Council of Ministers for six months. France used this so-called policy of the empty chair to protest against the fact that according to the treaty, the Council of Ministers was supposed to be able to take decisions in important policy areas with a qualified majority from 1966. [3] Subsequently, the Common Agricultural Policy and the undesirable developments it produced, such as overproduction, storage costs and export subsidies, created a predominantly negative image of European integration. Efforts to drive European unification forward in the areas of commerce and currency did not have the desired effect. The failed Werner Plan is only one example to be mentioned in this context. Herbert Giersch coined the term Eurosclerosis. [4], whereby he referred mainly to the fossilised and overregulated markets. Deepening of the integration was further inhibited by the fact that the Community became considerably more heterogeneous, particularly with its southward expansion through Portugal and Spain joining in 1976 and Greece in 1981. [5]

The Commission's White Book of 1985 made an important contribution to overcoming the stagnation affecting European integration. Firstly, it included proposals for almost 300 individual measures for overcoming the physical, technical and fiscal barriers of the internal market. Secondly, the Commission proposed to rely increasingly on the mutual recognition of national regulations and the activities of the European standardisation organisations instead of the harmonisation of technical details through unanimous decisions in the Council of Ministers. With this approach, the Commission picked up on decisions by the European Court of Justice, which had decreed in a seminal judgement in the case relating to Cassis de Dijon that products that had been regularly marketed in one Member State would also be allowed to be marketed in all other Member States as a matter of principle. The application of this so-called country of origin principle proved to be very helpful in reducing barriers between Member States.

The Single European Act of 1986, which represented the first major revision of the Community Treaties[6], did not only pursue the idea of stronger mutual recognition of national regulations instead of the harmonisation of details. It also provided for ways of decreeing measures aimed at completing the internal market with a qualified majority in the Council of Ministers. Finally, the target date of 31 December 1992 for the completion of the internal market was enshrined in the EC Treaty. The Treaty describes the Single Market as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaty"[7].

As already mentioned above, the European Court of Justice made a significant contribution to achieving appropriate conditions for an internal market by strengthening the country of origin principle relating to the free movement of goods. It thereby transformed the prohibition of discrimination in primary legislation into a general prohibition of restrictions.[8] The prohibition of discrimination states that imports of goods and services from another Member State may not be restricted or obstructed because they come from abroad. This means that the principle of national treatment applies, which corresponds to the country of origin principle. But this does not eliminate the type of regulation that is applied indiscriminately to people from the country concerned and to foreigners, which is therefore not discriminatory, but represents a de facto trade barrier. One such example is the beer purity regulation in Germany. The Court of Justice[9] countered this regulation with the country of origin principle, making reference to the mutual recognition of national regulations.

*Economic integration has been deepened through the Single Market Project, even though completing the Single Market has not yet been achievable.*

Of course, decisions by the Court of Justice also indicate that the country of origin or provenance principle does not apply totally without restrictions.[10] The country of origin principle cannot override the provision of Article 36 TFEU, which permits import, export and transit prohibition or restrictions if they are justified or admissible on grounds of public morality, public policy or public safety; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property.

## THE SINGLE MARKET BELONGS ON THE FUTURE POLICY AGENDA

Without wishing to pre-empt the deliberations in the following sections, it can be stated here and now that economic integration has been deepened through the Single Market Project, even though the original goal to complete the Single Market by 31 December 1992 could not be achieved in full. Disregarding the economic impact and any remaining gaps, the Single Market also has a significant dimension in terms of politics and integration policy, which should always be taken into account. This entails an internal and an external aspect.

**Internal aspect:** The Single Market also played a role in encouraging monetary integration efforts, which ultimately resulted in the creation of a Community currency (see also Chapter 4). It is important to keep pointing out that the European Single Market is a central pillar of European integration. The European Council has also recently reiterated this in the conclusions for its meeting on 14/15 March 2013, which stated that the "Single Market continues to be a key driver for growth and jobs," and advocated the speedy implementation of the Single Market Act I and Single Market Act II proposals (9b). The crucial lever whereby the Single Market Programme can encourage growth is the strengthening of competitive intensity. There is an urgent need for new impulses for growth, particularly for the countries affected by the euro crisis. Refocusing on the Single Market can therefore be an important part of the strategy to combat the crisis.

*Successful regional integration in Europe has also encouraged the integration efforts in other parts of the world.*

**External aspect:** The successful regional integration in Europe has also encouraged the integration efforts in other parts of the world. On 1 January 1994, the North American Free Trade Agreement (NAFTA) came into force. The main objective of this agreement between Canada, Mexico and the United States is to eliminate barriers to the trade in goods and services between the contracting parties (NAFTA Secretariat). In 1997, the (ten) ASEAN states had also started new initiatives to strengthen regional cooperation.[11]

Regional integration is fundamentally an ambivalent phenomenon. On the one hand, it usually boosts material wellbeing in the economic area undergoing integration. On the other hand, it can also be regarded as an infringement of the most-favoured-nation principle set down by the World Trade Organization (WTO) – it involves trade diversion effects, after all. It is, however, condoned by the WTO. This can be interpreted to mean that a second-best solution is still better than no economic integration at all. It follows from this and from increasing globalisation that Europe must "tend" and further develop its Single Market if it wishes to assert its position in the economic world league.

Table 1 shows that the European internal market only narrowly lags behind the NAFTA states in terms of gross domestic product (GDP). A functioning European internal market is therefore of great interest to the USA, particularly in connection with the intended transatlantic free trade zone.

**1 | The European Single Market in a global comparison**

| | GDP in billions of dollars | Population in millions |
|---|---|---|
| *EU 27* | *16,414.5* | *501.8* |
| *European Economic Area (EEA)* | *16,927.9* | *507.2* |
| *NAFTA* | *18,586.3* | *464.0* |
| *– incl.: USA* | *15,653.4* | *314.3* |
| *China* | *8,250.2* | *1,353.8* |
| *Mercosur* | *4,245.2* | *398.5* |
| *ASEAN* | *2,319.7* | *617.2* |
| *India* | *1,946.8* | *1,223.2* |

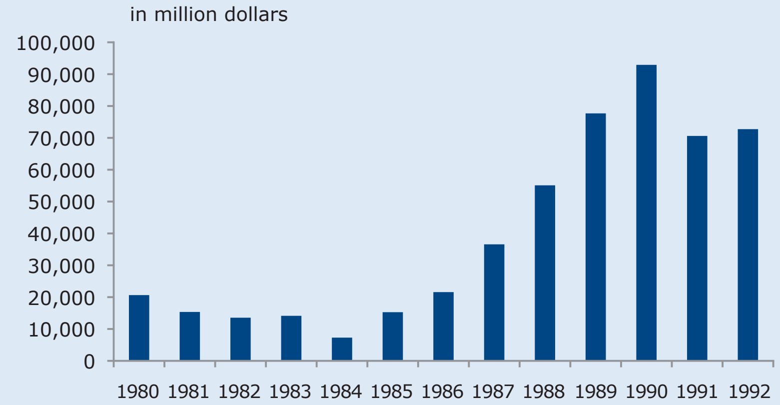
*EEA: EU-27 plus Iceland and Norway. Mercosur: ten countries, incl. the associated countries.*
*Source: IMF, WEO database*

# 20 Years' Single Market: Impact and Need for Improvement

## ASSESSMENT OF THE IMPACT TO DATE

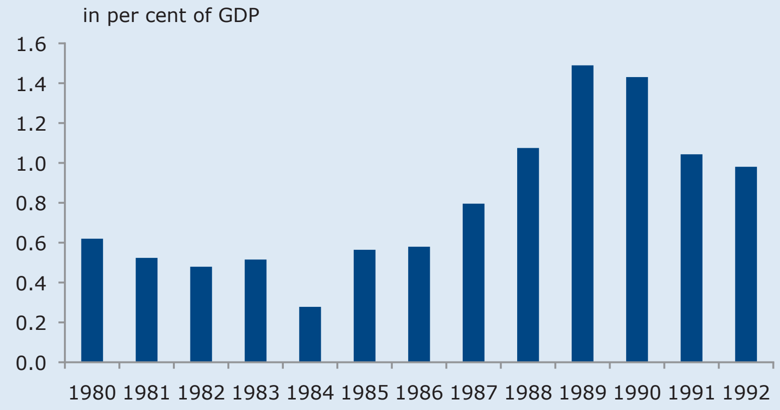
The announcement by the European Union that it intended to complete the internal market by 31 December 1992 as well as the associated legislative measures and the reactions by the business world encouraged an early investment boom in the Member States in the late 1980s and increased the attraction of the various national markets to investors from other countries. In the early 1980s, the incoming foreign direct investments in the twelve Member States averaged 16 billion US dollars a year. During the period from 1987 to 1990, by contrast, it was nearly 66 billion US dollars (Fig. 2 and 3). In relative terms too, i.e. in relation to GDP, the difference was substantial. In the above-mentioned period, direct incoming investments increased from 0.5 to 1.2 per cent of the joint EU-12 GDP. Countries that were particularly successful in attracting foreign direct investments were Belgium, the UK, Portugal and the Netherlands – measured by the average for the period 1987 to 1990 in relation to GDP.

**2 | EU-12 – Inflows of foreign direct investments**




*Sources: UNCTAD, Database; own calculations*

**3 | EU-12 – Inflows of foreign direct investments**




*Sources: UNCTAD, Database; own calculations*

The surge in direct investments can also be seen as an indication of the fact that companies from third countries established a presence in the emerging internal market. This conduct is perfectly understandable as the completion of the internal market also entailed trade diversion effects, as demonstrated by the theory of the customs union. With the elimination of barriers between EU Member States, imports from third countries become relatively expensive. To counteract this impact, it makes sense for companies from third countries to establish a presence within the territory of the Single Market. Companies from non-EU countries anticipated that they would increase their sales potential by making investments in preparation for the internal market.

### The Cecchini Report foresaw great potential

*The Cecchini Report considered four factors to be essential: the abolition of border controls, the opening-up of public procurement, the liberalisation of financial services and the impact on the supply side.*

Towards the end of the 1980s, the EU Commission commissioned a large-scale study, which was intended to quantify the economic impacts of the internal market project in advance. It became known as the "Cecchini Report". The study results are shown in Table 4.

The authors of the study considered four factors to be essential: the abolition of border controls, the opening-up of public procurement, the liberalisation of financial services and the impact on the supply side, i.e. the strategic reactions by businesses to a new competitive environment. Overall, they expected GDP in the Community to increase by 4.5 per cent, consumer prices to fall by 6.1 per cent, 1.8 million jobs to be created, public finances to improve by 2.2 per cent of GDP and net exports to increase by 1 per cent. The authors expected an even greater impact on the general economy if the completion of the internal market were to be accompanied by active economic policy measures including public investment and cuts in direct taxation.[1] In that case, the GDP was forecast to increase by as much as 7.5 per cent in the medium term, and the creation of up to 5.7 million new jobs was anticipated.

**4 | Macroeconomic impact of completion of internal market**

*Medium-term consequences for the Community as a whole, relative changes in per cent*

| | Border controls | Public procurement | Financial services | Impact on supply side | Total |
|---|---|---|---|---|---|
| GDP | 0.4 | 0.5 | 1.5 | 2.1 | 4.5 |
| Consumer prices | –1.0 | –1.4 | –1.4 | –2.3 | –6.1 |
| Jobs in 1,000 | 200 | 350 | 400 | 850 | 1,800 |
| Public finances in per cent of GDP | 0.2 | 0.3 | 1.1 | 0.6 | 2.2 |
| Net exports in per cent of GDP | 0.2 | 0.1 | 0.3 | 0.4 | 1.0 |

*Source: Emerson, 1988, 179*

The economic impact channels that lead to the above-mentioned macroeconomic impacts include cost reductions through the abolition of border controls and through the lifting of restrictions in public procurement as well as the harmonisation or mutual recognition of national product regulations, which is also likely to lower prices. Added to this are economies of scale through improved access to a larger market and associated restructuring measures as well as the reduction of X-inefficiencies due to more intensive competition. Finally, increasing competition also erodes monopoly rents.[2] This can definitely be interpreted as a form of supply-oriented economic policy.

