

# Internal Market



Scoreboard

July 2005 n°14

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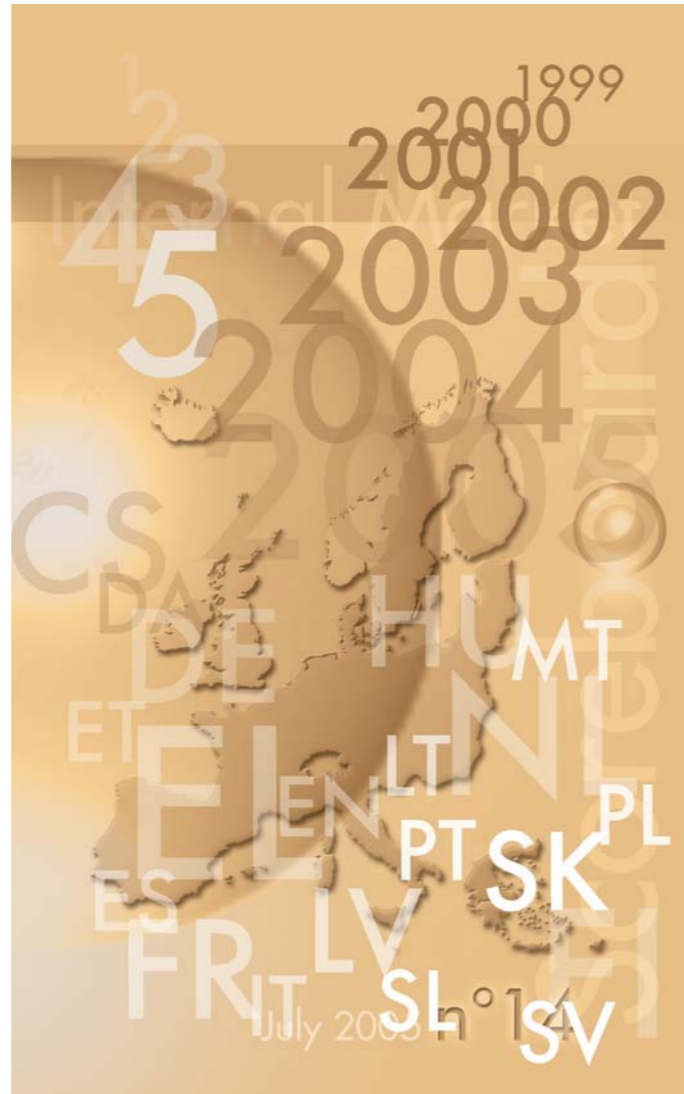
**SCOREBOARD**

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The Commission is keen to receive feedback on this Scoreboard, and to have suggestions for future editions. Please send reactions to Mr. Alexander Schaub, Director General, Internal Market DG, The European Commission, B-1049 Brussels, or to the following e-mail address: Markt-B3@cec.eu.int

Please also use this address if you would like to receive a copy of this or future Scoreboards.

**Scoreboard** **n°14**



## MAIN FINDINGS

### Transposition

The transposition deficit for Internal Market directives in 2005 is 1.9% for the EU-25 Member States compared to 7.1% a year ago.

The deficit for the EU-15 is slightly higher, at 2.1%, which is 0.1% down from June 2004 and which is the second best result since monitoring started in 1995.

The new Member States thus perform better in transposing Internal Market directives on time than the EU-15 Member States, despite having had to absorb the whole acquis in a short time frame.

11 out of 25 Member States have managed to reach the 1.5% transposition deficit. In order of best performance they are Lithuania, Hungary, Slovenia, Denmark, Finland, Malta, Germany, Spain, the Slovak Republic, Sweden and the United Kingdom.

Contrary to Germany who made huge progress, going from one of the worst performances last year to one of the best this year, Portugal, Italy and Luxembourg have over the past year increased an already high backlog.

### Transposition of Financial Services directives – Taking stock of progress under the Financial Services Action Plan

Now that most actions of the Financial Services Action Plan have been completed, it is time to evaluate how well the Member States have transposed its legislative measures. Special attention has therefore been devoted this year to the state of transposition of financial services directives under the above Action Plan.

In line with their overall performance, Denmark and Germany do very well also on transposing financial services directives into their legislation. Denmark, like Austria, has achieved full and timely transposition of all financial services directives. Lithuania, on the other hand, lags a little behind on these directives as compared to its overall performance.

One striking feature here is that the United Kingdom, a major financial centre in the EU, finds itself in the bottom half.

The Netherlands, Luxembourg and Greece also perform poorly, with only about 50% of financial services directives transposed on time. Just ahead of these three are Sweden, Portugal, France and Belgium.

### Infringements

Only four EU-15 Member States - Belgium, Austria, France and the Netherlands - have reduced the number of infringement cases against them. However no Member State seems to be on track to meet the target of reducing by 50% the amount of infringement proceedings against them by the year 2006 (compared with 2003).

The number of infringement cases against all other Member States has actually increased.

### Complementary problem solving

Package meetings have been and continue to be an efficient means of resolving infringement cases at an early stage. In more than 50% of cases, either a solution is found or a decisive step forward is taken within 6 months.

SOLVIT, the on-line problem solving network for complaints about the incorrect application of EU rules by public authorities, continues to grow and prove to be highly successful. Case flow has more than doubled over the last year. France, Germany and Spain handled the most cases.

### Standardisation

Transposing European standards requires a huge effort from Member State standardisation bodies, in particular those of the new Member States. While some of them managed to produce outstanding results (see Malta), others still have a lot to do to allow their industry to use EU standards to access markets in other Member States.

### Price Convergence

The extent to which prices converge in the Internal Market is an indicator of market integration. Price convergence for tradable products is increasing until 1998, followed by a phase of relatively stable price dispersion. The long-term trend indicates that the Internal Market functions.



## INTRODUCTION

The Internal Market does not deliver benefits automatically. Laws have to be adopted, transposed into national law and enforced and business and citizens need to seize the opportunities they offer. So, when problems with legislation arise, they need to be solved quickly to ensure that citizens and businesses are not deprived of their rights.

**Member States** have the **primary responsibility for all of these tasks**. The Internal Market belongs to Member States and they have a common interest in ensuring that the Internal Market functions properly for the benefit of their businesses and citizens. If these tasks are not carried out effectively, the Internal Market's contribution to Europe's growth and competitiveness is limited. The economic interests of all Member States and their businesses and citizens will suffer if some Member States do not deliver on their commitments.

The Scoreboard examines the records of Member States in ensuring that the conditions are there for the Internal Market to function well. It does so by first examining how quickly and how well each of the Member States **transposes Internal Market directives into national law**. These directives and the deadlines for their transposition are agreed by Member States at European level. Member States who do not transpose directives properly or on time, fail on the commitment they give to their peers.

The Scoreboard also highlights the **number of infringement proceedings** initiated by the Commission

against each Member State. Every infringement case is a problem for a business or citizen and should be taken seriously by Member States. However, many Member States have not met the calls for a reduction in the number of cases against them.

Given the often long period taken to resolve most infringement cases, the Commission also holds individual **'package' meetings** with Member States to encourage and facilitate early resolution of cases. The Commission also promotes swift resolution of problems through the **SOLVIT network**, which relies on administrative cooperation among Member States.

