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Market Monitoring: State of Play and Envisaged Follow-Up

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MARKET MONITORING: STATE OF PLAY AND ENVISAGED FOLLOW-UP

EXECUTIVE SUMMARY

Market monitoring is a new tool for evidence-based policy making which was developed as part of the November 2007 Single Market Review. Market monitoring at the Community level is now up and running. It has started to provide inputs to policy making.

In 2008 the Commission verified the validity of the sector screening carried out in preparation of the Single Market Review, resulting in a slightly modified list of 24 sectors showing signs of possible market malfunctioning. The screening exercise was complemented by an analysis of the nature of the causes of the problems identified. Almost all sectors selected appear to suffer from a lack of innovation, while problems of integration and competition were mainly found in services sectors. The results of this work have contributed to policy developments in these areas.

In addition, the Commission launched four in-depth sector market monitoring exercises. First results based on an analysis of the functioning of markets along the food supply chain were presented in the Communication on Food prices in Europe adopted by the Commission on 9 December as a response to a request by the June European Council. A roadmap setting out the next steps in this in-depth analysis was agreed. The on-going work on the retail sector and on the electrical engineering and pharmaceutical industries will be carried over into the next year and further results are expected by the end of 2009. Furthermore, a possible list of sectors to undergo in-depth market monitoring in the next years has been identified.

The main value added of market monitoring approach is that it permits to identify inefficient markets and sectors, to analyse them from different policy perspectives and to devise a comprehensive strategy to remedy any shortcomings found. In the context of the Lisbon strategy, market monitoring will be used to improve the multilateral country surveillance and will allow to better target the actions to be taken under the European Economic Recovery Plan. To that end, the Commission has started to work with Member States to develop the market monitoring at the national level. The objective of this work is to complete a full screening by late autumn next year and to use these results to refine the structural reform agenda. A particular attention will be given to structural adjustments required by the current economic conditions.

Market monitoring contributes to the modernisation of the governance of the Single Market and helps improve the consistency of policy initiatives in this area. Insights gained at the sector level should help improve the quality of impact assessments for new regulatory proposals and contribute to 'better regulation'. Similarly, in-depth market monitoring can complement competition policy sector enquiries by providing a broader perspective on possible policy interventions.

Market Monitoring has progressed substantially in 2008 and the Commission will continue to work with Member States and stakeholders to further develop this tool. A thorough evaluation of this exercise will be carried out at the end of 2009 on the basis of the results obtained at the

country level and in the first four European-level monitoring exercises. However, it is already possible to draw some lessons from the experience so far. In particular, a partnership with Member States is essential not only to validate the results but also to better understand the institutional framework in which national markets operate. Experience also shows the importance of giving stakeholders the chance to confirm, contest or complement the broad directions of the expected findings and policy conclusions to be drawn. Finally, the relevance of the analysis and the policy recommendations to be drawn from market monitoring depends on the availability of good data. Collaboration with Eurostat and national statistical offices is essential in this respect. In particular, efforts should continue to better cover the consumer dimension in this analysis.

1. INTRODUCTION

Market monitoring relies on a better knowledge of the functioning of markets to achieve its goal to improve the governance of the Single Market.¹ The findings of the market monitoring feed into policy making by facilitating problem definition and improving policy design. For example, a recent analysis of the food supply chain suggests that better regulation and a vigorous and coherent enforcement of competition and consumer protection rules would reduce food price inflation to the benefit of European consumers, in particular lower income households.

This paper presents the progress made in 2008 with the market monitoring initiative, which is still in a pilot phase. Market monitoring has been implemented in two stages. In a first stage, a screening has been carried out to identify sectors meriting closer scrutiny. In a second stage, in-depth analyses of market functioning in the sectors identified are being conducted. On the basis of the experience gained, the Commission will be working in 2009 with Member States and industry stakeholders to develop review and adapt the methodology. At the end of the year, the Commission intends to take stock and decide how to proceed with market monitoring in the years to come.

The use of the market monitoring tool is particularly relevant under the current economic conditions. Well functioning goods and services markets can contribute to improve the adjustment capacity of the EU economy and cushion the impact of the financial crisis on the real economy. Moreover, market monitoring can be used to facilitate the dialogue with Member States, business, consumers and other stakeholders, whose support is essential to undertake the required structural reforms. As part of this process of dialogue, this paper intends to inform stakeholders of the progress made with the project and explains how they can get involved with the work. Finally, a well regulated and competitive Single Market should result in increased opportunities for businesses and lower prices and better quality for consumers. This is fully in the spirit of the European Economic Recovery Plan put forward by the Commission on 26 November which highlights the need to boost consumer and business confidence².