However, one critical point to make about the conclusions of the Cecchini Report is that they are considered to have been too optimistic. This was partly due to the fact that the authors considered only the benefits and not the costs that the restructuring involved.[3]

A 1994 study by the World Bank estimated the effects of the internal market to be weaker. The study concluded that the static and dynamic effects of internal market integration would increase GDP in the EU by 2.6 per cent. The static effects include the abolition of the costs arising from border controls and from different national standards. The dynamic effects include the intensification of competition and the adjustment of the capital stock to the new situation.[4]

### RETROSPECTIVE ANALYSES OF THE SINGLE MARKET IN THE NARROW SENSE

There have been numerous studies on the impact of the Single Market, which means that only a selection can be considered here.[5] In some cases, the studies are not restricted to the internal market concept itself, but attempt to model the entire process of European integration and quantify its economic impact.[6]

The report presented by the European Commission in 1997[7], which summarises the results of an extensive series of studies (Single Market Review), also arrived at a less favourable assessment of the impact of the Single Market Programme. It stated that neither the greatest hopes nor the worst fears had materialised. The reason why some hopes had not been fulfilled was the global recession in the early 1990s.[8] Another sobering statement was that there were few examples for sectors where the Single Market Programme could be seen as the driving force for change.[9] The effects on the supply side, which had originally been expected, had thus not yet materialised in full.

*The original expectations, namely that the Single Market would act as a catalyst for a more dynamic, innovative and competitive economic area of world class, have so far not been fulfilled.*

Be that as it may, this report derived the following positive effects of the Single Market from the results of 38 studies and a company survey: Output in the EU rose by over 1 per cent and the number of jobs increased by 300,000 to 900.000. Inflation is between 1.0 and 1.5 per cent lower than it would have been without the Single Market. Furthermore, the studies revealed an increase in foreign direct investments in the EU (see Fig. 4 and 5), intensified trade within the EU and a virtual doubling of the proportion of cross-border purchases in the public sector. Among the positive outcomes the Commission also highlights the fact that poorer countries experienced faster growth than richer countries, that the costs for European trading companies and freight forwarders decreased due to the abolition of customs and tax controls, that the prices of telecommunications equipment dropped at an accelerated rate and that air travel increased by 20 per cent in spite of the recession.[10]

Ten years later (2007), the EU Commission once again arrives at a differentiated picture: The original expectations, namely that the Single Market would act as a catalyst for a more dynamic, innovative and competitive economic area of world class, have not been fulfilled according to an assessment by the authors of a study by the Directorate General for Economic and Financial Affairs.[11] The macroeconomic impact was determined using the Commission's QUEST.[12] model. The study considered not only the effects of the Single Market Programme itself but also the effects of network liberalisation in the areas of electricity and telecommunications. Overall, average GDP in the EU-15 in the period from 2002 to 2006 was 1.81 per cent higher than it would have been without these integration measures. Employment in the same period was close to 2.5 million higher on average. When one also considers the expansion of the EU to 25 members, one sees an average increase in GDP of 2.1 per cent in the enlarged EU over the above-mentioned period and an increase in employment of 2.7 million.[13]

A more recent study from the British Department for Business, Innovation & Skills attests the Single Market considerable further development potential. Using a Computable General Equilibrium (CGE) model, the authors prepared forecasts for several scenarios. CGE models are computer-assisted simulations, which can be used to determine the income gains or losses resulting from further liberalisation of trade, taking into account links between industries, countries and regions.[14] In a scenario with complete elimination of non-tariff trade barriers for the exchange of goods and of the discrimination against foreign services, the model determines a gain in national income of over 14 per cent by 2020 for the EU as a whole.[15]

### STUDIES RELATING TO EUROPEAN INTEGRATION IN ALL ITS ASPECTS

Besides the studies that deal predominantly with the impact of the Single Market Programme, there are also some studies that attempt to assess the macroeconomic impact of the entire integration process.

The work by Harald Badinger measures economic integration by means of an integration index, which covers a number of integration measures: general tariff abolition as part of the General Agreement on Tariffs and Trade (GATT) and the harmonisation of export tariffs of the EC Member States, tariff abolition by the EFTA countries and the EC countries among themselves, the EC free trade agreement with the EFTA countries in the 1970s and the integration measures relating to the Single Market and the European Economic Area (EEA).[16] On the basis of the integration index, a level effect of European integration is determined using econometric estimation. In 14 EU countries, the average per capita GDP in 2000 was 26.1 per cent higher than the value that would have been produced in the "hypothetical scenario of no integration at all".[17] This is a very high result compared to the other assessments.

Lower figures were produced by a study by the Netherlands Bureau for Economic Policy Analysis (CPB). It determined a long-term impact of integration on income for the EU as a whole – measured by per capita GDP – of up to 10 per cent due to the effects of integration on trade and services, only part of which has actually been realised to date. In this assessment, the Netherlands benefit even more, with income rising by 17.5 per cent.[18]

Boltho and Eichengreen arrive at even lower figures; however, they make different assumptions regarding the counterfactual thinking. They examine the effects of a number of European integration measures, ranging from the European Payments Union, the European Coal and Steel Community (ECSC) and the Common Market to the European Monetary System and the Single Market. They criticise the fact that many models assume that European integration is an exogenous process.[19] Instead, they create a model of what might have happened if, for instance, the ECSC had not come into existence. They thus depart from the implicit assumption made in other studies that everything would have remained unchanged if a certain step towards integration had not taken place. In the authors' opinion, there would, for instance, have been some deregulation and liberalisation even without the Single Market Programme, spurred on by the examples of the United States and the United Kingdom.[20] Overall, the authors concluded that among the different integration measures, it was the Common Market and the Single Market Programme that had the greatest impact to boost growth in the EU. According to their assessment, based on a rough estimate, GDP today is some 5 per cent higher than it would have been without these two measures.[21]

## IMPLEMENTATION OF THE CONCEPT: DEVELOPMENTS WITH RESPECT TO THE FOUR FUNDAMENTAL FREEDOMS

### On the Current State of Integration

*The completion of the internal market has instead proved to be a continuous endeavour.*

The studies about the macroeconomic impact of the Single Market Programme referred to in the sections above illustrate that the internal market was not completed by 31 December 1992 and that this goal has not been achieved in the course of the last 20 years either in spite of further progress. It is not so much that not all the pieces of legislation proposed in the White Book had been passed by the deadline; over 90 per cent actually had.[22] Instead, the completion of the internal market proved

**5 | Regulations on the Single Market**

| | |
|---|---|
| *Article 18* | *Prohibition of discrimination* |
| *Article 20* | *Union citizenship* |
| *Article 21* | *Freedom of movement* |
| *Article 26* | *Realisation of the internal market, defined by the four freedoms of the free movement of goods, persons, services and capital* |
| *Article 28* | *Customs union* |
| *Article 29* | *Free movement of goods from third countries, which have been imported lawfully into a Member State* |
| *Article 30* | *Prohibition of customs duties on imports and exports* |
| *Article 34 and 35* | *Prohibition of quantitative restrictions on imports and exports and all measures having equivalent effect* |
| *Article 36* | *Exceptions to the prohibition of restrictions on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property* |
| *Article 45* | *Freedom of movement for workers* |
| *Article 49* | *Freedom of establishment* |
| *Article 56* | *Freedom to provide services* |
| *Article 63* | *Freedom of movement for capital and payments* |

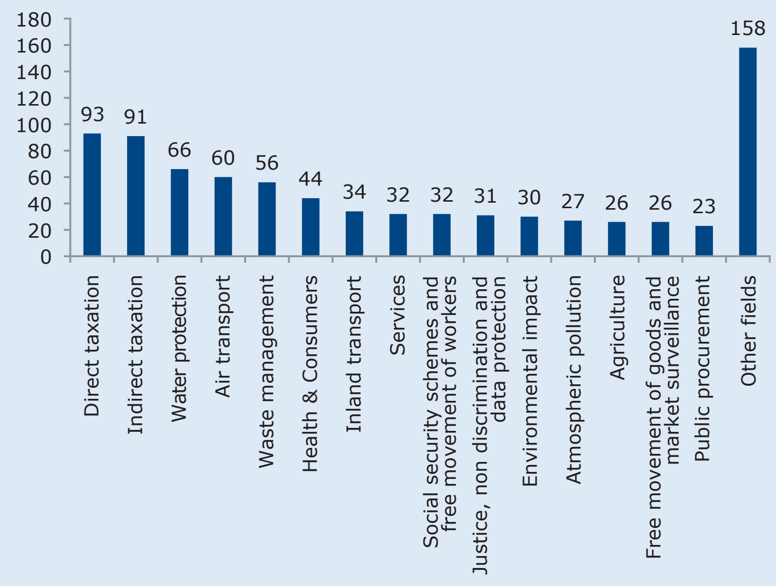
*Source: Own listing based on TFEU*

to be a continuous endeavour, which is also the assessment found in the legal literature.[23] It is the case that the Single Market Programme proved to play a clear role in encouraging integration. But the approved pieces of legislation were not sufficiently effective to bring the internal market within close reach. To make further efforts in this direction, the EU Commission has taken various measures, Single Market initiatives and strategies over the last 20 years[24], including the Single Market Acts I and II[25] in recent years.

The four fundamental freedoms are regulated in the TFEU. These regulations include first and foremost the articles described in Table 5.

A recently published report by the EU Commission on the state of the Single Market integration provides a snapshot of the current situation regarding the four fundamental freedoms.[26] Additional details are available in the Internal Market Scoreboard, which has been providing information on the implementation of the Single Market legislation in national law and its correct application for the last 15 years. Single Market legislation comprises measures that are expected to influence the functioning of the internal market. This affects not only the four freedoms but also supporting policies such as taxation, employment and social policies, education and culture, public health and consumer protection, energy, transport and the environment, as well as the information society and the media.[27] Single Market legislation therefore extends far beyond the nearly 280 pieces of legislation originally proposed in the White Book. In the Internal Market Scoreboard, the Commission also documents the current status of the infringement cases that the Commission is pursuing against Member States (Fig. 6).

**6 | Open infringement cases as of 1 November 2012**




*Sectors representing less than 20 infringement proceedings are included in 'other fields' (such as energy markets and networks, free movement of capital, free movement of professionals, working rights and conditions).*

*Sources: EU-Commission/DG Internal Market, 2013, 22*

Filtering by Member State shows that with 67 infringement cases Italy infringes Single Market regulations most frequently, followed by Spain (66) and Greece (61). The most "compliant" Member States are: Estonia with 13 cases, Latvia with twelve and Lithuania with seven. Germany lies in the upper third with 46 open cases.