**European standards** play a vital role in reducing the cost and administrative burdens for doing business in the European Union. It is therefore important that they are transposed by national standards organisations. Where this is not done, it can hinder the functioning of the Internal Market. The Scoreboard therefore reports on the transposition records of the national standards organisations.

This Scoreboard also focuses on how well the Internal Market is functioning in practice. **Price dispersion** is a good indicator of this and the Commission has carried out a study on the impact of the successive waves of accession on price dispersion.

# 1. TRANSPOSING AND APPLYING INTERNAL MARKET RULES

## A. State of Transposition of Internal Market Legislation into national law

Correct and timely transposition of Internal Market directives into national law is a legal obligation for all Member States under the EC Treaty.

Moreover, if Member States do not transpose Internal Market directives on time, they deprive businesses and citizens of their rights and of the full economic benefits of a properly functioning Internal Market. This weakens the competitiveness of the European economy as a whole and undermines the EU's ability to generate economic growth.

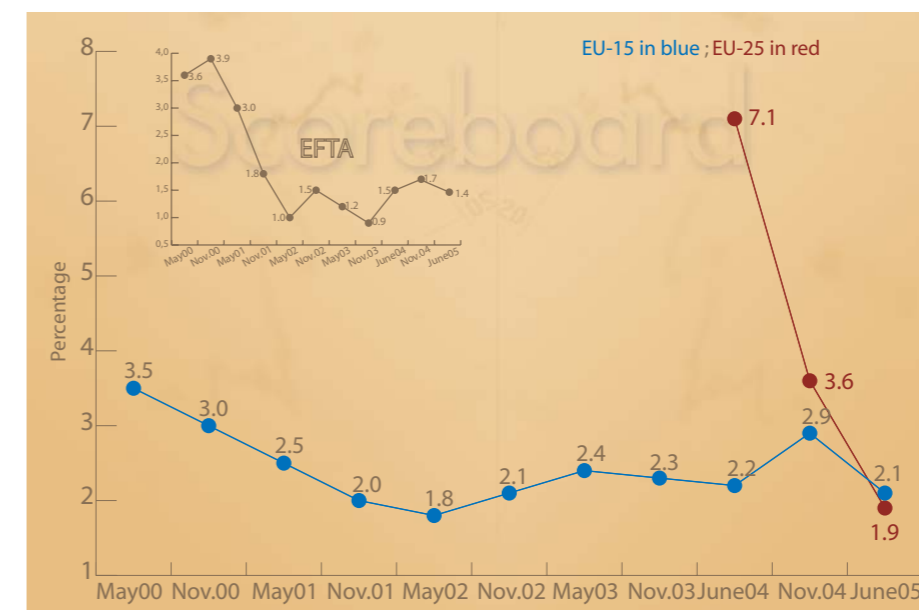
EU Heads of State and Government have repeatedly called on Member States to improve their transposition records<sup>1</sup>, setting a 1.5% transposition deficit as interim target. On 23 March 2005, the European Council called on Member States to spare no effort in honouring the commitments given in Barcelona in March 2002 as regards the transposition of directives. Improvement of the transposition record is indeed a key element for re-launching the Lisbon Strategy as agreed by the European Council in March 2005.

As the guardian of the Treaty, the European Commission will fulfil its specific obligations in this regard. Vigorous pursuit of infringements is critical to the credibility of European legislation and the effectiveness of policies<sup>2</sup>.

The European Court of Justice has also reduced substantially the time necessary to adopt rulings concerning Member States' failure to transpose EU legislation on time. In some recent cases, the Court delivered a ruling in less than a year<sup>3</sup>.



Figure 1: Positive momentum after Lisbon is back



The transposition deficit shows the percentage of Internal Market directives not yet communicated as having been transposed, in relation to the total number of Internal Market directives which should have been transposed by the deadline. As at 30 April 2005, 1604 directives and 514 regulations relate to the Internal Market as defined in the EC Treaty

1) Conclusions of the European Council summits of Stockholm (23-24 March 2001), Barcelona (15-16 March 2002) and Brussels (20-21 March 2003 and 25-26 March 2004).

2) Communication of the Commission, "Strategic objectives 2005-2009, Europe 2010: a Partnership for European Renewal" COM (2002) 12 final.

3) See for instance case C-335/04.

The EU-15 transposition deficit for Internal Market directives in 2005 is 2.1%, which is 0.1% better than in June 2004. However, the figure including the 10 new Member States shows a significant improvement to 1.9% from last year's 7.1%<sup>4</sup>.

This is the second best result since monitoring started in 1995 and very close to the best result ever of only 1.8% transposition deficit in 2002!

It shows that strong political will, backed up by well targeted improvements in the national transposition system deliver encouraging results.

Most of these Member States have taken advantage of the Recommendation of the Commission on the "transposition into national law of directives affecting the Internal Market" of 12 July 2004<sup>5</sup> to make improvements to their transposition system. The Commission will collect and analyse these changes during the coming months to see what further steps may need to be taken and to disseminate best practice.

Nevertheless, despite this encouraging improvement on last year's figure, some 245, or 15%, of the Internal Market directives have not been transposed on time in at least one Member State. The Commission is still awaiting 781 notifications of national transposing measures.

With an average transposition deficit for the EU-10 of 1.7 %, the new Member States perform better in transposing Internal Markets directives on time than the EU-15 Member States, despite having had to absorb the whole acquis in a short time frame.

Figure 2: 11 Member States reach 1.5% target...



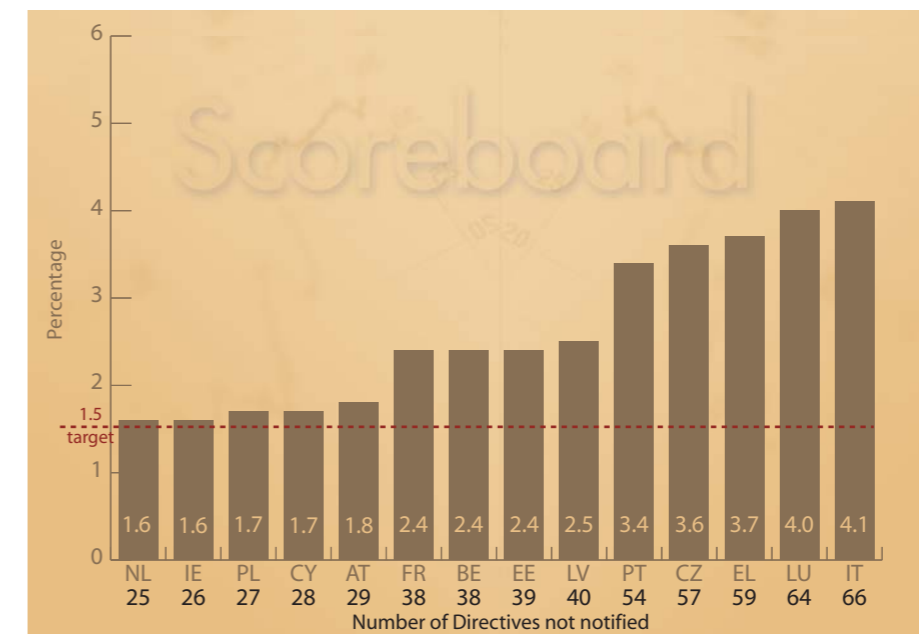
Transposition deficit, by Member State, as at 1 June 2005.