¹ For a full description of the methodology and results reported in this document, see: "Market Monitoring as a new tool to improve the functioning of markets in the EU economy", European Economy Economic Papers n° 8/2008 February, forthcoming.

² COM(2008) 800

This paper is organised as follows. Section 2 introduces the market monitoring tool and presents its expected benefits in terms of policy making. Section 3 presents an update of the sector screening at the EU level, including an analysis of the causes of potential market malfunctioning³ in the selected sectors as well as the work undertaken at the Member State level. Section 4 presents some initial results from the first in-depth market monitoring analyses and the concluding section 5 describes issues to be resolved and next steps to be taken to make a success of the market monitoring initiative.

2. MARKET MONITORING AS A STRATEGIC TOOL

The Single Market Review set the aim to make markets work better by using the evidence obtained from market monitoring for policy development and implementation. While in the current pilot phase it is still too early to draw final conclusions about the contribution of the market monitoring initiative to the achievement of the objectives set by the Single Market Review, the initial experience within the Commission shows market monitoring to be a potentially powerful tool for policy making. It permits to focus market analysis on key sectors with a poor performance, to consider the causes of this poor performance from different angles, and to come up with a consistent and comprehensive policy strategy in response to the problems identified.

Even though the in-depth market monitoring of key sectors promises to improve the governance of the Single Market, it is also resource intensive. This is why the market monitoring methodology proposed by the Commission consists of two stages. In a first stage, a screening is carried out to identify sectors where the expected benefits from policy intervention are high because these sectors are important for growth and adjustment and present signs of possible market malfunctioning. This screening stage also includes an initial analysis into the possible causes of the market inefficiencies found. The second stage is an in-depth analysis of market functioning in the sectors selected during the first stage.

The success of both stages of the exercise depends crucially on the collaboration with national authorities and other stakeholders. The Commission cannot deliver market monitoring by itself. This is the reason why, over the course of 2008, the market monitoring approach has been presented to and discussed with stakeholders and Member States. Frequently, questions were raised on the longer term objectives of the exercise. The remainder of this section illustrates how market monitoring may be used as a strategic tool for policy development at both the Community and national level.

In the context of the *Lisbon Strategy* and the associated country surveillance, market monitoring can contribute by increasing the sector specificity and cross-country consistency of the policy recommendations. This is of particular significance for euro area Member States given the importance of flexible product markets in EMU as set out in the Commission's EMU@10 Communication⁴. Market monitoring can also help to identify the regulatory deficiencies that may unnecessarily hold back business investment and consumer purchases. This is particularly important given the reluctance of most businesses to invest in the current

³ Market malfunctioning should be understood in the broad sense. It does not necessarily correspond to the narrower economic notion of "market failure" describing the condition where the allocation of goods and services by a market is not efficient (Pareto-efficiency).

⁴ COM(2008) 238 (final)

uncertain economic environment. Furthermore, market monitoring can also be a useful tool for dialogue with Member States and other stakeholders, as the methodology used is transparent and, for example, can contribute to better explain the relevance of policy recommendations addressed to the Member States in the Lisbon Strategy.

In relation to the *Single Market*, market monitoring could help to improve consistency among the policy initiatives undertaken in different areas – for example, integration, competition, regulation (be it for consumer, environmental, health or social goals), innovation – such that a policy initiative taken in one area reinforces an initiative taken in another area. It can be used to assess the efficiency and effectiveness of policy measures, such as the liberalisation of network industries. The outcome of market monitoring exercises can lead to new regulatory initiatives aimed at improving the functioning of the Single Market in sectors where problems have been detected. However, market monitoring exercises do not necessarily have to lead to new policy initiatives at the EU level. On the one hand, the sector analysis may lead to the conclusion that markets are functioning well and therefore that no new policy initiatives are necessary. On the other hand, the application of the market monitoring methodology may reveal that the EU is not the appropriate level at which measures need to be taken and that the Member States are better placed to address the problems identified. More generally, market monitoring can be useful in addressing subsidiarity issues by shedding light on the extent to which problems are country specific or EU-wide.

As a further long term governance tool, market monitoring may also contribute to the *Better Regulation Strategy* by providing a rigorous assessment of the economic implications of the stock of existing EU and national legislation for the business environment and the welfare of the citizens. In this way, it may help improve the quality of impact assessments of new regulatory proposals at both national and EU level (since the level of integration of the Single Market no longer allows for national measures to be seen in isolation). For example, the in-depth analysis of the food supply chain⁵ has identified a number of national regulations and business practices that may hamper the performance of the sectors belonging to this chain, depending on the context in which they occur (see section 4.1.). Furthermore, to the extent that the in-depth sectoral analyses lead to a better understanding of the interconnections between policy areas, they could help to address the trade-offs which are inevitably associated with policy making.