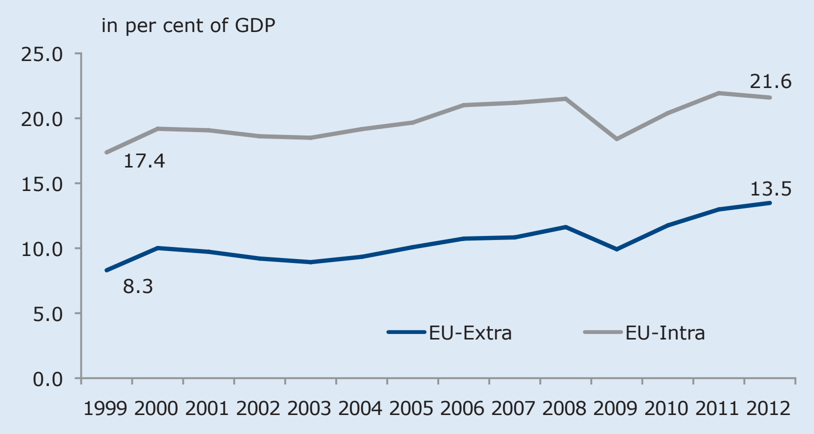
**Free movement of goods:** The statistics of the infringement cases (Fig. 6) show that in the specific area of the free movement of goods the number of infringements cases were at the lower end of the range. The regional listing includes Greece with five and France with four cases as the countries with most infringements. There are no cases pending against 15 Member States in this area. But the Commission is of the opinion that "technical barriers to the free movement of goods in the EU are still widespread"[28]. Examples can be found in the 29th Annual

Report on Monitoring the Application on EU Law. During the examined period (2011), the Commission received 124 complaints in the area of Enterprise and Industry. The large majority related to the free movement of goods in the automotive (registration, taxation), pharmaceutical products and food sectors. The Commission took Greece to court because it was impeding the import of pre-baked goods; Poland and Lithuania because they were blocking the registration of right-hand drive vehicles.[29] One example from Germany relates to construction products. According to German law, these need to have national marks or approvals in addition to the CE mark even when they are marketed lawfully in other countries. The Commission considers this an infringement of the free movement of goods and took Germany to the European Court of Justice.[30]

*As regards the trade in goods, there has been a noticeable intensification of trade within the Single Market: From 1999 to 2012, intra-EU trade as a proportion of GDP rose from 17 to just under 22 per cent.*

As mentioned earlier, the Commission moved away from full harmonisation of national product regulations with its White Book (1985), relying more strongly on the principle of mutual recognition in the Single Market. The principle of mutual recognition is applied to products for which no harmonisation exists and to product features that are not subject to the application of the harmonised rules.[31] The provisions of the relevant regulation[32] state that the national authorities must give notification if they wish to temporarily stop the marketing of a product. According to a Commission report, a total of 1,524 notifications were received from seven Member States during the period from 13 May 2009, when the regulation came into force, and 31 December 2011. However, 90 per cent of these related to products made from precious metals; the notifications apparently came from a single Member State. The rest involved food products, food additives, medications and energy drinks.[33] Further items mentioned included construction products, fertilisers, automotive spare parts, electrical products and spring water.[34] But in its report, the Commission expresses its suspicion that Member States are not notifying all decisions that deviate from the principle of mutual recognition.

**7 | EU-27 External trade**




*Source: Eurostat, Database, [DS_032655]*

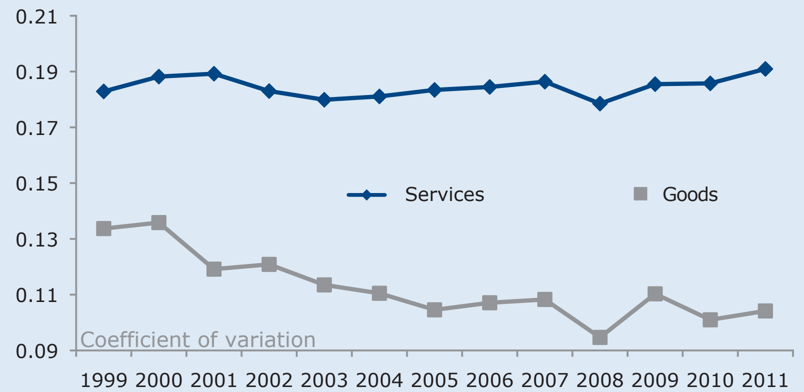
As regards the trade in goods, there has been a noticeable intensification of trade within the Single Market. From 1999 to 2012, intra-EU trade as a proportion of GDP rose from 17 to just under 22 per cent (Fig. 7). But there were some fluctuations, with a clear downturn from 21.5 per cent to 18.4 per cent in 2009. The economic crisis obviously had a negative impact. This illustrates that the Single Market Programme cannot be viewed in isolation from macroeconomic developments. Megatrends such as globalisation also have an effect on trade correlations. Globalisation and particularly the dynamic growth of many emerging economies are the reason why exports to non-EU countries grew more dynamically than exports within the EU. While internal trade rose by 87 per cent from 1999 to 2012, external trade increased by 144 per cent.[35]

Barriers to the cross-border trade in goods are also apparent in e-commerce. One might have expected that the Internet would reduce geographic distances, language barriers and transaction costs.[36] But in practice one can see that customers order four times the volume of goods from domestic suppliers than from sellers from other EU Member States.[37] One of the reasons is said to have to do with trust. It is further noticeable that manufacturers and suppliers are also concentrating on their respective home countries. Motives cited in this connection are economic considerations such as price differentiation along country borders on the one hand and different national regulations relating to consumer protection and civil rights on the other.[38]

*The provision of services presents a different picture than the trade in goods. Integration is substantially less advanced here than for the trade in goods.*

**Free movement of services:** The provision of services presents a different picture than the trade in goods. Integration is substantially less advanced here than even for the trade in goods. This becomes clear when you compare the development of price dispersion[39] for goods and services among the Member States (Fig. 8). While there are signs of a price convergence for goods in the period from 1999 to 2011 measured by the variation coefficient[40], the figures for services suggest a diverging development instead.

**8 | Dispersion of prices across the EU Member States**




*Coefficient of variation (standard deviation/mean, GDP weighted average). Source: Eurostat; own calculations; [prc_ppp_ind], [nama_gdp_c]*

The development in the trade in goods is therefore in line with the adjustment of prices in a perfect market as predicted by macroeconomic theory – in extreme cases conforming to Jevon's "law of indifference" or "of one price" – which underlines the integration trend in the goods trade. In the case of services, this development does not manifest, which suggests that integration still has a considerable way to go in this area.

However, the differing levels of the variation coefficient for services and goods are indicative of differences with respect to the way that services can be traded.[41] Many services within a particular country are also performed by subsidiaries of foreign companies. When one compares the proportion of companies under foreign control in the service sector to the proportion in the economy as a whole you see that the degree of integration this indicates is lower than in other sectors in almost all Member States.[42] This fact and the lack of convergence in the price variation for services confirm the theory that the freedom to provide services and the freedom of establishment are particularly difficult to realise. The situation relating to these freedoms is therefore examined in a separate, longer section.

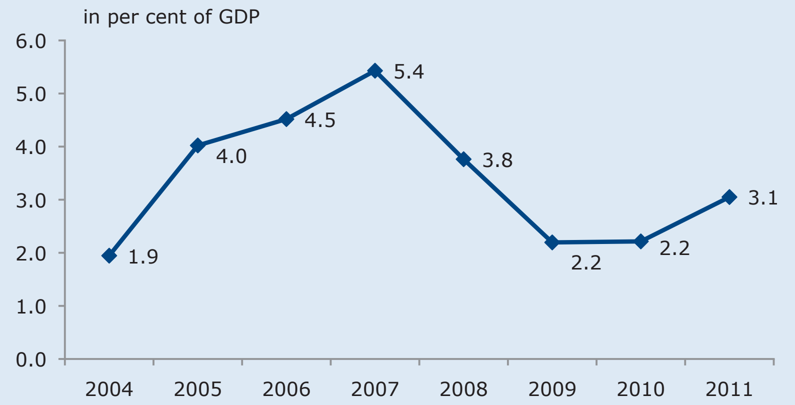
*According to information from the EU Commission, labour mobility in the EU is too low relative to its potential.*

**Free movement of persons:** According to information from the EU Commission, labour mobility in the EU is too low relative to its potential. According to the Eurostat database.[43], the number of persons in gainful employment in the 27 Member States was just under 236 million in 2011. 7.2 million of these or 3 per cent came from another Member State. In 2005, the first year for which the database shows these figures, it was 2.2 per cent. According to an assessment by the OECD, EU expansion has been the main factor in this increase.[44] The proportion is above average in Luxembourg (45.3 per cent), Cyprus (14.0 per cent) and Ireland (11.5 per cent). At 3.9 per cent, Germany is slightly above average.

The low level of mobility is confirmed by an OECD study[45]. It shows that annual cross-border mobility in the EU in 2010 involved 0.29 per cent of the population; in the United States, by contrast, mobility between 50 federal states was 2.4 per cent. Among the EU countries, the annual migration between the NUTS-1 regions[46] was 0.95 per cent.

In primary legislation, freedom of movement is enshrined in Article 21 TFEU (Table 5). In secondary legislation, the 2004 directive on the freedom of movement controls the right of citizens of the Union and of their family members to move and reside freely within the territory of the Member States.[47] The Maastricht Treaty further introduced Union citizenship in the early 1990s (Article 20 TFEU). Also, decisions taken by the Court of Justice have increasingly removed the link between the freedom of movement and economic activity and the former is now guaranteed "for its own sake and as an expression of personal freedom."[48]

**9 | Evolution of intra-EU foreign direct investment (FDI)**




*Sources: Eurostat, Database; own calculations; [bop_fdi_main]; [(Inflows plus outflows)/2]*

**Free movement of capital:** The statistics relating to the infringement cases demonstrate that the movement of capital is one of the areas of comparatively low potential for legal conflict. It is listed under "Other policy areas", in which sectors with fewer than 20 pending cases were combined.

Movement of capital includes both cross-border direct investments as well as transactions on the financial markets. According to the 2013 report by the EU Commission about the state of Single Market integration, there was a downturn in cross-border investments in the course of the financial market crisis after a long period of uninterrupted growth.[49] Direct investment flows in per cent of GDP did indeed drop by more than half within two years (Fig. 9).

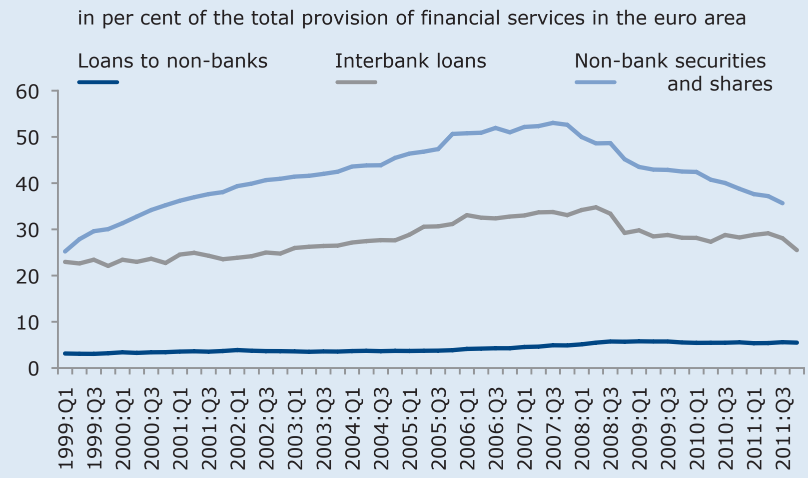
*Until the financial market crisis, the financial markets in the EU showed increasing interconnectivity.*

Financial market integration was able to benefit from the measures to liberalise the Single Market over the last 20 years and has consequently made considerable progress.[50] One of the milestones was the prohibition of restrictions on the flow of capital between Member States and between Member States and non-EU countries that was introduced with the second stage of the Economic and Monetary Union in 1994.