4) Last year's figure for EU-10 should be interpreted with care to the extent that national transposing measures had in some cases been adopted but not yet notified. As a result, such measures were not counted in the figures. Last year's figures therefore in some cases overstated the transposition deficit of some of the EU-10.

5) OJEU L 98 of 16 April 2005, page 47.

- 11 out of 25 Member States have reached the objective of reducing the transposition deficit to 1.5%<sup>6</sup> ;
- Lithuania, Hungary and Slovenia are top of the league. Denmark performs best among the EU-15. Finland improved on an already enviable track record last year, bringing its deficit down from 1.3% last year to 0.8% in 2005;
- Malta, Spain, the Slovak Republic, Sweden and the United Kingdom also show outstanding results: all are below the 1.5% transposition deficit;
- Germany's achievement is remarkable as it has completely reversed its position, from tail end in 2004 to top end in 2005. It shows that, if the necessary political will is present and the necessary resources are devoted to it, the 1.5% target can be achieved, even in the short run. The same goes for Malta, which brought its transposition deficit to 1.2%, down from not less than 40.4% last year.

Figure 3:... unfortunately meaning that 14 don't

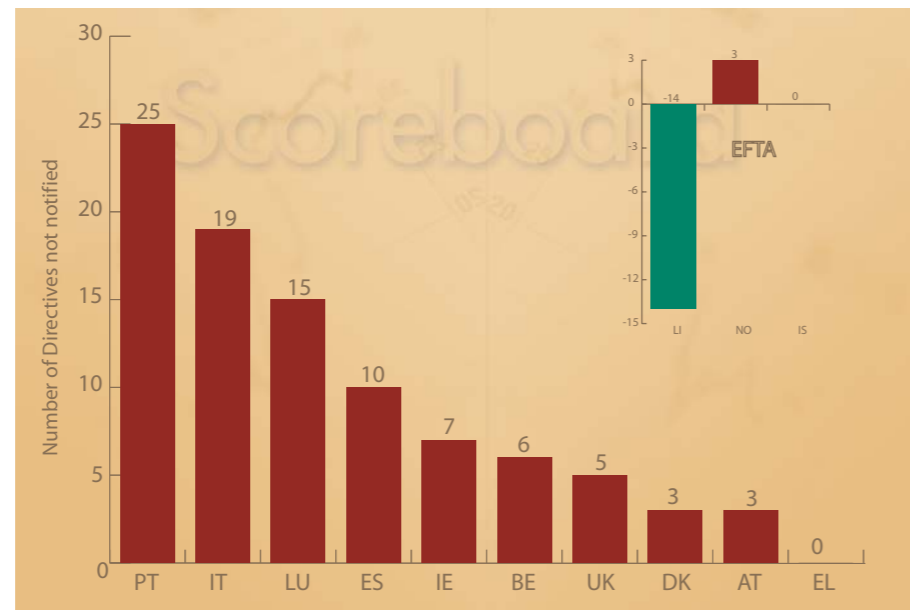


- The Netherlands, Poland, Cyprus and Austria have not quite managed to reach the 1.5% benchmark, but all are very close. Ireland is in the same position, but its performance slipped from last year's, when its transposition deficit was only 1.2%. The Netherlands, on the other hand, has made a lot of progress from last year's 2.8% deficit;
- Despite not being close to reaching the 1.5% target, the Czech Republic, Latvia, Estonia and France, have made serious progress compared to last year, where they showed a transposition backlog of 23.6%, 19%, 8.3% and 4.1%, respectively;
- Italy, Luxembourg, Greece and Portugal have done very little in the past year to improve their poor performance.



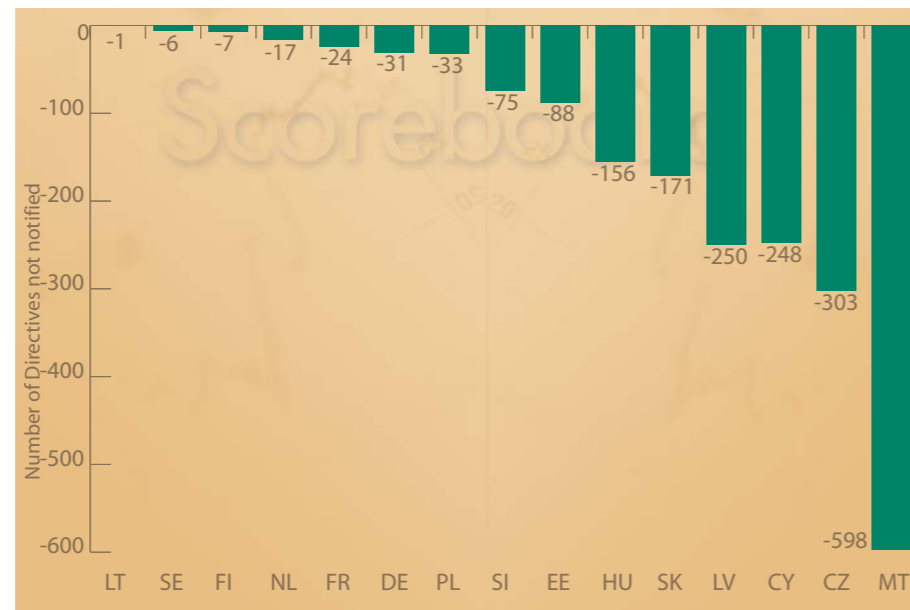
6) This objective was set by the EU heads of State and Government in Stockholm in 2001 and was later reiterated in Barcelona (2002) and Brussels (2003 and 2004).

Figure 4: The backlog of some Member States has gotten worse...



Change in the number of outstanding directives since Scoreboard 13 (July 2004). Thus, Portugal has increased its backlog by 25 directives, while Malta has decreased its backlog by 598 directives.

Figure 5: ...while some Member States have made spectacular progress.

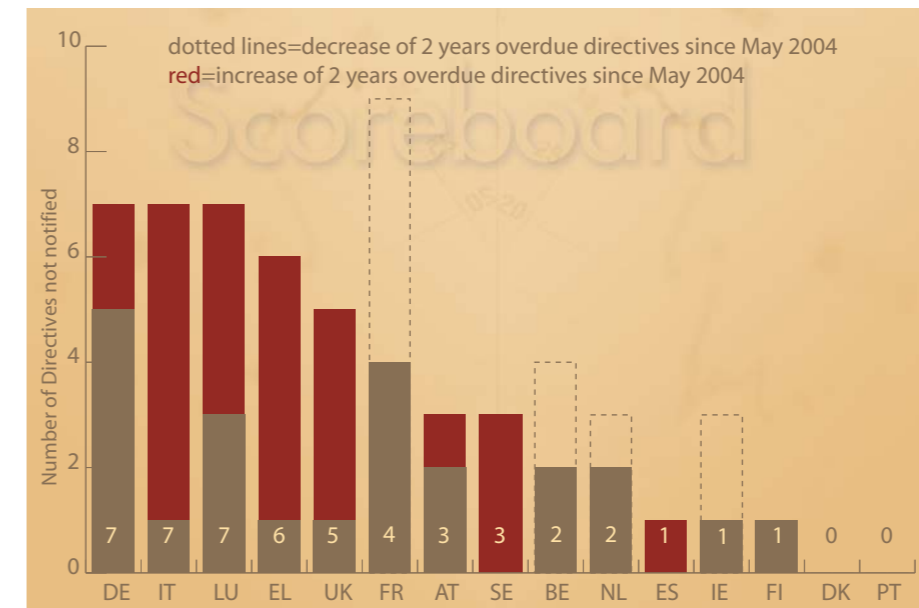


By comparing Member States' current performance with that of last year's Internal Market Scoreboard, we see that:

- The champions of reducing transposition deficit are almost all new Member States;
- Despite an already poor result in 2004, Portugal, Italy and Luxembourg have actually managed to increase further their backlog.