Finally, market monitoring could complement competition policy *sector enquiries*. On the one hand, sector enquiries may pave the way for in-depth market monitoring by highlighting further issues – beyond the enforcement of competition rules – to be investigated. On the other hand, market monitoring may help to identify sectors where there are initial indications of competition problems which could, in the future, merit a sector enquiry.

3. HORIZONTAL MARKET MONITORING

At the horizontal level, progress has been made in two directions. First, the results of the screening for the EU as a whole have been updated and complemented with an analysis of the causes of potential market malfunctioning in the selected sectors. Second, the market

⁵ See Communication on "Food prices in Europe" (COM (2008)XXX) and the accompanying staff working document "The functioning of the food supply chain and its effects on food prices" (SEC(2008)XXX)

monitoring methodology has been discussed with Member States and the sector screening has started to be implemented at the country level.

3.1. Updated screening and analysis of the causes of market malfunctioning

The first stage of the market monitoring approach is a sector screening aimed at selecting a limited number of important sectors potentially characterised by market malfunctioning. The screening done in November 2007 has just been updated with the most recent figures available. This has led to the identification of 24 sectors representing 49% of EU-25 value-added and 52% of EU-25 employment (see table 1). They are evenly distributed between manufacturing and services, with the former covering mainly investment and intermediary goods sectors and the latter covering activities related to distribution, financial services and network industries.

The 24 sectors selected in the screening represent the starting point for choosing industries to undergo in-depth market monitoring. However, other considerations could be taken into account when making the final decision on which sectors will be the subject of in-depth monitoring (e.g. the sectors that are likely to be most affected by the financial crisis).

It should be noted that the current screening exercise mainly takes into consideration information relative to the supply side of the markets. However, it is based on an only limited analysis of the demand side of the markets. In the future, the consumer dimension, as measured by the fragmentation of retail markets, the number of complaints and the degree of satisfaction, will be better taken into account as the development of a Consumer Scoreboard progresses.

The screening exercise was completed with a robustness check of the sector selection by investigating the nature of the potential problems affecting market functioning. The analysis of the causes of market malfunctioning allows to verify whether all the selected sectors are indeed facing challenges from a policymaking point of view. This analysis was based on a set of indicators covering four dimensions of market functioning, i.e. regulation, integration, competition and innovation. This analysis confirmed the results of the initial screening as all the sectors identified show signs of potential problems in at least two domains, with nearly half of the sectors indicating potential problems in all domains.

Almost all of the selected sectors suffer from a lack of innovation and, to a lesser extent, inappropriate market regulation. These sectors are evenly distributed between manufacturing and services. These results confirm the difficulty for euro area countries to develop their specialisation in sectors offering opportunities in advanced technologies. This finding is consistent with the political attention given to the development of a Single Market for knowledge and shows that the emphasis put by Member States on reforms in the area of R&D and innovation is the right strategy. Most of the potentially serious problems in terms of market integration and competition were found in services sectors. However, according to the MICREF database⁶, Member States have been much less active in the implementation of

⁶ MICREF is a new database which has been developed by the European Commission (Directorate General for Economic and Financial Affairs and the Joint Research Centre) in collaboration with Member States and is publicly available at:
http://ec.europa.eu/economy_finance/db_indicators/db_indicators10938_en.htm

reform measures in these areas. Nevertheless, the reforms required for the transposition of the services directive by the end of 2009 should be a step in the right direction.

Table 1: Summary overview of sectors selected in the screening and of the causes of potential market malfunctioning

SECTORS	POLICY ENVIRONMENT	MARKET PERFORMANCE		
	REGULATION	INTEGRATION	COMPETITION	INNOVATION
15 – Food and beverages	*	**	*	*
22 - Printing, publishing and reproduction	*	**	*	**
25 - Rubber and plastics	*	*	-	*
27 - Basic metals	*	-	**	**
28 - Fabricated metal	*	**	-	*
29 - Machinery	-	-	*	**
30 - Office, account. and computing machinery	-	*	*	**
31 - Electrical machinery and apparatus	*	*	-	**
32 - Radio, TV and comm. equipment	*	*	*	**
34 - Motor vehicles, trailers and semi- trailers	-	*	**	*
36 - Furniture, other manufactured goods	*	**	*	-
37 - Recycling	*	-	-	n.a.
E - Electricity, gas and water supply	**	**	**	*
50 - Sale, maint. And repair of motor vehicles	**	-	*	**
51 - Wholesale trade	**	-	*	**
52 - Retail trade	**	**	*	**
H - Hotels and restaurants	*	**	**	**
60 - Inland transport	**	-	*	*
63 - Supporting and aux. transport activities	**	-	**	*
64 - Post and telecommunications	*	-	**	*
65 – Financial Intermediation	*	**	**	*
66 - Insurance and pension funding	*	**	*	*
74 - Other business activities	**	**	*	**
92 – Recreational, cultural and sporting act.	n.a.	*	**	**
93 – Other service activities	n.a.	**	**	-