Until the financial market crisis, the financial markets in the EU showed increasing interconnections. German banks, for instance, had more than doubled their proportion of receivables from abroad between the end of 1998 and the end of 2006 from just over 14 per cent of the balance sheet total to just under 30 per cent; at 45 per cent, almost half of these receivables were due from countries within the EU.[51]

Due to the global financial crisis and the subsequent national debt crisis, this increasing integration came to a standstill and even went into reverse for a period of time.[52] The crisis thus had a negative impact on financial market integration.[53] It might not be possible to return to the state of capital market integration as it was before 2008 that easily as there were some undesirable developments in the cross-border flow of capital.[54] Cross-border lending ahead of the crisis was not sustainable in every case and frequently too careless. This contributed to the development of property price bubbles and excessive levels of national debt.

**10 | Cross-border provision of financial services in the euro area**




*Source: OECD, 2012, 33*

As Fig. 10 shows, a trend reversal took place during 2007. The cross-border buying of bonds and shares as well as lending between banks took a marked downturn. Interestingly, this trend reversal did not apply to cross-border loans to non-bank clients. Those actually increased slightly. That may have been due to the fact that it was a ratio, i.e. that the denominator fell more sharply than the numerator. The graphic also shows the differences in the level of integration. Not only households but also most companies raise loans very predominantly in the home country.[55]

### Services and the Services Directive

Establishing internal-market-type conditions for services proved particularly difficult. In 2000, the EU Commission therefore established a Single Market strategy for the services sector. This was its response to a situation where companies wishing to provide their services in another Member State were still meeting with numerous obstacles in the form of national regulations. These obstacles to cross-border activities included proof of nationality, rules relating to the need to have representation in the country, proof of creditworthiness, financial guarantees or documentary evidence that there was an economic need for the particular activity.[56] As such bureaucratic obstacles can only be overcome with large expenditure in time and money, if at all, many service providers ultimately restrict themselves to their domestic market, and the services sector cannot realise its potential. The Commission therefore pointed out again and again that services on average contributed 70 per cent of GDP, but constituted only 20 per cent of the trade between Member States. Currently, services represent some 21 per cent of the entire foreign trade in goods and services within the EU.[57]

*Establishing internal-market-type conditions for services proved particularly difficult.*

To allow the potential of the free movement of services across borders to be utilised more effectively, the Commission presented a draft for a Services Directive in 2004 (the so-called Bolkestein Directive)[58], which was intended to enshrine the principle of the country of origin or place of provenance amongst other things. This means that a service provider company is only subject to the regulations of its home country. According to this draft, the country of origin should also be responsible for monitoring the regulations. The proposal regulated not only the cross-border provision of services but also the freedom of establishment for service providers. However, subsidiaries were to be subject not to the country of origin principle but to the – non-discriminatory – regulations of the country of establishment.[59]

The proponents of the Services Directive were able to fall back on different studies, which assessed the economic consequences of liberalising the cross-border trade in services on the basis of the Bolkestein Directive using computable general equilibrium models or simple econometric approaches.[60/61]

The estimated macroeconomic effects are rather modest compared to the Cecchini Report. As the third study listed in Table 11 also considered measures to facilitate the freedom of establishment in the services sector in addition to the cross-border trade in services, no consistent picture emerges. At least the limitations of such models become obvious.

The Services Directive elicited strong opposition, and not just from a few interest groups. Some even think that the Commission's draft may have been a contributing factor in the rejection of the Constitutional Treaty in the referenda in France and the Netherlands.[62] One crucial criticism was that it would have created a legal vacuum if the country of destination had its control over the foreign service providers removed, but the country of origin was not able to exercise its rights of control in practice.[63] Added to this was the fear of cheap competition from the new Member States in view of the eastern expansion of the EU in the mid-2000s.[64]

*The Services Directive elicited strong opposition, and not just from a few interest groups. Some even think that the Commission's draft may have been a contributing factor in the rejection of the Constitutional Treaty in the referenda in France and the Netherlands.*

The Commission made changes to the draft directive in response to the various objections, and the country of origin principle was replaced by the principle of the freedom to provide services. Article 16 of the Directive, which was approved in December 2006 and was to be implemented in national law by December 2009, thus stated: "Member States shall respect the right of providers to provide services in a Member State other than that in which they are established. The Member State in which the service is provided shall ensure free access to and free exercise

**11 | Macroeconomic effects of a liberalisation of the trade in services**

| Authors | Increase in: GDP (%) | consumption (%) | jobs |
|---|---|---|---|
| *Breuss/Badinger (2005)* | *only effects relating to trade* | | |
| | *0.7* | *n.a.* | *612,000* |
| *Bruijn/Kox/Lejour (2006)* | *only effects relating to trade* | | |
| | *0.3 – 0.7* | *0.5 – 1.2* | *n. a.* |
| *Copenhagen Economics (2005)* | *effects relating to trade and establishment* | | |
| | *0.3* | *0.6 – 0.7* | *600,000* |

*n.a. – not available*
*Source: copied from Lammers, 2010, 11, with some slight changes*

of a service activity within its territory."[65] This watered down the country of origin principle.[66] Control remained with the country of destination. But the national requirements may not be discriminatory and they must further satisfy certain conditions: According to Article 16, Paragraph 1, Clause 3, they must be justified for reasons of public policy, public security, public health or the protection of the environment. Finally, the principle of proportionality applies. Paragraph 2 contains a list of requirements that may not be imposed, such as the obligation to have an establishment in the country's territory.

According to an assessment by lawyers, the approved text is a result of the interaction between the wider area of the protection of fundamental freedoms that evolved from decisions by the Court of Justice on the one hand and the legitimate policy determination options of the Member States on the other.[67] The OECD, however, refers to the Services Directive as a significant step towards the elimination of barriers.[68]

In Articles 17 and 18, the Directive does, however, provide for a number of exceptions to the freedom to provide services, including amongst others the services of general public interest, such as postal services, electricity, gas and water supplies as well as sewage disposal and waste management. Finally, according to Article 2, the Directive does not apply to a number of activities: financial services, services and networks for electronic communication, traffic and port services, services of temporary work agencies, health services, audiovisual services, gambling activities, activities connected to the exercising of official authority, services provided by notaries and bailiffs, certain social services, private security services as well as non-economic services of general interest.

Accordingly, the scope of application of the Services Directive covers mainly the following three areas, in which liberalisation benefits are hoped for:[69]

- Business-related services such as corporate consultancy, certification and testing organisations, advertising and HR agencies.

- Services relating to businesses and consumers: legal consultancy, agency services, engineering services, sales services, car hire and travel agencies.

- Consumer-related services such as tourism, leisure, sports centres and leisure parks. According to the Commission, the Services Directive covers a broad spectrum of activities, which account for approximately 40 per cent of GDP and employment in the EU.[70]

The departure from the country of origin principle is probably more likely to reduce the macroeconomic effects of the Services Directive. The study by Bruijn et al. (2006) quantified the effects with and without the country of origin principle applied. The results are shown in the table above.

**12 | Macroeconomic effects of the liberalisation of the trade in services**

| | Increase in: trade (%) | GDP (%) | consumption (%) |
|---|---|---|---|
| *With country of origin principle applied* | *30 – 62* | *0.3 – 0.7* | *0.5 – 1.2* |
| *Without country of origin principle applied* | *19 – 38* | *0.2 – 0.4* | *0.3 – 0.7* |

*Table copied with minor changes from Lammers, 2010, 13*

# Strengthening the EU Single Market

## AREAS WHERE THE SINGLE MARKET CAN BE DEVELOPED

### Job Mobility

One important area where the cross-border exchange could be intensified and the Single Market strengthened is that of labour mobility between EU Member States. As already explained, movement within the European internal market is considerably less extensive than in other economic areas. The low level of labour mobility is also regularly mentioned in the debate about the fact that the eurozone is not an optimum currency area. But one cannot exclude the possibility that the crisis may result in changes in attitude and behaviour in some countries of the eurozone.

*Movement within the European internal market is considerably less extensive than in other economic areas. But one cannot exclude the possibility that the crisis may result in changes in attitude and behaviour in some countries of the eurozone.*

A euro barometer survey showed that language and family-related aspects are the main reasons for not working in a different Member State.[1] The OECD also believes that language barriers represent the main obstacle for labour mobility in Europe.[2] In its report, it further mentions a number of administrative obstacles to labour mobility in the EU. The rights relating to freedom of movement have frequently not been implemented in national law and/or are not enforced with sufficient effectiveness. A loss of pension rights, differences with respect to national regulations on professional and vocational qualifications, restricted access to employment in the public sector and property market regulations are also increasing the migration costs for those wishing to relocate to another country.[3]

The regulatory diversity regarding qualifications is also making things more difficult in the EU. A directive on the recognition of qualifications does exist.[4] It combined 15 different regulations on the recognition of certificates of professional and vocational qualifications. But this did not result in facilitating the recognition procedures. Automatic recognition only applies to seven out of over 800 occupations. For the great majority of occupations, recognition is hampered by administrative hurdles, delays in the recognition process and strict national regulations. Although EU law guarantees freedom of movement, the regulation of occupations is under national control. Improved mutual recognition of professional and other qualifications could therefore be very helpful in strengthening cross-border mobility.

The Expert Council of German Foundations on Integration and Migration has investigated similar and further mobility barriers that are open to influence. According to its findings, the heterogeneous nature of the tax and social systems, the structures of educational institutions and labour market regulations represent a central barrier for cross-border labour mobility.[5] This is another area where political action can tackle the issue and reduce mobility barriers. There is a need for strengthening or creating institutions both at national and at international level whose task it would be to provide information about job opportunities in other EU countries, the recognition of academic, professional and vocational qualifications and the statutory social security framework relevant to cross-border mobility.[6] In addition, the Council believes that there is also an urgent need for a scientific evaluation of existing institutions.[7]

One should also ask the question whether the EU actually always pursues a coherent policy in the area of labour mobility. The policy of economic, social and territorial cohesion, which is also enshrined in the TFEU and aims at reducing differences in the level of development of the regions, is likely to mitigate against labour mobility.[8] Empirical studies confirm this suspicion.[9] It is no doubt reasonable to maintain that economic and social cohesion is a desirable aim at EU level. But in that case one should not criticise the supposedly low level of mobility. Another measure that would probably be counterproductive as regards labour mobility is a common social security system in the EU or in the eurozone, as recently proposed by the EU Commission in connection with the further development of the Economic and Monetary Union.[10]

**Potential in the Services Sector**

A recent study published by the EU Commissio[11] carried out a first assessment of the Services Directive. Under the Services Directive, a mutual evaluation of approval regulations and requirements was scheduled to be completed by the end of 2009. On the basis of the collected data, Commission services compiled information about barriers to the cross-border trade in services for the periods before and after the Directive. The study concludes that the reduction in barriers achieved to date has had a positive impact on the Community GDP of 0.8 per cent. In a "what if" analysis, the potential of a complete abolition of barriers is estimated to amount to a further increase in GDP of 1.6 per cent.[12] Open Europe estimates the positive impact of full liberalisation to be as high as 2.31 per cent.[13]

The potential for the services sector is mainly derived from the fact that not all obligations from the Services Directive have been implemented yet:[14]

*The potential for the services sector is mainly derived from the fact that not all obligations from the Services Directive have been implemented yet.*

- In several Member States, there are still some restrictions in place relating to the nationality or place of residence of the service provider. The majority of Member States treat cross-border service providers like domestic companies. This results in duplicated regulation. One example is the obligation to have insurance in the country where the activity is performed although the company is already insured in the country of establishment.