Aside from the number of Internal Market directives that are not transposed, it is also interesting to examine by how long the transposition of those directives is overdue. On average, directives that are not transposed in time, are overdue by 10.7 months.

Figure 6: EU15 Member States are taking longer and longer to remedy late transposition



Number of overdue directives, with a deadline for transposition into national law before 30 April 2003, which have not been transposed by 1 June 2005.

The European Council also set a "zero tolerance" target for directives whose transposition deadline is overdue by 2 or more years. Only 4 Member States - France, Belgium, the Netherlands and Ireland have managed to reduce the number of outstanding directives. However, despite this improvement, France's position remains a cause for concern. The situation in all other Member States has remained unchanged or has even become worse. In the case of Italy, Greece, the United Kingdom and, to a lesser extent, Luxembourg and Sweden, the performance has deteriorated dramatically.

## B. State of transposition of the Financial Services Action Plan Directives

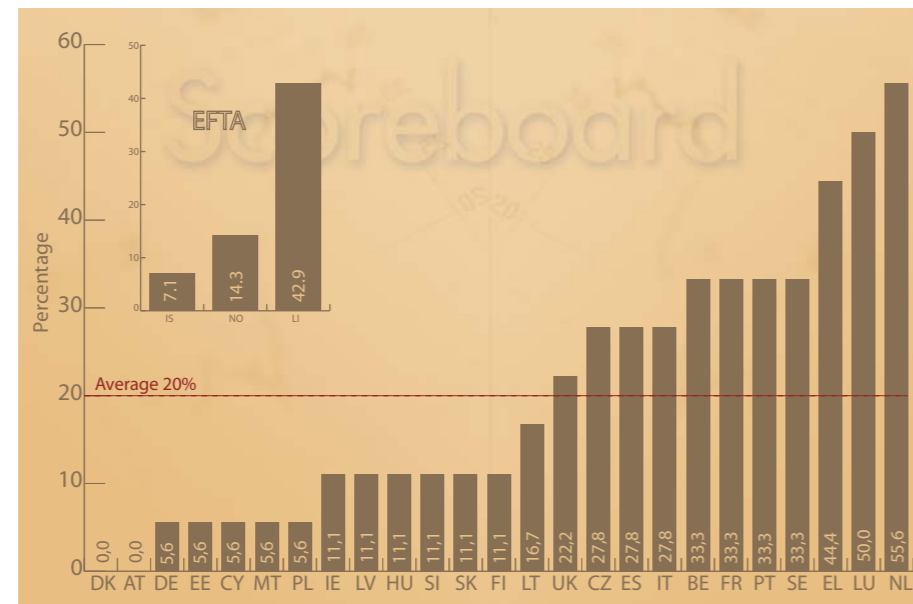
In 1999, the Commission presented its Financial Services Action Plan<sup>7</sup> ("FSAP"), in which it set out over 40 measures - legislative and non-legislative - that needed to be accomplished by 2005 in order to reap the full benefits of the euro and to ensure the continued stability and competitiveness of the EU financial markets.

As stated in the recently adopted Green Paper on Financial Services Policy<sup>8</sup>, most of the measures have now been adopted. It is time to take stock of the progress made. Of the 42 measures, 23 are directives of which 18 should already have been transposed.



7) COM (1999)232, 11 May 1999.  
8) COM (2005)177, 3 May 2005.

**Figure 7: Major disparities between EU-25 Member States in transposing financial services laws**



Percentage of the 18 FSAP directives for which national transposing measures have not been notified to the Commission or which have been incompletely transposed, as at 1 June 2005.

- Denmark and Austria have transposed all financial services directives whose transposition date has passed;
- Germany, Estonia, Cyprus, Malta and Poland score very well, with only 1 financial services directive awaiting transposition;
- Ireland, Latvia, Hungary, Slovenia, the Slovak Republic and Finland still do well with only 2 financial services directives still to be transposed;
- The Netherlands, Luxembourg and Greece have accumulated a considerable transposition backlog. To a lesser extent, this applies also to Sweden, Portugal, France and Belgium;
- Considering its role as a major financial centre, the performance of the UK is only average with a transposition deficit of 22%.

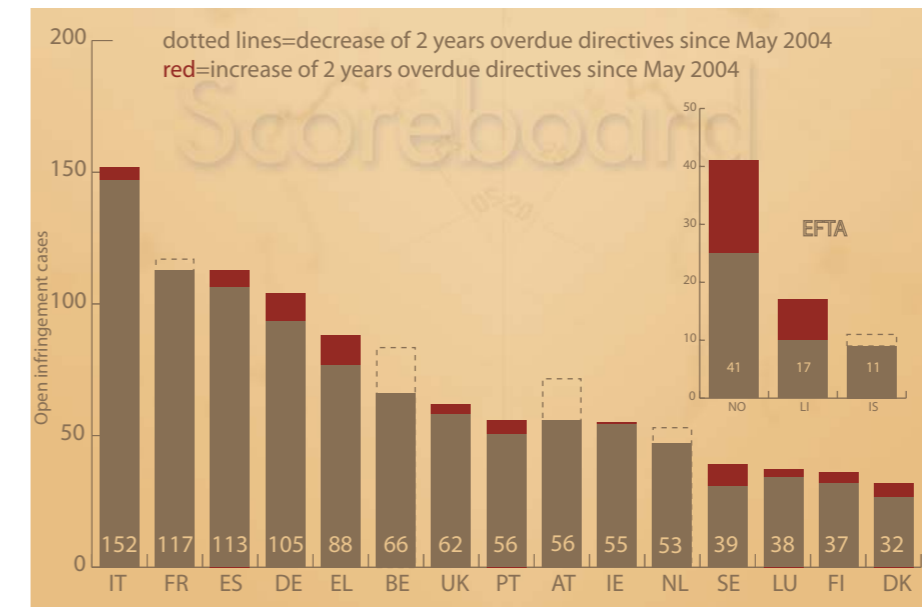
### C. Infringements

As highlighted by the Internal Market Strategy 2003-2006<sup>9</sup>, when directives are not applied correctly by Member States, EU citizens and businesses are deprived of their rights. This self-inflicted damage causes harm to the European economy and undermines the confidence citizens and businesses have in the Internal Market and the EU in general.

Where the Commission considers that Internal Market rules are not properly applied, it takes infringement action against the Member State in question. Such action involves first asking the Member State concerned to comment on an alleged infringement of Internal Market rules. If the Commission is not satisfied with the Member State's answer, it sends to the Member State a reasoned opinion, setting out the facts of the case and the detailed legal reasoning on which the Commission bases its analysis that the Member State is infringing Internal Market rules. If, following such reasoned opinion, the Member State still does not take action to rectify the situation, the Commission brings the case before the Court of Justice of the European Communities.