Note:

** means that there are indications of potentially serious problems in the policy domain concerned;

* means that the presumption of problems cannot be rejected;

- means that there is no evidence of potential problems on the basis of the indicators used

3.2. Market Monitoring at the level of individual Member States

The exploration of the country-specific dimension of the market monitoring exercise was organised along two avenues. The first avenue consists of an exchange of experience between the Commission and the Member States in order to get an overview of the methods used and the results obtained in the Member States that have undertaken similar sector screening exercises. The main conclusion of these contacts is that there appears to be a wide interest in market monitoring but also a large disparity in experiences with market analyses between different countries. The market monitoring approach is regarded as a valuable input for policy makers, based on hard data, but difficulties of implementation have been identified in terms of availability of data and choice of relevant indicators. It also appears that the success of market

studies depends on a number of factors such as clear project scoping, deliverables and deadlines, transparency and good communication with stakeholders⁷.

The second avenue pursued was the launching of a screening exercise at the level of each Member State, starting with a pilot study on Belgium. A first and preliminary example of the potential use of this tool is presented in box 1, which illustrates how market monitoring can be used to identify services sectors within the euro area which are important for growth and adjustment and which present indications of possible market malfunctioning. The results presented in this box have to be considered with caution as the application of the methodology at the Member State level is still in a test phase and further work is necessary to adapt the methodology developed at the EU level and to make it applicable at the level of individual Member States. A subsequent step will be an analysis of the causes of potential market malfunctioning at the country level.

A pilot screening exercise was carried out by Belgian public authorities in close cooperation with the Commission services to see if the methodology could be meaningful at the country level and to provide an orientation for further, in-depth sector analyses in Belgium. In terms of comparison with the screening at the EU level, the Belgian exercise using the US benchmark led to a very similar selection of sectors showing signs of market malfunctioning.

Nevertheless, the use of the market monitoring methodology at the national level needs to be adapted to the specific national situation, particularly in terms of the choice of an appropriate benchmark. Overall, the screening methodology might need to be complemented with qualitative expertise so that it can be applied in a flexible way at the Member State level.

The use of the screening at the level of individual Member States offers interesting perspectives as a national screening would help Member States in identifying areas that create bottlenecks for national growth and adjustment. It will also allow assessing whether the selections of sectors showing signs of possible malfunctioning at the EU level and the level of Member States converge. This will assist defining policy actions at the national level which can complement the actions eventually proposed by the Commission services on the basis of its own market monitoring exercise.

The Commission is willing to cooperate and provide assistance to the national administrations in such exercises by sharing the methodology used for this analysis at the EU level. In order to strengthen the interaction between the Commission and the Member States, the market monitoring will be discussed within the relevant Council groups, in particular the Economic and Policy Committee as part of a broader effort to improve the quality of country surveillance, as well as within the Internal Market Advisory Committee. The Commission intends to work together with these Committees to improve the methodology based on the experience and inputs from Member States. National stakeholders as well are encouraged to engage in the screening process and its follow-up. National competition authorities and consumer bodies may have particular contributions and experience to bring to the exercise.

⁷ The European Commission organised a full day workshop aimed at presenting the market monitoring methodology to the Member States, stakeholders, academia and other Commission services. The market monitoring initiative received broad support from all sides. It was seen as a potentially powerful tool for more evidence based and systematic policy making. However, the methodology should not be applied mechanically, but should be complemented with qualitative and stakeholder inputs.

**Box 3: A first illustration of the use of Market Monitoring at the Member State level:
Euro Area and Services**

This box presents an illustration of a possible use of the market monitoring tool at the Member State level. The results of this analysis at the national level, using the US as a benchmark, should be considered preliminary for several reasons. First, the screening process and more in particular the benchmark(s) to be used have not yet been validated by the Member States. Secondly, using the US as a benchmark for the Member States in the euro area that are still in a catching-up phase appears to be less appropriate. For these countries, the use of an alternative benchmark, grouping together the countries having the same level of GDP per capita, should be considered. Finally, the screening made at national level could also be complemented by an analysis of the causes of malfunctioning as a further robustness check.