- In some cases, there is also uncertainty as to which regulations apply to service providers that wish to perform an activity in another Member State temporarily.

- Many occupations in the service sector are subject to national regulations, such as qualification requirements, access barriers or barriers to exercising an occupation.[15] The number of regulated occupations varies between 47 and 368 from one Member State to the next. 25 per cent of all occupations are regulated in only one Member State.

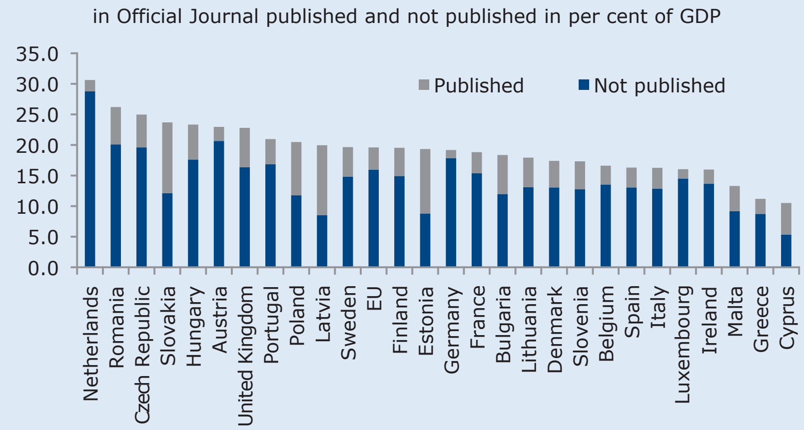
- Some Member States have still not put sufficient measures in place to ensure a single point of contact that companies can go to in order to handle all the procedures and formalities in connection with the service provision and to apply for authorisations.

- There is still an economic needs test in some Member States.
- In a number of states, business services are hampered through requirements regarding the free choice of business structure.
- Competition in retail is hindered by elaborate legal regulations or restrictions with respect to the shop format.[16]

An empirical study by the OECD confirms the findings of the Commission's report. In the case of business services, particularly for legal consultancy, for engineers and architects as well as auditors, regulatory differences are still too high for an internal market. Italy, Luxembourg and Portugal were found to have regulations for business services that differ greatly from those in other countries. According to the study, there is still considerable scope for further deregulation in the retail sector in most EU countries.[17]

Potential for the services sector could also be opened up by expanding the scope of application of the Services Directive, for instance by the implementation of the country of origin principle[18]. However, in view of the difficulties in coming to a compromise regarding the approval of the Services Directive, this is an option for the longer term.

**13 | Public Procurement in the EU**




*Sources: EU-Commission 2011c, Indicators; Eurostat (GDP and main components – current prices [nama_gdp_c]); own calculations*

### Public Procurement

One area linked closely to the trade in cross-border services is public procurement. According to Commission estimates, services constitute just over 40 per cent of contracts awarded by the public sector.[19] In 2010, the total volume of expenditure for public works contracts, public supply contracts and public service contracts was approximately 2,400 billion euros[20], which corresponds to a proportion of just under 20 per cent of GDP. However, only just under 450 billion of this amount, or 3.6 per cent of GDP, were put out to tender in the Official Journal of the EU (Fig. 13). In other words, on average over 80 per cent of public procurement contracts across the EU 27 countries were not put out to EU-wide tender. One reason is that many areas of public procurement fall outside the scope of the relevant EU Directives.

The provisions of EU legislation regulate the procedures by which public institutions award contracts that exceed a certain threshold. Directive 2004/18/EC applies to the award of public works contracts, public supply contracts and public service contracts. Directive 2004/17/EC regulates the procurement procedures of entities operating in the water, energy, transport and postal services sectors. For public works contracts, the threshold is 5 million euros, for supply and service contracts 400,000 euros.

For certain supply and service contracts, lower thresholds of 130,000 or 200,000 euros apply.[21] The rules prescribe publication in the Official Journal of the EU. The regulations also include a selection of types of award procedures and the requirement of a non-discriminatory description of the performance relating to the subject-matter of the contract.[22]

According to the Commission, the Directives only apply to approximately 20 per cent of all public contracts. The excluded contracts comprise not only those below the threshold values, which make up some 2 per cent of GDP; public contracts for goods and services for health, education and social services totalling 6 per cent of GDP are not awarded according to the rules of the two Directives either. Specific further exceptions also apply to fuels, water and defence equipment.[23]

If efforts are to be made in line with the ultimate goal of the EU rules, namely to open up the procurement markets, which are traditionally national ones, to cross-border competition,[24] public procurement in particular still offers substantial potential for improvement of the European internal market. Under no circumstances, however, should public procurement be burdened with objectives that do not relate directly to the awarding of contracts, such as environmental protection or social criteria, as this is not compatible with the primary objective of the cost-effective use of public funds.[25]

*Public procurement in particular still offers substantial potential for improvement of the European internal market in that they open up national procurement markets to cross-border competition.*

The defence sector constitutes a special case of public procurement. According to Article 4 Paragraph 2 TEU, Member States (and not the Union) are responsible for national security. This can lead to tension due to the EU's responsibility for the Single Market because grounds of national security hamper the application of Single Market rules. Article 346 TFEU does dictate that every Member State can take measures that it deems necessary to maintain its essential security interests where they relate to the manufacture of weapons, munitions and war material or the trade in these items. But these measures may not impede the competitive conditions within the Single Market relating to goods not destined specifically for military purposes.

Parliament and the Council jointly issued Directive 2009/81 specifically for the procurement of defence equipment.[26] According to recital 2, its aim is the gradual establishment of a European defence equipment market. This is thought to be essential for strengthening the European Defence Technological and Industrial Base and for developing the military capabilities required to implement the European Security and Defence Policy. In other words, besides internal market objectives, reasons relating to industry policy and considerations regarding security and defence policy also explicitly play a role.

The above-mentioned Directive was supposed to be implemented in national law by 20 August 2011. But Member States have found this difficult to achieve. This is indicated by the fact that as many as 12 of the last 29 infringement cases listed on the website of the DG Internal Market and Services in the area of public procurement[27] relate to defence sector procurement. Portugal, Slovenia, Austria, Poland, Bulgaria, Luxembourg, Germany, the Netherlands and the UK have been accused of infringements. The Commission even applied for financial penalties to be imposed by the Court of Justice against Poland, the Netherlands, Luxembourg and Slovenia.

### Fighting the Fragmentation of the Capital Markets

Based on the diagnosis that market fragmentation can be viewed as an expression of a deep-rooted crisis of confidence[28], stronger regulation of the financial sector is unavoidable. Individual elements are being discussed under the term 'banking union'. Amongst others, these include common and strong supervision of the so-called system-relevant banks of the eurozone and common rules for banking transactions.[29]

*Common supervision at the European level is necessary because purely national supervision is not capable of adequately addressing the systemic risks banks create.*

Common banking supervision at the level of the European Union/Monetary Union is necessary because purely national supervision is not capable of adequately addressing the systemic cross-border risk that system-relevant banks can create, as recent developments in the eurozone have shown[30]. It has also become clear that the systemic risk posed by individual large banks has been underestimated, which made recovery measures more difficult. Fear of contagion effects, which might cause a wide-spread banking crisis, resulted in some banks being rescued by state aid, thus decoupling liability from action. With purely national bank regulation there is also always the danger of competition to provide the most lenient bank supervision – with the objective of attracting financial market actors and thereby capital and jobs. Common rules for the restructuring of banks or banking transactions can help to ensure that liability regulations are put back in force.

Cross-border bank rescue funds or common deposit protection systems with state guarantees, by contrast, would be problematic because they might produce adverse moral risks. Because of the explicit or implicit state guarantees, these would involve communities of joint liability that would encourage moral hazard. They would also diminish the disciplinary effect of the financial markets.

### Energy Markets

Work on creating a European internal market for energy started back in the 1980s, but proved very arduous.[31] This probably had to do with the fact that in industries involving networks it is not easy to ensure competition even in national markets.[32]

The European Commission issued several Directives to try and create competition in the national markets and simultaneously achieve further cross-border integration of markets that had been predominantly separate in the past. The 1996 Directive on the internal market in electricity pursued competition and energy policy objectives. It was intended to open up the European energy markets, ensure discrimination-free access and avoid cross-subsidisation and distortion of competition. After the individual Member States had implemented the Directives in very different ways without this leading to a satisfactory opening up of the market and a corresponding competitive situation, the Commission issued the 2003 acceleration directives, which enforced the safeguarding of competition through the creation of national regulatory bodies for the electricity and gas markets.

The last major initiative for the internal energy market, the Third Energy Package, comprises two Directives (gas and electricity) from 2009, which came into force in 2011.[33] These Directives regulate the ownership rights in transmission and distribution networks by separating networks from supply and generation activities.

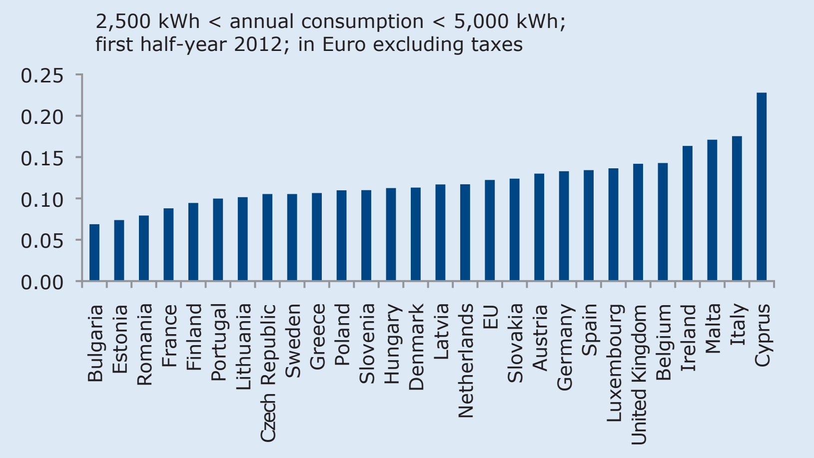
They further provide for effective supervision through independent national energy regulatory authorities as well as for greater harmonisation of responsibilities and a strengthening of the independence of the national regulatory bodies, with the aim of achieving effective and discrimination-free access to the distribution networks. There were problems and delays with the implementation of the Directive in national law.[34] Particular difficulties arose with the unbundling of the transmission networks and with the independence of the regulatory authorities. The Commission responded by initiating several infringement cases.[35]

The competition situation in the energy markets has been found to be very varied. There is generally a very high degree of concentration in the electricity markets. In eight Member States, over 80 per cent of the electricity generation is still controlled by the incumbent operator.[36] The indicator for the level of market concentration, the Herfindahl-Hirschmann Index, is very high in Greece, Portugal, Estonia, Lithuania, Latvia, Italy and France at values exceeding 5,000.[37] By comparison, competition is already well advanced in Germany. Genuine integration of the European electricity markets would also considerably reduce the influencing potential of individual market players and thus significantly strengthen competition.

*There is generally a very high degree of concentration in the electricity markets. In eight Member States, over 80 per cent of the electricity generation is still controlled by the incumbent operator.*

Fig. 14 also shows that the retail prices (before tax) for electricity partly vary substantially from one country to the next. When there is a price difference of over 40 per cent between neighbouring countries such as Germany and France for as homogeneous a product as electricity, you can hardly talk of a functioning internal market. According to the Commission, the price differences are due in part to the price regulations in 14 Member States, including France, Greece, Poland and Portugal, inadequate cross-border transmission lines, but also differences with grid costs and labour costs.[38] The Commission was also of the opinion that price regulation was acting as a disincentive to investment because investors considered it an indication of political interference.