Clearly, every infringement case is one too many. Infringement cases are costly and can take a long time to resolve. The Internal Market Strategy therefore called on Member States to reduce the number of infringements against them by at least 50% by 2006.

**Figure 8: Not much improvement in the number of infringement proceedings against EU-15 Member States**



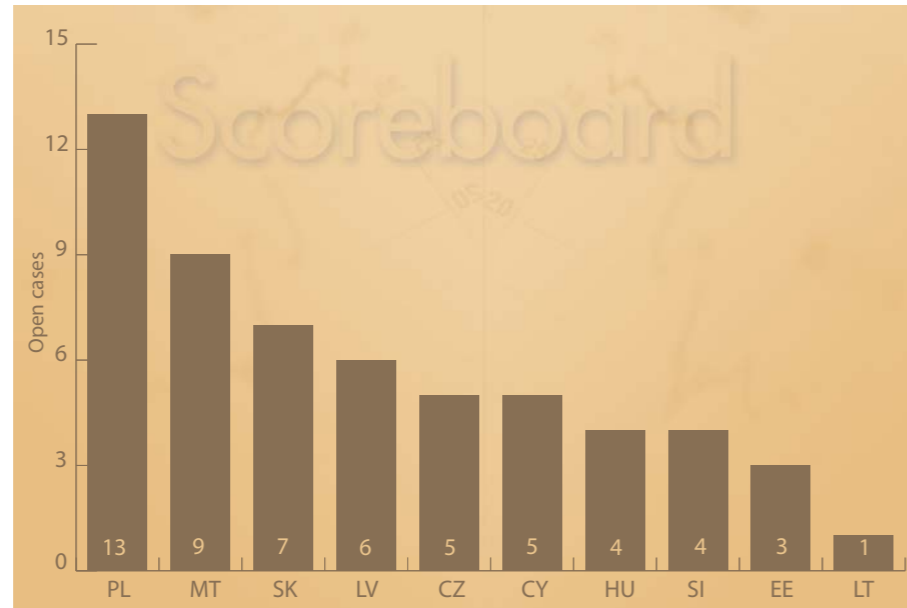
Open infringement cases as at 1 May 2005. Counted as "infringement cases" in the sense of the above figure are: cases where the transposition is presumed not to be in conformity with the directive it is supposed to transpose or cases where Internal Market legislation is presumed not to be correctly applied and where a letter of formal notice has been sent to the Member State. Cases of non-communication, i.e. concerning directives counted in the transposition deficit, are excluded to avoid double-counting.

- Over two years after the Internal Market Strategy was adopted, only four of the EU-15 Member States, Belgium, Austria, France and the Netherlands, have managed to reduce the number of infringement cases against them, as compared to the number at the end of April 2003. Nevertheless, even Belgium, who performed best in this category, is still far from achieving the objective of a 50% reduction;
- For the 11 other EU-15 Member States, more infringement cases are open against them now than in 2003, Greece, Germany, Sweden and Denmark have the highest number of additional cases.



9) COM (2003) 238, 7 May 2003.

Figure 9: New Member States start facing implementation problems<sup>10</sup>



- Only Lithuania, Estonia, Hungary and Slovenia have less than 5 infringement cases against them one year after enlargement;
- At the other end, 13 infringement cases have been opened against Poland already.

In conclusion, one year before the deadline, it seems clear that Member States need to make additional efforts to implement Internal Market rules properly and to take rapid and effective action where proper implementation goes wrong.



<sup>10</sup>) For obvious reasons, there are no 2003 figures to compare with for the new Member States.

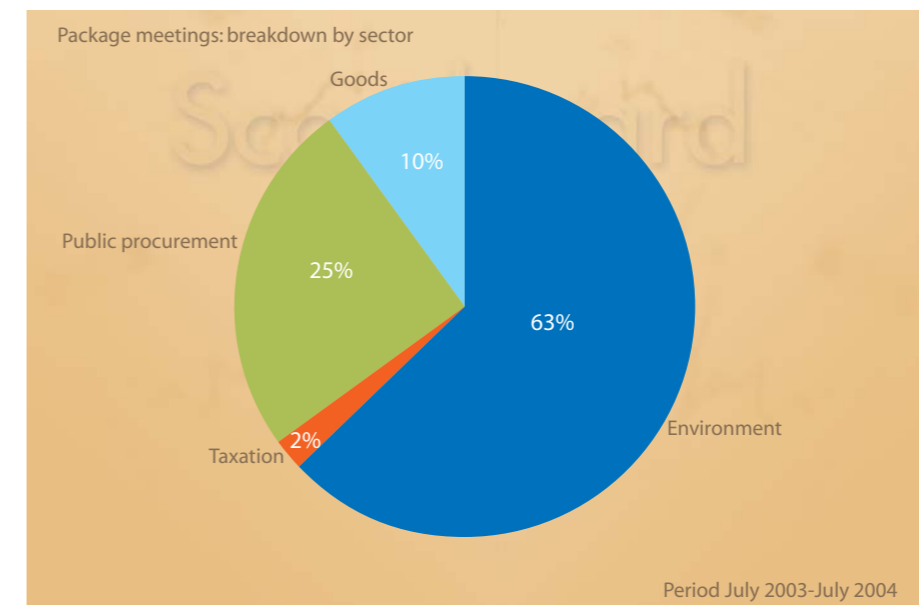
## 2. SPEEDING UP RESOLUTION OF INTERNAL MARKET PROBLEMS OF BUSINESS AND CITIZENS

### A. Package meetings

'Package' meetings involve Commission experts and their counterparts in a Member State, meeting to examine a 'package' of infringement cases, in order to solve them in an efficient, practical and informal manner.

Such package meetings are organised on a regular basis but involve mostly those Member State whose track record on timely and correct implementation of Internal Market directives is worst.

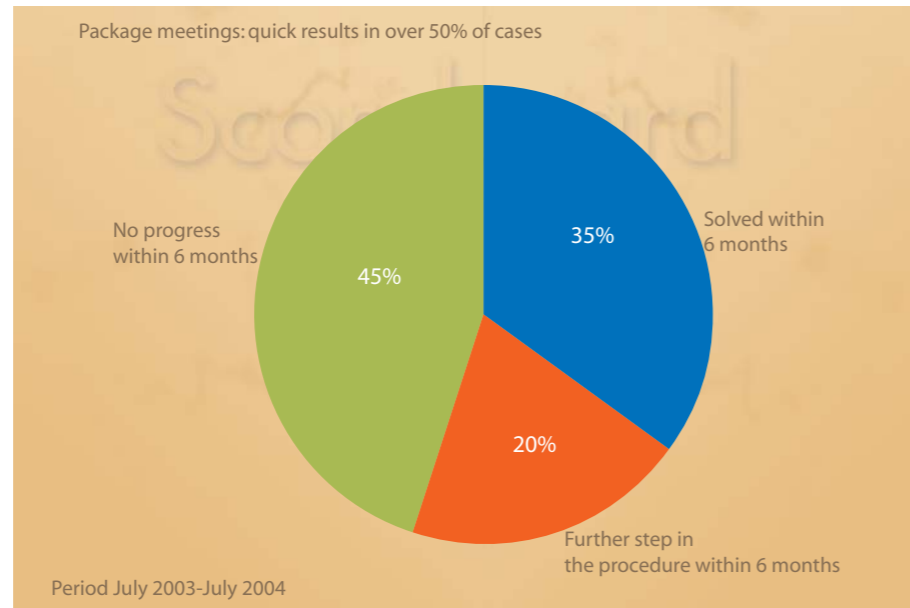
Figure 10: Environmental law represents over 60% of package meeting cases



Percentage of cases discussed between July 2003 and July 2004 in package meetings organised by Directorates-General Internal Market and Services, Enterprise and Industry, Environment and Taxation and Custom Union

The highest number of infringement cases, dealt with in this manner, is in the field of environment (63%), followed by public procurement (25%), free movement of goods (10%) and taxation (2%).