The European Council has introduced country-specific recommendations prioritising service sectors in many euro area countries because they are more fragmented than manufacturing industries. Within this context, the market monitoring tool can be used to identify which services sectors are (i) important for growth and (ii) adjustment, and (iii) pose potential problems in specific countries.

A selection strategy, similar than the one used at the EU level has been applied individually to the euro area countries. On the basis of this analysis, it appears that over two thirds of the euro area countries face similar problems to those found at the EU level. The selected sectors here are energy, transport, post and telecommunications, wholesale and retail trade, hotels and restaurants, and business services. These common problems may therefore require coordinated action across the euro area or even at the EU level as a whole (See table B1).

Table B1: Selection of Sectors in the Euro Area Using the US as Benchmark

Selected sectors	NACE Code	AT	BE	CY	DE	EL	ES	FI	FR	IE	IT	LU	MT	NL	PT	SI
Electricity, gas & water	E	x	x	x	x	x	x	x	x	x	x		x	x	x	x
Construction	F						x			x						
Sale, repair motor vehicle	50	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Wholesale trade	51	x	x	x			x	x	x	x	x		x		x	
Retail trade	52	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Hotels & restaurants	H	x	x	x	x		x	x	x		x	x	x	x	x	
Inland transport	60	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Water transport	61															
Air transport	62			x						x		x	x			
Auxil. transport activ.	63	x	x				x	x	x	x	x	x	x	x	x	x
Post & telecoms.	64	x	x	x	x	x	x	x	x		x	x	x	x	x	x
Financial intermediation	65	x		x	x			x	x	x	x	x				
Insurance & pensions	66	x			x				x					x		
Financial intermed. activ.	67															
Renting of machinery	71		x						x							
Computer activities	72	x			x		x	x			x	x			x	
R&D	73								x							
Other business activities	74	x	x		x	x	x	x	x	x	x	x	x	x	x	
Sewage, refuse disposal	90										x					
Membership organisation	91							x								
Recreational activities	92	x	x		x		x	x			x	x		x	x	x
Other service activities	93	x	x	x	x		x		x			x	x	x		
No. of selected sectors		14	12	10	12	6	13	13	14	10	13	12	11	11	11	7
Share in value-added (in%)		41	37	35	31	19	48	35	36	33	39	43	35	29	34	19
Share in employment (in%)		42	41	37	38	26	50	36	39	39	41	47	42	37	33	16
Share in consumption (in%)		60	44	43	42	22	55	43	41	37	48	32	41	51	38	36

Note: The sectors highlighted in grey are those for which a stricter selection strategy was adopted that imposes that the selected sector meets the three criteria simultaneously

This tentative analysis also suggest that three euro area countries, namely Austria, Spain and Luxembourg, stand out as having the largest value added share (more than 40% of the value added in the economy) of sectors presenting indications of possible malfunctioning. This result is influenced by the relatively small number of sectors that are economically important in these countries. These are wholesale trade and other business activities in Austria, construction in Spain and financial intermediation in Luxembourg. In other euro area countries, the share in total value added of services presenting indications of malfunctioning ranges between 19% in Slovenia and Greece and 39% in Italy. These results will have to be discussed further with the Member States and other evidence, based on national information, will have to be used before drawing definite conclusions on this issue.

Member States are also being consulted on developing the demand-side of the screening exercise by sharing the experiences of their national consumer authorities and organisations in monitoring consumer markets. A case in point is the development by the Danish Consumer Agency of a tool to monitor consumer markets, the results of which were published in October 2008. This monitoring tool is based on a consumer conditions index which is composed of three basic parameters, namely consumer confidence, transparency and complaints. Markets are evaluated on the basis of these indicators and then compared with each other. The results of this exercise are used as a basis for a dialogue with the sectors and their trade associations on how to change market conditions to the benefit of consumers. Similar exercises have taken place or are planned in Spain, Sweden, UK.

4. IN-DEPTH MARKET MONITORING

Following the sector screening at the Community level which was part of the Single Market Review Package, the Commission decided to undertake four in-depth sector analyses. Inter-service task forces were set up and given the assignment to investigate the functioning of markets in the electrical engineering, retail services and pharmaceuticals sectors and, in line with the Commission Communication⁸ on "Tackling the challenge of rising food prices", the food supply chain. The timetable of these four in-depth market monitoring exercises is presented in table 3.