**14 | Electricity: prices per kilowatt hour for domestic consumers, Euro**




*Source: Eurostat, Database; [nrg_pc_204]*

A genuine internal market for electricity would not only increase competition, but could also improve supply security by virtue of the fact that electricity sources and consumers would be networked more effectively. In the end, decarbonisation could also be achieved more efficiently in a pan-European scenario. It would clearly be more beneficial to produce renewable energies in locations where the natural conditions are most favourable. But this would actually require the existence of an internal market for renewable energies and a corresponding regulatory framework. Although this is in place for the trade in emissions, the policies regarding subsidisation of renewable energies are mainly decided in isolation at a national level.

*A genuine internal market for electricity would not only increase competition, but could also improve supply security by virtue of the fact that electricity sources and consumers would be networked more effectively.*

Naturally, an internal energy market requires efficient cross-border networks. In order to be able to better utilise the potential of the Single Market, the Commission should act promptly to approve and implement the energy infrastructure package it presented in October 2011, which identifies twelve priority corridors and areas covering electricity, gas transmission and storage, and oil and carbon dioxide transport networks.[39] But in its compromise about the multiannual financial framework for the period 2014 to 2020, the European Council cut the funding for the Connecting Europe Facility, part of which was to be used to finance energy infrastructure measures, compared to what the EU Commission had envisaged. Without efficient cross-border networks, companies will not be able to offer their energy throughout the Single Market.

**Transport Markets, Particularly Railway Transport**

The 1985 White Book already included measures for the completion of the internal market in the area of transport. These included in particular the elimination of volume restrictions in road haulage, the enforcing of the freedom to provide services in passenger road transport and inland waterways transport, the liberalisation of maritime transport services between Member States and air traffic.[40]

Rail transport, however, was not an explicit part of the EU Single Market Programme. In spite of this, the Commission also took a number of measures in this area to ensure greater competition and to overcome the predominantly national outlook of the incumbent railway operators.[41]

Railway transport is still considered an area where technical, administrative and legal obstacles are hampering the market entry of foreign railway operators.[42] The EU Commission intends to redress the situation with the Fourth Railway Package and ensure greater competition in railway transport amongst other things. As the rail freight transport markets have already been open since 2007 and the international rail passenger services have been fully open to competition since 2010, national rail passenger transport services are now to be opened as well.[43]

For a long time, there was controversy about whether an effective opening up of the market required an institutional separation of infrastructure and operation. The Commission proposed this as the simplest and most efficient way to create an equal playing field for the transport operators. However, it wants to allow Member States to retain existing holding structures, but in that case proposes stricter measures to protect the independence of the infrastructure operator, which would be subject to checking by the Commission.[44]

Furthermore, the Commission wishes to strengthen the European Railway Agency (ERA) and transfer responsibility for issuing authorisations for placing vehicles on the market and safety certificates to it. The ERA estimates that there are over 11,000 national technical safety regulations, with the result that the approval process for new rolling stock is time-consuming and expensive.[45]

**15 | Railways: milestones of liberalisation in the EU**

| | |
|---|---|
| *1989* | *Announcement by the Commission about a Community railway policy: reorganisation of the railway operators* |
| *1991* | *Council Directive (91/440/EEC) "On the development of the Community's railways": opening up of the infrastructure of the national railway operators for international groupings of railway operators in cross-border passenger and freight transport as well as for cross-border combined freight transport* |
| *1995* | *Council Directive (95/18/EC) on the licensing of railway undertakings and Directive (95/19/EC) on the allocation of railway infrastructure capacity and the charging of infrastructure fees: consistent and discrimination-free network access for railway operators.* |
| *1996* | *Commission White Book aiming to revitalize the railways in the Community: free market access in cross-border freight and passenger transport, cabotage demanded in freight transport* |
| *2001* | *First Railway Package: access to so-called trans-European rail f reight network for railway operators operating across borders by 15 March 2003, from 15 March 2008 to the entire rail network in freight transport* |
| *2004* | *Second Railway Package: further opening up of the freight transport market: deadline 15 March 2008 brought forward to 1 January 2006; from 1 January 2007, opening up of national markets for freight transport (cabotage)* |
| *2007* | *Third Railway Package: opening up of cross-border market for rail passenger transport by 1 January 2010, incl. cabotage on lines of cross-border transport service* |
| *2013* | *Fourth Railway Package: immediate access to domestic passenger transport market for foreign operators from 2019; centralisation of registration and safety certification* |

*Quelle: Eigene Zusammenstellung nach diversen Veröffentlichungen*

## Infrastructures

Ohne eine leistungsfähige Infrastruktur, also ohne moderne Verkehrswege, Kommunikations- und Energienetze, kann der europäische Binnenmarkt nicht funktionieren. Oder, wie es im Monti-Bericht „Eine neue Strategie für den Binnenmarkt" von 2010 The European Single Market cannot function without an efficient infrastructure, i.e. without modern transport routes and communication and energy networks. Or, as stated in the Monti Report "A New Strategy for the Single Market" of 2010: "It is impossible to imagine a single market without the physical infrastructure connecting its parts:…"[46]

In the eyes of the Commission, infrastructure investments should receive financial support from the Connecting Europe Facility, which the EU Commission intended to fund with 40 billion euros in the period from 2014 to 2020.[47] It was supposed to be bolstered by an extra 10 billion euros from the Cohesion Fund for investments in transport infrastructure. Infrastructure investments in the areas of transport (21.7 billion euros), energy (9.1 billion euros) as well as information and communication technology (ICT) with 9.2 billion euros were intended to help improve the functioning of the internal market in the EU. With these plans, the Commission was mainly focusing on cross-border connections, which national planning was not paying sufficient attention to.[48] In the energy sector, the Commission has identified four corridors for the transport of electricity, plus three for gas and one for oil. In the transport sector, a core network of ten corridors is to receive financial support, and its national components are also to be eligible for financial assistance from the Structural Fund.[49] Overall, the EU Commission estimates the total investment required for infrastructure in the period from 2014 to 2020 at nearly 1 trillion euros: 540 billion euros for the trans-European transport network, 250 billion euros for ICT networks and 200 billion euros for energy networks.[50] The EU Commission intends to use the facility for so-called innovative financial instruments to facilitate the financing of projects.[51] These also include project bonds, where a contribution from the EU budget is supposed to help improve the creditworthiness of projects. This may encourage financing by the European Investment Bank (EIB), other financial institutions and private investors.[52] The intention is to leverage the EU funds at a ratio of up to 1:25, for instance, through the mobilisation of private funds for infrastructure by means of these project bonds.[53]

*Overall, the EU Commission estimates the total investment required for infrastructure in the period from 2014 to 2020 at nearly 1 trillion euros.*

The Commission's plans have experienced a setback due to decisions made by the heads of state and government regarding the multiannual financial framework, because the compromise that was arrived at more than halved the funding for the Connecting Europe Facility to 19.3 billion euros. This means that cutbacks are being made in an area where changes would be most likely to facilitate the creation of added value in Europe because they would improve the prerequisites for competition in the European Single Market.

### EU SINGLE MARKET ACTIVITIES

With the Single Market Act I of 2011 and the Single Market Act II of 2012, the Commission is no doubt addressing important areas, in which the potential of the Single Market could be utilised even better.[54] These encompass the completion of the internal market in the energy and transport sectors including the required investments in the associated infrastructure, furthering labour mobility, strengthening the rules for public procurement and for cross-border services. The Commission's proposal for better application of employees' right to freedom of movement is aiming in the right direction, for instance by obliging Member States to set up national points of contact where foreign workers from the EU can obtain information, support and advice.[55]

There is, however, a problem in that the Commission includes a number of areas under the topic of the Single Market, which appear problematic in this specific context because they threaten to overburden the project. It is doubtful whether it is really within the remit of Single Market policy to "help address the roots of exclusion in our societies", as the Commission communication on the Single Market Act II states.[56] Fighting social exclusion is first and foremost a task for social policy to address, at whatever level it needs to be tackled. To expand internal market policy by including social policy aspects does not appear to be helpful.

Other Commission initiatives, such as guaranteeing access to a basic payment account to all EU citizens, raise the question whether this is covered by the allocation of responsibilities between the EU and Member States. Without questioning the goal itself, this would more likely fall under the subsidiary principle rather than being considered an international issue. The literature shares this general criticism: "The integration of ever more policies with the Single Market ultimately blurs the border between what is relevant to the Single Market and what is not. What is gained in terms of conceptual flexibility is paid for with a loss of clarity with respect to the goal direction."[57] In the search for a trade-off between the different goals summarised under the heading of internal market completion, conflicts cannot be avoided.

*There is a problem in that the Commission includes a number of areas under the topic of the Single Market, which appear problematic in this specific context because they threaten to overburden the project.*

This is illustrated by the following: The Commission's intention to lessen the burden for small and medium-sized enterprises (SME), as announced in its communication on better governance for the Single Market[58], is to be welcomed in line with the goal of improving the functioning of the Single Market. However, this is inconsistent with the Commission's intention to put extra burdens on larger companies (with over 500 employees), which include some SMEs, with new reporting obligations by requiring them to account for their corporate activities in environmental and social areas (Handelsblatt, 16.04.2013, 10). The Commission had announced these measures already in its communication on the Single Market Act I.[59] Purely formally, of course, the Commission can "hide" behind the definition of an SME, which puts the limit at 250 employees.

# Single Market and Single Currency

*One needs to consider that the European Monetary Union has been in existence since 1999 and that its dissolution or breakup would result in violent economic and political turbulences, which might also jeopardise the existence of the Single Market.*

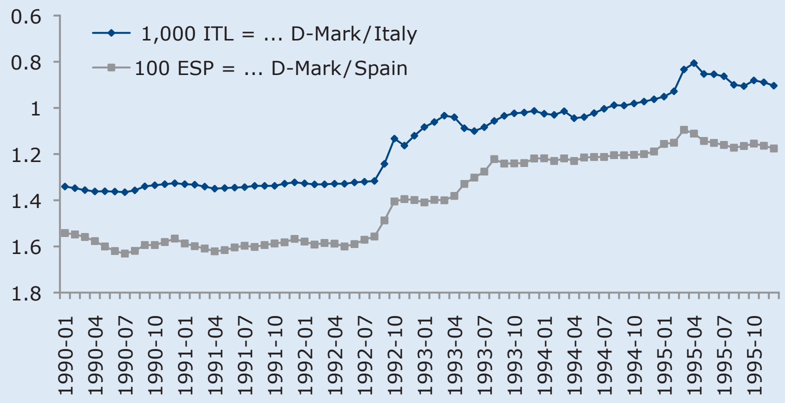
Whether the European Single Market necessarily needs a joint currency is disputed. Not all EU countries are involved in the Monetary Union after all. But today this question cannot simply be answered by arguments for and against. Instead, one needs to consider that the European Monetary Union has been in existence since 1999 and that its dissolution or breakup would result in violent economic and political turbulences, which might also jeopardise the existence of the Single Market.[1]

A study by Bertelsmann and Prognos[2] attempts to go some way in quantifying losses in growth that different exit scenarios would entail. To this aim, a macroeconomic global model is used which includes 42 countries that generate over 90 per cent of global GDP. In the worst case scenario Greece, Italy, Portugal and Spain exit the Eurozone., In this case the 42 countries in the model would suffer cumulated losses in growth of 17.2 trillion euros in the period from 2013 to 2020. A study by ING Financial Market Research[3] also tried to map the amounts that a breakup of the Monetary Union would entail. According to this, the financial engagement of the banks and of the public sector of the European core states amounts to over 2 trillion euros or 36 per cent of their GDP in the five countries of Greece, Ireland, Italy, Portugal and Spain.