Figure 11: Quick results in over 50% of cases



Results of the package meetings after 6 months

Package meetings are a useful tool to solve problems of infringement cases at an early stage. More than a third of cases discussed at such package meetings are actually solved within the following 6 months. In a further 20% of cases, the infringement process is speeded up, because of better communication between the Member State and the Commission services. In these cases, the Member State either receives a letter of formal notice, a reasoned opinion or is brought before the European Court of Justice within the 6 months following the meeting.

Given the encouraging results of the traditional package meetings aimed at solving existing infringement cases, the Commission started in 2002 to organise package meetings specifically devoted to the transposition of Internal Market directives in the period before the deadline for transposition or immediately thereafter. These meetings aim to assist Member States in transposing Internal Market legislation by anticipating possible transposition problems of a political, legal or technical nature. Bilateral contacts or meetings between the officials concerned and informal scrutiny of draft transposing measures are typical examples of such assistance.

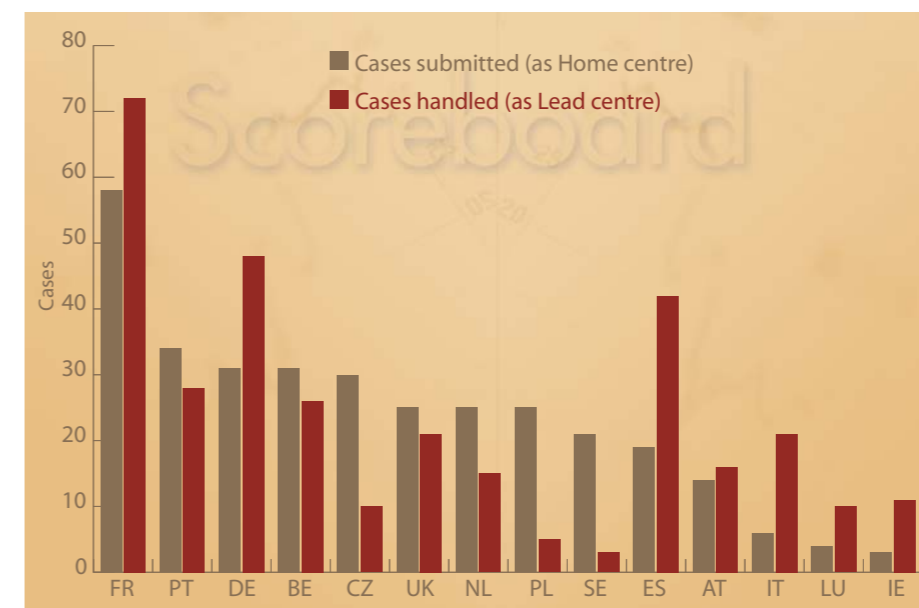
Six such meetings have already taken place. Although it is impossible to quantify precisely the impact of such meetings, feedback received has been very positive.

## B. SOLVIT – Member States working together to solve problems arising from the misapplication of Internal Market rules

SOLVIT was set up in 2002 as an on-line problem solving network for complaints about incorrect application of EU rules by public authorities. It has now developed into a fast and reliable complementary way of addressing problems of misapplication and reducing infringements.

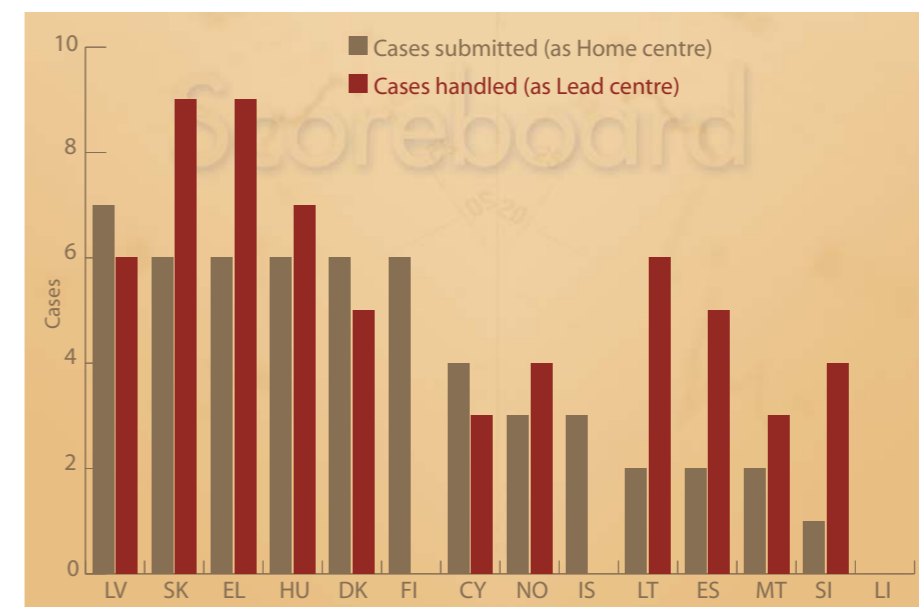
During the first year since enlargement of the EU on 1 May 2004, SOLVIT case flow has more than doubled, from 183 to 394 cases as compared with the previous year (May 2003-April 2004). The new Member States have been very active from the start and accounted for 24% of all cases submitted in their first year of membership of the SOLVIT network.

Figure 12: Case flow of the larger SOLVIT Centres



Cases submitted and received - SOLVIT Centres that submitted or received 10 or more cases between 1/5/2004-30/4/2005

Figure 13: Case flow of the smaller SOLVIT Centres



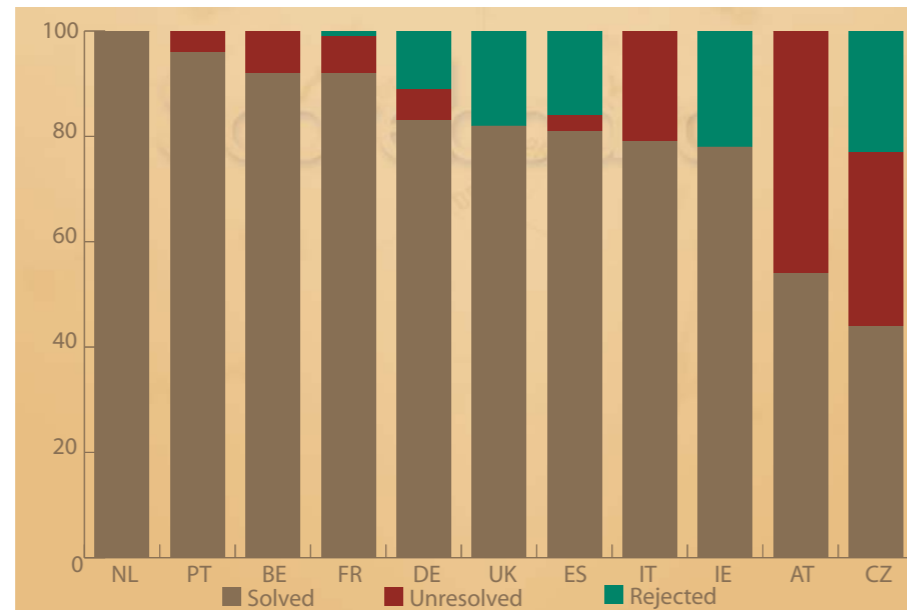
Cases submitted and received - SOLVIT Centres that submitted and received less than 10 Cases between 1/5/2004-30/4/2005

Most of the problems reported to SOLVIT by citizens of the new Member States concerned social security and recognition of professional qualifications. For complaints against the new Member States, market access of products was the single largest problem area.