Table 3: Timetable for the in-depth market monitoring exercises in the 4 selected sectors

Task force	Deliverables			
Food supply chain	Dec. 2008: Communication and Staff Working Document including a roadmap (input for December European Council)		2009: Implementation of the roadmap	Dec. 2009: Policy initiatives if needed
Electrical engineering	Dec. 2008: Market performance report	Jan. 2009: Interim report (input for Spring European Council)	March. 2009: Draft final report	May 2009: Final report
Retail services	Feb. 2009: First report (for Spring European Council) on the scope of the exercise	September 2009: Interim report	Q4 2009: Final report	
Pharmaceutical sector	Start of work: Jan. 2009			

⁸ COM(2008) 321

The Commission services would welcome contributions from stakeholders as concerns the three ongoing exercises. Interim reports will be prepared for each of these exercises and will be made public for reaction and further contributions from all interested stakeholders. The interim reports will also be the subject of discussion in the appropriate forums with the other European institutions and consultative bodies.

The analysis of the *food supply chain* aimed at determining whether the divergent price developments across Member States could be traced back to the regulatory and competition environment in the sector. The analysis found that the rapid increase in food prices was due mainly to global demand and supply developments. Nevertheless, problems in the functioning of the food supply chain, either in terms of the degree of competition or concerning regulation may have played an important role as well. In particular, cross-country differences in the regulatory framework appear to have contributed to a fragmentation of the Single Market along the food supply chain and have hampered its functioning. On the basis of these conclusions, the Commission has presented a roadmap for improving the functioning of the food supply chain, which will be implemented in 2009.

The in-depth market monitoring of the *electrical engineering* sector focused on two product categories, namely flat screen televisions and household refrigerators because they both have large volume of sales in European markets but with very different market positions of European producers. The latter are world market leaders for refrigerators but only have a small share of world sales for flat screen televisions. The objective of the analysis is to determine the causes of potential market inefficiencies in these sub-sectors and on this basis to propose policy initiatives. Initial results show that price dispersion across EU countries has declined in recent years for both refrigerators and flat screen televisions but dispersion remains greater for the former category compared with the latter. More in-depth analysis will be made on the price differences in the two product categories and on other issues particularly relevant for consumers such as choice, availability and transparency of products. The final report on the electrical engineering should be available in May 2009.

The sectoral monitoring of the *retail industry* will take the work on the food supply chain as a point of departure but will be broader in scope. It will start by examining the regulatory framework and recurrent business practices so as to identify the existence of market malfunctioning and its causes at the downstream end of the various supply chains. The analysis of the demand side aspects of the sector has led to the identification of several horizontal issues that require further examination (e.g. pricing issues, information issues, unfair commercial practices). The report will also, on the basis of work undertaken by the Commission services, look at the functioning of e-commerce, in order to help identify possible Single Market barriers or problems of geographic segmentation. The work on the retail trade sector will be pursued in 2009 with the delivery of a scoping paper to the Spring European Council and final results by the end of the year. The work will also identify performance indicators to be used for a more permanent monitoring of markets.

The work to be carried out in the *pharmaceutical* sector will build on the outcome of the pharmaceutical sector inquiry carried out by the Competition Directorate General of the Commission. A preliminary report on the sector inquiry was released on 28 November 2008. The objective of the in-depth market monitoring in this sector is to provide a comprehensive, comparative and macro-level analysis of the EU market for pharmaceuticals. The analysis will focus on a limited number of specific pharmaceutical product markets and will cover issues such as competitiveness, R&D and innovation or productivity developments. The inter-

service task force on the pharmaceuticals sector will deliver its report in the second half of 2009 and is expected to suggest measures aimed at strengthening competitiveness and improving market functioning.

5. NEXT STEPS

The work with market monitoring will be pursued in two directions. The first direction involves the application of the screening device to the individual Member States. The second direction consists of the implementation of the in-depth market monitoring phase in the four sectors already selected. Furthermore, a selection of potential sectors to be investigated over the next two or three years is suggested. Finally, a number of lessons which can be drawn from the experience with market monitoring and which require further work are described in this section.

5.1. Market Monitoring at the country level

As described in section 3.2, the Commission has conducted a first sector screening at the Member State level. Member States are being consulted on the outcome of this test phase with a view to adapting the screening methodology and moving towards a common approach. A similar process of interactions between the Commission and Member States is envisaged when analysing the causes of market malfunctioning in the sectors selected. Member States will also continue to be informed on the progress made with market monitoring through Council Committees such as the Economic and Policy Committee and the Internal Market Advisory Committee. Moreover, bilateral discussions will be pursued with Member States interested in launching market monitoring exercises at the national level.