Besides these direct economic losses, one would also have to expect indirect impacts. These include substantial capital transaction controls, which may be justified and admissible for reasons of public order or safety (Art. 65 TFEU, 1b), but which are counter to the concept of the Single Market. It is further by no means certain that there would not be other restrictions imposed on the Single Market freedoms, even though that might infringe existing legislation. If the breakup of the eurozone were to result in political and social tensions in some EU countries, restrictions on the free movement of goods and services as well as on the freedom of movement of workers by political action could not be excluded. This shows that the question whether the Single Market would prevail without Monetary Union cannot be discussed without taking into account path dependence.

Even though some events would no doubt have taken a different turn in the decision-making about the introduction of the euro, had one known about subsequent developments in the eurozone, the architects of the euro had good reason to view the Single Currency as a development that followed on consistently from the Single Market. Because experiences with the crisis in the European Monetary System in the early 1990s had shown that erratic changes in exchange rates hampered the exchange of goods and could destroy the basis of non-monetary economic adjustments and business investments – including cross-border investments – practically overnight. This was detrimental to the potential of the Single Market. While the exchange rate[4] between the German mark and the Italian lira was still 1.32 marks per 1,000 lira in August 1992, this ratio had changed to 1.03 per 1,000 by March 1993, corresponding to an appreciation of the German mark by just over 27 per cent (Fig. 16). Seen from another perspective: Within just six months, the prices of German goods in Italy increased by approximately 27 per cent, while conversely, Italian goods bought in Germany became cheaper by 21.5 per cent, equivalent to the depreciation rate between the Italian lira and the German mark.[5] The value of the German mark also rose considerably against the Spanish peseta.

**16 | Appreciation of the D-Mark at the beginning of the 1990s against Lira and Peseta**




*Source: Deutsche Bundesbank, Database*

But it was not only the German mark that was affected by the exchange rate fluctuations due to the turbulences in the EMS. The Italian lira and the British pound, for instance, lost almost 20 per cent in value against the French franc between May 1992 and February 2003. According to its own figures, this caused the French car manufacturer Peugeot to lose 35 million francs and respectively 140 million francs in profits for each percentage point the lira and respectively the pound dropped.[6]

Not only did the introduction of the euro prevent economic uncertainty with cross-border transactions in the eurozone, it also reduced transaction costs and increased price transparency[7], thus contributing to an intensification of trade, which is in line with the goals of the Single Market. Transaction costs include the costs for exchanging cash and for the cross-border transfer of money as well as companies' rate-hedging expenditure and the costs involved in currency management at companies and banks. These costs can be interpreted as losses in economic welfare because production factors are utilised in an unproductive manner. A Commission study from 1990 had put the savings in transaction costs due to a single currency at 0.3 to 0.4 per cent of the economic output of the then twelve Member States, corresponding to an amount between 13 and 19 billion ECU.[8] A 1997 study by the ifo Institute even arrived at an amount close to 1 per cent of the GDP of the EU-12 states for currency management costs, corresponding to over 58 billion ECU in 1995.[9]

# Conclusions and Recommendations for Action

**The above observations have shown that the EU Single Market represents an important milestone of European integration.** This asset needs to be retained and maintained. Under no circumstances should the EU Single Market be jeopardised through thoughtless decisions and developments in the area of the Monetary Union, because in the event that the eurozone were to break-up it would be highly likely that the four freedoms would be curtailed, at least temporarily.

**Numerous studies have been conducted about the macroeconomic impacts of the Single Market Programme; but their results vary considerably.** While the Cecchini Report forecast large impacts in terms of growth and jobs, later studies partly foresaw lesser impacts, which should not, however, be seen as negligible. It will probably never be possible to determine the exact impacts as the completion of the internal market cannot be viewed in isolation from other economic and political developments such as the different EU enlargements, the worldwide trend towards globalisation, the economic rise of the emerging economies or new technical developments that have triggered an upsurge in productivity. Empirical investigations are also not very likely to agree in their results because it is always necessary to engage in counterfactual thinking, whose assumptions will hardly be identical.

**What is more important than the quantitative results of the various studies is the impact of the Single Market Programme in furthering competition, which is probably difficult to assess in its full scope in economic terms.** The strengthening of competitive intensity is an important tool in the creation of greater growth, productivity and competitiveness. More intense competitive pressures encourage companies to be more innovative and exploit efficiency reserves to become more productive and competitive. This is precisely what the Single Market Programme aims at by eliminating barriers to market entry.

**The role of competition in a market economy should also be viewed as central on a more fundamental level.** Adam Smith already believed that competition was crucial in ensuring that the invisible hand of the price mechanism would work and that companies would operate with the requirements of their customers uppermost in their minds. Former German Chancellor Ludwig Erhard fought many political battles to ensure the strengthening of competition so that the market economy could develop its social impact as envisaged by Smith.

**However, reforms aimed at creating greater competition frequently meet with strong political opposition at national level by interest groups that see this jeopardising their assets.** All too often, purely national reform programmes therefore become bogged down, to the detriment of consumers and also occasionally of the unemployed, who are hoping for new job prospects. That is another reason why it is very important that the EU – with strong support from the state capitals – injects new life into the Single Market Programme. This is because it will require pressure from Brussels for the ultimately unjustified resistance at national level to be broken – to the benefit of EU countries and the EU as a whole.

**A strengthening of the Single Market should therefore be an important part of the reform agenda under the Europe 2020 Strategy. Furthermore, the revitalisation of the internal market can also serve as part of the strategy to combat the current debt crisis.** Because only if new growth is generated the partly severe debt problems will be successfully tackled.. The European Council also recently demanded that the required consolidation strategy should be designed to encourage growth as much as possible. Furthermore, there is now a greater need than ever for medium-term growth impulses. Many eurozone countries are not only suffering from the current recession now, they will also need to undergo a lengthy process of deleveraging in the public and private sector. **The strengthening of the Single Market can therefore accompany the numerous structural reforms, which are being undertaken in the countries in crisis, in order to strengthen competition in labour and product markets.**

As explained in Chapter 1, the Single Market also has an important external dimension. It has helped to improve the position of the EU in global competition, and it most likely strengthens the EU's negotiating position in talks on bilateral trade agreements.

The above observations in Chapter 3 have shown that there are still many areas where the Single Market can and should be developed further:

- **There are no doubt a number of further improvements that can be made with respect to the freedom of movement of workers.** These include above all the mutual recognition of qualifications. In addition, there is a need to support or create institutions that provide information about job opportunities in other EU countries as well as the relevant regulations and required qualifications.

- **Particularly in the area of services, there has been no indication of price convergence unlike the cross-border trade in goods,** which indicates that there are still significant obstacles here. The Services Directive should therefore be applied forcefully and the duplication of regulations should be reduced. But above all, there should be no economic needs testing, and the situation regarding the single points of contact must be improved. Requirements regarding a specific business structure should be abandoned. A general change to the country of origin principle will probably be more of a long-term option.

- **In the area of public procurement, the high number of infringement cases shows that compliance by Member States could be improved.** During the planning for the new legislation on awarding contracts care must be taken to ensure that it is not overloaded with criteria irrelevant to the awarding of contracts.

- Although the **creation of a banking union** was not originally part of the remit of the Single Market Programme, it can provide a contribution to the furthering of the cross-border movement of capital.

- **The high level of concentration in the electricity markets in eight Member States and the clear price differences show that there is still a need for further competition here.** For this reason, the implementation of the different energy packages should be pursued more forcefully, i.e. production and distribution should be decoupled and the independence of the regulatory authorities enforced. In addition, any other existing restrictions on competition should be eliminated to create a genuine single market for energy.

- **Finally, scope for improvement is also apparent in the areas of transport and of the infrastructures in the Single Market.** But if the decision of the European Council to cut funding in the multiannual financial framework stands, the cutbacks will affect precisely the area where projects that would create added value in Europe should be financed with funds from the European budget.

- Of course there are **further areas** where an improvement of regulations could contribute to the better functioning of the Single Market. These include the **VAT regime**[1], which cannot, however, be examined in greater detail in this short report.

**There is also a need for action regarding the implementation of approved directives into the national legislation of the Member States.** Not every directive is implemented in the Member States on time and appropriately. This is illustrated not least by the numerous infringement cases that the Commission is conducting against non-compliant Member States. But the cases are very time-consuming, particularly if the dispute goes all the way to the European Court of Justice for the final decision. According to a press release by the EU Commission of 19 February 2013, the average length of infringement cases is between ten months in Luxembourg and up to three years in Sweden.[2] And on average, it takes another 17 months before an infringement is rectified once the Court of Justice has given its verdict.

**But however great the need for improvement measures may be, one should not indulge in wishful thinking. No doubt, the Single Market will never achieve a state of total completion.** It will become not perfect. This can be explained firstly by the fact that there are limits to EU-wide harmonisation. If one follows the EU motto "United in diversity"[3], one also needs to take diversity seriously and not wish to "harmonise it away".

In a union of states, which form a "Staatenverbund", according to the interpretation by the Federal Constitutional Court of Germany, there are not only limits to harmonisation but also to the mutual recognition of national product and service regulations. Whether mutual recognition will lead to a "race to the bottom" may be disputed.[4] But it is likely beyond dispute that national borders are also in a certain sense natural borders, which cannot be eliminated by the stroke of a pen like customs duties because they may also be based on factors such as old established corporate and supplier networks, different regulatory traditions or consumer habits. These factors also explain why the trade within countries is larger than the trade across national borders.[5]

**One further important aspect is that the Single Market Programme should not be overburdened.** One example is the inclusion of irrelevant criteria in the area of public procurement, which might result in complicating the process of awarding contracts and be counterproductive with respect to the aim of furthering cross-border exchange in this area.