Overall, case resolution rates have gone up from an average of 78% to 82%. The Netherlands, Portugal, France and Belgium even solved more than 90% of their cases. All other Member States with average/high case loads are relatively close to this resolution rate except for Austria and the Czech Republic, whose performance is poor. Case handling time has also improved from an average of 66 days last year to 60 days this year.



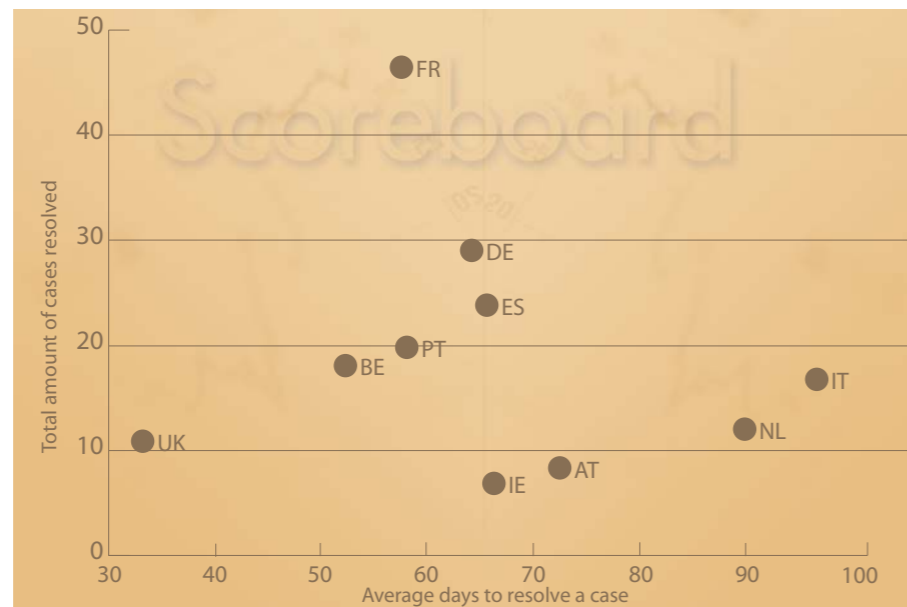
Figure 14: SOLVIT produces solid results



Case resolution rates - Figures only include SOLVIT centres that received more than 10 cases to handle between 1/5/2004-30/4/2005

Seven of the ten SOLVIT Centres with an average/high case load remain well within the SOLVIT deadline of 70 days for dealing with cases. SOLVIT France has performed well by scoring above average on both case handling time and on resolution rates, in spite of a case load that was 50% more than that of the second busiest SOLVIT Centre.

Figure 15: Significant differences in case handling time



Correlation between solved cases and case handling time

Case load is increasing and it is now even more important for Member States to ensure that their SOLVIT Centres are sufficiently staffed. Often the excellent performance of a SOLVIT Centre depends on the talent and efforts of a single person. As a consequence, the continuity of service of such SOLVIT Centres is insufficiently safeguarded. In addition, Member States should increase awareness raising activities at national level in order to allow citizens and businesses who encounter internal market problems to benefit from the system.

A more detailed report of the functioning and development of SOLVIT in 2004 was published as a Commission staff document<sup>11</sup>.

### 3. THE IMPORTANT ROLE OF EUROPEAN STANDARDS IN REDUCING BARRIERS TO TRADE



European standards play a vital role in ensuring that the Internal Market works in practice. Once a European standard is agreed and has been transposed by national standards organisations, it replaces the 25 or more different national standards in the Member States. As a result, a product complying with a European standard can circulate more freely in the EU. This leads to efficiency gains for companies, and a significant reduction in the cost of doing business across Europe.

The number of European standards has increased greatly over the past 10 years. More than 80% of standardisation now takes place at European or international, rather than national, level. Standards cover a wide range of products, and, increasingly, services, from machinery to mobile phones, from toys to construction products, and from facility management to translation services.

While the vast majority of European standards are developed at the request of industry, standards are also developed to support European legislation, in particular 'New Approach' legislation. Under the New Approach, European legislation is limited to the essential requirements (mainly on health and safety issues) needed to ensure free movement of goods throughout the EU. The task of drawing up standards is entrusted to the European Standards Organisations (ESOs), namely the European Committee for Standardisation (CEN<sup>12</sup>), the European Telecommunications Standardisation Institute (ETSI<sup>13</sup>) and the European Committee for Electro-technical Standardisation (CENELEC<sup>14</sup>). Where a product complies with such 'harmonised standards' drawn up by these organisations, there is a legal presumption of conformity with the corresponding essential requirements and the product can thus be put on the market throughout the EU.

11) SEC (2005)543 of 19 April 2005

12) [www.cenorm.be](http://www.cenorm.be)  
 13) [www.etsi.org](http://www.etsi.org)  
 14) [www.cenelec.org](http://www.cenelec.org)

**Figure 16: The number of available standards has increased substantially over the last ten years**



The total number of available standards as at 31/12/2004 is 17511<sup>15</sup>. The data shown here are provided by CEN, CENELEC and ETSI and have been verified by these organisations as correct on 31/03/2005. A significant difference in the implementation rates for some Member States can be seen when these figures are compared with those published last year. CEN, CENELEC and ETSI acknowledge that these differences are due to enhancements in the centralised recording of implementations which previously led to an under-representation, at times substantial, of the degree of national implementation

Once a European standard has been adopted by one of the ESOs, it is up to national standards organisations to implement them at national level. They do so by transposing them as national standards, either by publishing an identical text or by endorsing them. National standards organisations must also repeal any existing national standards that conflict with European standards.

When national standards organisations do not transpose a European standard, this can lead to problems for industry and consumers. In some cases, industry is faced not by one EU-wide standard for the product in question, but by a patchwork of different national standards with which it is more costly and cumbersome to comply.

**Figure 17: Deficit in implementing standards - First Division**



The transposition deficit shows the number of standards not yet communicated to the ESOs as having been transposed.

15) Total number of published standards to be transposed: CEN: 10160 in which 1680 harmonised standards; CENELEC: 3701 in which 964 harmonised standards and ETSI: 3650 in which 228 harmonised standards.