The immediate objective of the market monitoring work at the country level is to complete a full screening by late autumn next year in order to use the results of this exercise in the multilateral country surveillance to be carried out under the Lisbon strategy. The screening at the country level will try to progressively improve the analysis of the demand side of the markets as related indicators become available through the Consumer Scoreboard.

It is expected that the market monitoring tool will help to achieve the objectives of the Lisbon strategy in the new cycle. The market monitoring exercise applied to the Member States should allow the refinement of the country specific recommendations and points to watch given to Member States. A particular attention will be given to the structural adjustments required by the current economic conditions. Market monitoring will also allow the refining of the structural reform agenda of the euro area and the introduction of more specificity to the recommendation addressed to the euro area as a whole to improve competition in product markets, particularly in services.

5.2. Market monitoring at the sectoral level

As already discussed in section 4, the second direction of work on market monitoring consists of the implementation of the in-depth market monitoring phase in the electrical engineering, the retail and the pharmaceutical industries.

The Commission is currently considering what other sectors could benefit from a closer monitoring of market developments. The objective is to define a medium-term programme for in-depth market monitoring. The 24 sectors selected in the screening stage are the starting

point for the definition of this work programme but they will have to be considered in combination with other relevant and more qualitative information before the decision is taken to launch an in-depth monitoring exercise. A first tentative list of sectors is proposed in table 4.

Table 4: Sectors suggested for in-depth market monitoring in 2009 and beyond

Sectors
Cars
Electricity, gas, oil (incl. distribution)
Transport of goods (freight)
Inter-urban rail and intra-urban transport
Logistics
Telecommunications
Retail financial services
Professional services
Construction
Environmental technologies

All these sectors are part of the 24 sectors selected in the screening stage, with the exception of environmental technologies and construction. According to the analysis of the causes of market malfunctioning, energy, other transport activities, financial intermediation and other business services show signs of serious problems in at least two out of the four dimensions of market functioning being considered. The logistics sector is an interesting possible candidate for attention given that it would complement the ongoing work on retail distribution. Furthermore, the inland transport and post and telecoms industries have some indicators pointing to problems in many of the policy areas. These two sectors also show a significant level of consumer dissatisfaction according to surveys.

The environmental technologies and construction sectors may also be attractive candidates for 2009. The first is a cross-cutting market spanning many of the NACE sectors selected in the screening exercise, such as the car industry, transport services, electricity and gas supply. Moreover, it is an important part of the energy and climate change pillar of the Lisbon Strategy. The second is a sector which is economically important not only from the supply but also from the demand side. It is one of the largest sectors in terms of employment in the EU and has significant interrelations with other sectors of the economy. In addition, the sector is undergoing a major transformation given that it has a key role to play in making existing and new residential and commercial buildings more energy efficient. Furthermore, the construction sector is one of the most affected by the current financial crisis. Another candidate for in-depth market monitoring is the car industry. This sector has also been strongly affected by the current crisis due to the deleveraging of credit, the fall in business and consumer confidence and the decrease in household purchasing power. In its Communication on a "European Recovery Plan"⁹, the Commission has proposed two major partnerships between the public and private sectors in the construction and automobile industries, namely the "European green cars initiative" and the "European energy-efficient buildings initiative".

⁹ COM(2008) 800

5.3. Cross-cutting issues

A number of lessons can already be drawn from the use of market monitoring. First, market monitoring needs to be transparent if it is to facilitate the interactions with the Member States on policy design and implementation. Second, there is a need to define an overall data strategy in order to improve and expand the data collection to be used in this exercise and, in particular, to better integrate the consumer dimension in the analysis. In particular there is a need to put in place a regular monitoring of consumer product prices by Eurostat and national statistical offices. Finally, it is necessary to further develop the methodology for in-depth sector analyses.

Market monitoring is a transparent and interactive exercise in which the collaboration with the Member States and other stakeholders is essential, both as regards the work at the country level and the in-depth sector analyses. This collaboration has already started at these different levels. The market monitoring methodology and its results have been presented and discussed in the Economic Policy Committee and the Internal Market Advisory Committee. Similarly, the analysis of the food supply chain has benefited from numerous consultations and discussions with Member States including competition and regulatory authorities, consumer organisations as well as dialogues with stakeholders in the markets along the food supply chain. The Commission intends to widely discuss the findings of the food supply chain exercise. The input of stakeholders at both national and European level is crucial to design and implement appropriate policy solutions, particularly where national responses are more appropriate than solutions designed at European level.