**The danger here is not so much that the EU Commission may become side-tracked into non-essential areas, but rather excessive regulation and a 'mission creep' where responsibilities are concerned.** Current examples include recommendations on social investments, initiatives on saving water and a Europe-wide speed limit of 30 km/h within built-up areas.[6]

*The Single Market as the Key Cornerstone of European Integration and Part of the Future Policy Agenda*

*1 | EC Commission, 1985*
*2 | Brandstetter, 1996, 78*
*3 | Oppermann et al., 2009, 12*
*4 | Giersch, 1985*
*5 | Kollmeier, 2001, 8*
*6 | Oppermann, 2005, 13*
*7 | Originally Article 8a of the EEC Treaty, today Article 26 of the Treaty on the Functioning of the European Union (TFEU). There "Treaties" instead of "Treaty".*
*8 | Mussler, 1998, 99 ff.; Busch, 2009, 7 f.*
*9 | Frequently also referred to as the European Court of Justice (ECJ)*
*10 | Hatje, 2007, 2360*
*11 | Hofmeister, 2011, 119*

*20 Years' Single Market: Impact and Need for Improvement*

*1 | Emerson, 1988, 186*
*2 | Emerson 1988, 171 ff.*
*3 | Smeets, 1996, 70*
*4 | Harrison/Rutherford/Tarr, 1994, 2 und passim*
*5 | For an overview see Aussilloux et al, 2011, 3 f.; Straathof et al., 2008, 21 f.*
*6 | Cf. e.g. Badinger, 2005; Eichengreen/Boltho, 2008*
*7 | Monti, 1997*
*8 | Monti, 1997, 3*
*9 | Monti, 1997, 5*
*10 | Monti, 1997, 2 f.*
*11 | Ilzkovitz et al., 2007, 3*
*12 | QUEST is a DSGE model used by the EU Commission; URL: http://ec.europa.eu/economy_finance/research/macroeconomic_models_en.htm*
*13 | Ilzkovitz et al., 2007, 57*
*14 | Aussilloux et al., 2011, 6*
*15 | Aussilloux et al., 2011, 33*
*16 | Badinger, 2003, 185*
*17 | Badinger, 2003, 207 f.*
*18 | Straathof et al., 2008, 66*
*19 | Eichengreen/Boltho, 2008, 7*
*20 | Eichengreen /Boltho, 2008, 31*
*21 | Eichengreen/Boltho, 2008, 42*
*22 | Hatje, 2012, margin number 21*
*23 | Hatje, 2012, margin number 23 with further references; Kahl, 2011, margin number 33*
*24 | For an overview see Kahl, margin number 34 ff.*
*25 | EU Commission, 2011c und 2012e*
*26 | EU Commission, 2012c*
*27 | EU Commission/DG Internal Market, 2013, 7*
*28 | EU Commission, 2012a,4*
*29 | EU Commission, Secretariat-General 2012*
*30 | IP/12/648 of 21 June 2012*
*31 | EU Commission, 2012a, 5*
*32 | Directive 764/2008*
*33 | EU Commission 2012a, 8*
*34 | EU Commission, 2012a, 10*
*35 | Measured as imports and exports (divided by 2).*
*36 | OECD, 2012, 37*
*37 | OECD, 2012, 37*
*38 | Brasche, 2013, 96 f.*
*39 | EU Commission, 2012c, 5*
*40 | The calculations are based on the price level indices of the 27 Member States [prc_ppp_ind]; the mean and the standard deviation were calculated using the nominal GDP proportions in euros as weighting factors.*
*41 | EU Commission, 2012c, 5*
*42 | EU Commission, 2012c, 5 f.*
*43 | Persons in gainful employment by gender, age and nationality (1 000) [lfsa_agan]*
*44 | OECD, 2012, 65*
*45 | OECD, 2012, 64*
*46 | NUTS is a regional classification by Eurostat. Level 1, for instance, corresponds to the federal states (Länder) in Germany.*
*47 | Seventh Report, 2007, 169*
*48 | Wollenschläger, 2007, 195*
*49 | EU Commission, 2012c, 7*
*50 | OECD, 2012, 33*
*51 | SVR, 2012, Tz 252*
*52 | SVR, 2012, Tz 253; Matthes/Rother, 2012*
*53 | Matthes/Rother, 2012; OECD, 2012, 33 f.*
*54 | OECD, 2012, 33*
*55 | OECD, 2012, 34*
*56 | Further examples can be found in a comprehensive report by the EU Commission (2002).*
*57 | Measured as the total of income and expenditure in the trade in goods and services of the Member States with EU-27; balance of payment statistics by country [bop_q_c]*
*58 | EU Commission, 2004; named after Commissioner Frits Bolkestein, then responsible for the Single Market*
*59 | Hatje, 2007, 2359*
*60 | Lammers, 2010, 11*
*61 | For further studies see Monteagudo et al., 2012, 65*
*62 | Lammers, 2010, 4*
*63 | Hatje, 2007, 2361*
*64 | Hatje, 2007, 2361*
*65 | Services Directive*
*66 | Hatje, 2007, 2362*
*67 | Hatje, 2007, 360; Holoubek, 2012, 894*
*68 | OECD, 2012, 42*
*69 | Hatje, 2007, 2358*
*70 | EU Commission, 2011a, 5*

*Strengthening the EU Single Market*

*1 | EU Commission, 2012c, 8*
*2 | EU Commission, 2012c, 8*
*3 | OECD, 2012, 24 f.; 69 ff.*
*4 | Cf. for this paragraph: OECD, 2012, 71*
*5 | Sachverständigenrat deutscher Stiftungen (Expert Council of German Foundations), 2013, 91*
*6 | Sachverständigenrat deutscher Stiftungen (Expert Council of German Foundations), 2013, 91*
*7 | Sachverständigenrat deutscher Stiftungen (Expert Council of German Foundations), 2013, 91*
*8 | Vetter, 2013, 7*
*9 | Checherita et al., 2009, 18*
*10 | EU Commission, 2012d, 37 f.*
*11 | Monteagudo et al., 2012*
*12 | Monteagudo et al., 2012, passim*
*13 | Booth et al., 2013, 16 ff.*
*14 | Cf. for the following: EU Commission 2012c, 10 ff.; EU Commission 2011a, 8 ff.*
*15 | A particularly strange case was reported in the German newspaper FAZ on 9 April 2013. The French police had "arrested" a British ski instructor, who was offering his services in France without having the "correct" licence. ("Wenn Gendarmen Skilehrer verhaften", 15).*
*16 | For further examples see Booth et al., 2013, 20 ff.*
*17 | OECD, 2012, 39 f.*
*18 | See also Booth et al., 2013, 9 ff.*
*19 | EU Commission, 2012c, 13*
*20 | EU Commission/DG Internal Market, 2011c, 1*

21 | *http://ec.europa.eu/internal_market/publicprocurement/rules/current/index_de.htm*
22 | *EU Commission/DG Internal Market, 2011b, 6*
23 | *EU Commission/DG Internal Market, 2011b, 9*
24 | *BMWi-Monatsbericht, 2013, 8*
25 | *BMWi-Monatsbericht, 2013, 10*
26 | *Karpenstein, 2012, 2571*
27 | *Status: 7 May 2013*
28 | *SVR, 2012, Tz 254*
29 | *Matthes/Rother, 2012,*
30 | *Matthes/Busch, 2012, 32*
31 | *For an overview see IW Köln, 2008, 114 ff.*
32 | *Cf. e.g. Monopoly Commission, 2002, passim*
33 | *Cf. for the following: European Parliament, 2012*
34 | *EU Commission, 2012c, 17*
35 | *EU Commission, 2012b, 9*
36 | *EU Commission, 2012b, 3*
37 | *EU Commission, 2012c, 16; with the HHI, the market shares of the companies are divided by four and then added together. In the extreme case of a monopoly, i.e. a market share of 100 per cent, the HHI is 10,000.*
38 | *EU Commission, 2012c, 16*
39 | *EU Commission, 2012b, 19*
40 | *Frerich/Müller, 2004, 141*
41 | *Cf. for the following also: IW Köln, 2008, 108 ff.*
42 | *EU Commission, 2011b, 12*
43 | *EU Commission, 2013a, 7 f.*
44 | *EU Commission, 2013a, 7*
45 | *EU Commission, 2013a, 10*
46 | *Monti, 2010, 76*
47 | *Cf. for the following: Busch, 2012, 20 f. with further source references.*
48 | *EU Commission, 2011d, 16 ff.,*
49 | *EU Commission, 2011e, 60 ff.*
50 | *EU Commission, 2011d, 15*
51 | *EU Commission, 2011d, 16 f.*
52 | *EU Commission, 2011e, 82*
53 | *EU Commission, 2011e, 62*
54 | *Cf. the Appendix*
55 | *EU Commission, 2013c*
56 | *EU Commission, 2012e, 17*
57 | *Kämmerer, 2012, 806*
58 | *EU Commission, 2012f, 5*
59 | *EU Commission, 2013b, 2*

*Single Market and Single Currency*

1 | *HWWI/PWC, 2013, 30*
2 | *Petersen/Böhmer, 2012, 6 f.*
3 | *Cliffe et al., 2012*
4 | *The exchange rate is the official price of a unit of the foreign currency in the domestic currency.*
5 | *The depreciation rate of a currency is not numerically identical to the appreciation rate of the corresponding currency. Cf. Stobbe, 1984, 222 f.*
6 | *Brasche, 2013, 200*
7 | *Cf. for the following: Matthes, 2008, 48 ff.*
8 | *EC Commission, 1990, 75*
9 | *Dumke et al., 1997, 15*

*Conclusions and Recommendations for Action*

1 | *Cf. OECD, 2012, 50 f.*
2 | *EU Commission, 2013d*
3 | *http://europa.eu/about-eu/basic-information/symbols/motto/index_de.htm*
4 | *Streinz, 2005, 367*
5 | *Aussilloux et al., 2011, 3*
6 | *Handelsblatt of 2 May 2013, p. 8: Kommission am Pranger*

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| Area | Examples of actions |
|---|---|
| *Access to finance for SMEs* | *Introduction of legislation on venture capital funds* |
| *Mobility for citizens* | *Revision of the system for recognising professional qualifications; portability of pension rights; European skills passport* |
| *Intellectual property rights* | *Approval of legislation for setting up unitary patent protection* |
| *Consumers as actors of the Single Market* | *Approval of legislation on alternative dispute resolution / online dispute resolution; revision of the Directive on general product safety* |
| *Services* | *Revision of the legislation on the European standardisation system* |
| *Networks* | *Approval of energy and transport infrastructure legislation with the aim of developing strategic projects* |
| *Digital single market* | *Approval of legislation relating to electronic signatures, identification and authentication* |
| *Social entrepreneurship* | *Approval of legislation to foster social investment funds* |
| *Taxation* | *Review of the Energy Tax Directive; introduction of a common consolidated corporate tax base; revision of the VAT system; abolishing cross-border tax obstacles for citizens* |
| *Social cohesion* | *Introduction of legislation on the Posting of Workers Directive and of legislation aimed at clarifying the exercise of freedom of establishment and the freedom to provide services alongside fundamental social rights* |
| *Business environment* | *Approval of legislation on the simplification of the Accounting Directives as regards financial information obligations; an optional European contract law instrument; a regulation to simplify the cross-border recovery of debt* |
| *Public procurement* | *Revised and modernised public procurement legislative framework; specific legislative framework on service concessions* |

*Source: EU Commission, 2011c, 27*

**Single Market Act II: List of key actions**

| **Developing fully integrated networks in the Single Market** | |
|---|---|
| *Rail transport* | *Approval of a Fourth Railway Package to improve the quality and cost efficiency of rail passenger services* |
| *Marine transport* | *Approval of the "Blue Belt" package to create a genuine internal market for marine transport* |
| *Air transport* | *Accelerate the implementation of the Single European Sky through a new package of measures* |
| *Energy* | *Implementation of an action plan for the improved implementation and enforcement of the third energy package* |
| **Fostering mobility of citizens and businesses across borders** | |
| *Mobility of citizens* | *Develop the EURES portal into a true European job placement and recruitment tool* |
| *Access to finance* | *Boost long-term investment in the real economy by facilitating access to long-term investment funds* |
| *Business environment* | *Modernise EU insolvency rules to facilitate the survival of businesses and present a second chance for entrepreneurs* |
| **Supporting the digital economy across Europe** | |
| *Services* | *Revision of the Payment Services Directive and legislative proposal on multi-lateral interchange fees for card payments to make electronic payment services in the EU more efficient* |
| *Digital single market* | *Approval of common regulations to reduce cost and increase efficiency in the deployment of high speed communication infrastructure* |
| *Electronic invoicing in public procurement* | *Approval of legislation to make electronic invoicing the standard invoicing mode for public procurement* |
| **Strengthening social entrepreneurship, cohesion and consumer confidence** | |
| *Consumers* | *Improve the safety of products circulating in the EU* |
| *Social cohesion and social entrepreneurship* | *Give all EU citizens access to a basic payment account, ensure bank account fees are transparent and comparable, and make switching bank accounts easier* |

*Source: EU Commission, 2012e, 21*

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