The interaction with the Member States and other stakeholders is useful not only to validate the results of the analysis and to ensure that they are translated into policy outcomes but also to learn from the experiences. Methodological work on market monitoring will, therefore, be taken forward in the Economic Policy Committee. Furthermore, the collaboration with Member States is important to better understand the institutional framework in which national markets operate, to incorporate country characteristics such as consumer preferences, as well as to obtain the quantitative and qualitative data necessary to complete the analysis. In particular, "soft" data, such as surveys carried out by national competition and regulation authorities and consumer organisations, as well as interactions with the main stakeholders in the industry proved very useful to get a better grasp of the functioning of the food supply chain.

The relevance of the analysis and of policy recommendations to be drawn from market monitoring crucially depends on the availability of good data. Three types of data are essential to deliver good quality market monitoring (see Annex 1). The first set of data is necessary to measure the functioning of markets from the supply side perspective and the EUKLEMS database is essential in this respect. The second set concerns the measurement of market functioning from the consumer perspective (demand side) and three projects are currently being developed to better cover this dimension. Finally, it is also important to improve the availability of microeconomic data, such as firm level data, as the in-depth market monitoring requires knowledge on the functioning of markets at a much disaggregated level.

Finally, based on lessons learned from the four ongoing sector analyses, it will be necessary to further refine the guiding principles for in depth sector studies. The work on the food supply chain and the electrical engineering sector has brought up a number of issues that deserve further reflection. First, it is important to well define the scope of the exercise right from the

start. Second, it is preferable to examine the functioning of the entire supply chain and the interactions between the sectors belonging to this chain rather than to look at one sector in isolation. Third, there are certain aspects in terms of market structure, conduct and performance which are likely to be subject of analysis in all in-depth market monitoring exercises. These include the national regulatory frameworks affecting firm entry and expansion; market concentration and business practices affecting the degree of competition in the sectors concerned; and the transmission of changes in input prices to producer and consumer prices. As more experience is gathered with such in-depth monitoring work, the Commission is interested to work with Member States and relevant stakeholders to further develop a shared approach to conducting such analyses.

The market monitoring pilot will undergo an evaluation at the end of 2009, on the basis of which it will be confirmed whether and how market monitoring should become a permanent tool of the renewed Single Market.

ANNEX: Data Needs for Market Monitoring

The quality and availability of internationally comparable data on market functioning is essential for the successful implementation of the market monitoring exercise. In the context of developing a new overall data strategy, in particular, the following data are considered to be important for market monitoring:

- (1) The first set of data is necessary to measure the functioning of markets from an economic perspective and the EUKLEMS database is essential in this respect¹⁰. In July 2007, the ECOFIN Council recognised the relevance that the EUKLEMS research project had, in particular, for the assessment of productivity growth in Europe and for the measurement of the impact of structural reforms. Consequently, the ECOFIN Council invited the Commission to develop a work programme with Eurostat to ensure the maintenance and regular update of this database. This development is particularly welcome for market monitoring.
- (2) The second set of data concerns the monitoring of market functioning from the consumer perspective. The Consumer Markets Scoreboard monitors the performance of markets across the economy against a range of five key indicators (prices, complaints, switching, safety and satisfaction). This should identify which sectors have the greatest risk of malfunctioning in terms of economic and social outcomes for consumers. These sectors should then be analysed further through in-depth market studies. The monitoring of the functioning of consumer markets is a source of different data gathering exercises. One of them refers to the collection of additional prices data for comparable consumer products, to be done in collaboration with Eurostat and national statistical offices. The other is monitoring of consumer satisfaction with the functioning of different consumer markets, in particular from the point of view of choice, transparency/comparability, trust/confidence. The work on data on consumer complaints according to a harmonized classification is ongoing. The other project concerns the matching of the NACE and COICOP classification systems and this is necessary to better analyse the interactions of the demand and supply side of market functioning. The cooperation of Member States on these issues is essential, particularly in terms of providing the data at an early stage.
- (3) Finally, it is also important to improve the availability of microeconomic data, such as firm level data, as the in-depth market monitoring requires knowledge on the functioning of markets at a much disaggregated level. In this area, data from official statistics can constitute a starting point but they are not sufficient. Commercial databases or regular and ad hoc market reports and surveys can be used to complement the official data. Apart from the use of quantitative data, it will prove necessary to use a variety of sources in

¹⁰ This database uses a detailed industry breakdown to provide measures of economic growth, productivity change, employment creation by skill level, capital formation by type of capital good and technological change for all EU Member States (excluding Romania and Bulgaria), for European aggregates as well as the United States, Japan, Korea and Australia and from 1970 for the Old Member States and 1995 for the New Member States.

addition to the traditional ones such as the European level trade associations as a source of sectoral information, or market research tools that focus on consumer experience and qualitative market aspects.