	MT	CZ	FI	SE	SK	BE	CY	AT	UK	DE	NL	DK	LU														
CEN	0	0	18	25	5	25	2	20	17	24	0	2	15	56	9	31	16	63	11	83	1	0	0	4	0	0	
CENELEC	1	0	0	1	29	0	2	23	0	33	21	79	71	1	26	37	35	53	7	27	64	88	165	359	0	1	
ETSI	0	1	0	0	0	0	8	16	0	0	0	0	0	0	0	0	50	0	1	5	95	16	319	7	0	27	546

HES stands for "Harmonised European Standards"; OES stands for "Other European Standards"

- 10 Member States standardization bodies managed to have less than 100 standards not yet transposed out of a total of 17511: Malta, the Czech Republic, Finland, Sweden, the Slovak Republic, Belgium, Cyprus, Austria, the United Kingdom, Germany, the Netherlands, Denmark and Luxembourg.
- 4 new Member States are among these countries. Malta should be praised for its outstanding performance of having only 2 standards not yet transposed. The Czech Republic, the Slovak Republic and Cyprus also stand out.

**Figure 18: Deficit in implementing standards - Second Division**



The transposition deficit shows the number of standards not yet communicated to the ESOs as having been transposed. The total number of available standards as at 31/3/2005 is 17511.

The data shown here are provided by CEN, CENELEC and ETSI and have been verified by these organisations as correct on 31/03/2005. A significant difference in the implementation rates for some Member States can be seen when these figures are compared with those published last year. CEN, CENELEC and ETSI acknowledge that these differences are due to enhancements in the centralised recording of implementations which previously led to an under-representation, at times substantial, of the degree of national implementation.

	HU	IE	IT	EL	PT	FR	SI	EE	LT	ES	PL	LV												
CEN	4	3	22	8	60	174	57	224	10	26	13	11	0	0	0	0	0	0	95	266	41	70	2	1
CENELEC	0	29	46	192	26	716	82	908	2	1	161	151	6	63	30	291	11	8	49	54	42	92	26	716
ETSI	4	649	47	501	37	217	0	1	181	1533	71	1463	1	1964	31	1950	14	2672	134	2781	53	3319	228	3422

- Many Member States still suffer from a serious backlog of non-transposed standards. This might create serious problems for their industries in the Internal Market as complying with standards can be a very useful tool for convincing consumers of other Member States of the quality of their products.
- Some new Member States, especially Poland and Latvia, are still struggling with the issue of transposing standards. EU-15 Member States like Spain, France or Portugal also face significant difficulties.

## 4. PRICE CONVERGENCE IN THE INTERNAL MARKET

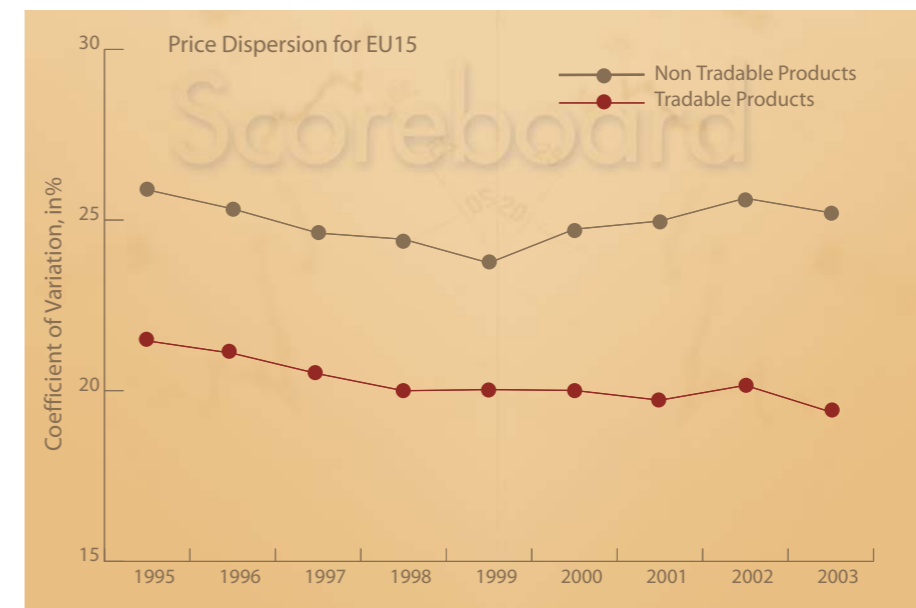
The extent to which prices converge across Member States is a reliable indicator of how well the Internal Market functions. In a functioning Internal Market where barriers to intra EU trade of goods and services are eliminated, a retailer will, in order to maximise his profit, seek to buy products or services where they cost least, to sell them in areas where the prices are highest. This is called arbitrage. Individual consumers also engage in arbitrage.

Due to increased supply of this product in the high cost area, prices will decrease. Inversely, due to higher demand for the product in the low cost area, prices might increase. As a result, if the Internal Market functions well, prices should converge.

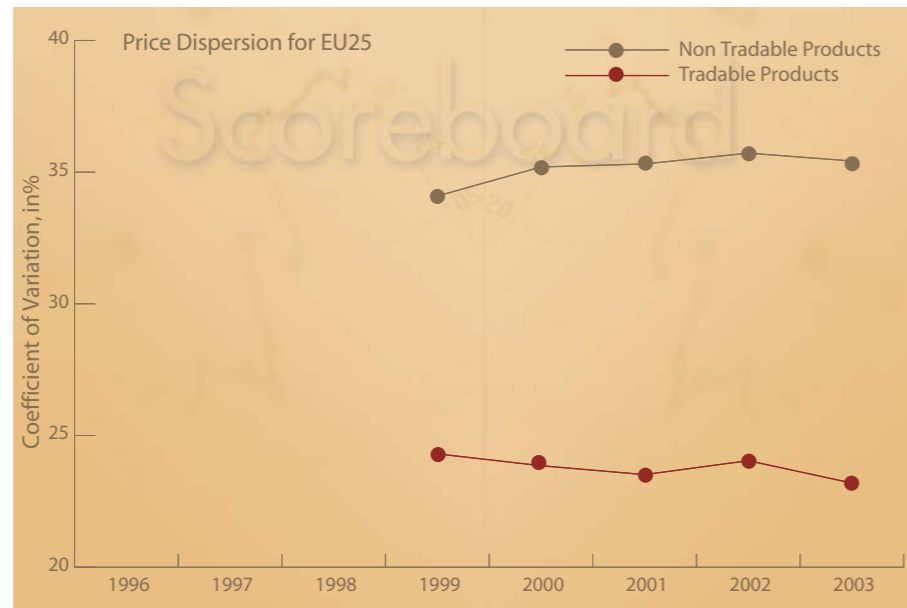
However, that is not true for all products. No one will travel 1000 km to get a cheaper haircut than elsewhere. Nor will someone consider living in the South of Portugal and commute to London, just because rents are cheaper in Portugal. Therefore, only prices of tradable goods and services should be expected to converge, as opposed to the prices of non-tradables. Non-tradables such as housing or getting a haircut are expected to be less affected by the Internal Market. The following graph shows that prices for tradable goods and services not only are less dispersed, but that price dispersion also develops differently compared to non-tradables<sup>16</sup>.

### A. Distinction between tradable and non tradable goods and services

Figure 19: Price dispersion for tradables consistently decreases



16) The indicator presented is experimental and is still in the process of being validated. It can be modified in the light of future work.



Source: Eurostat PPP data, calculations DG MARKT  
The graphs display the change of price dispersion over time. A decrease in dispersion implies that prices in Member States came closer to the EU average. Figures for the new Member States are only available since 1999

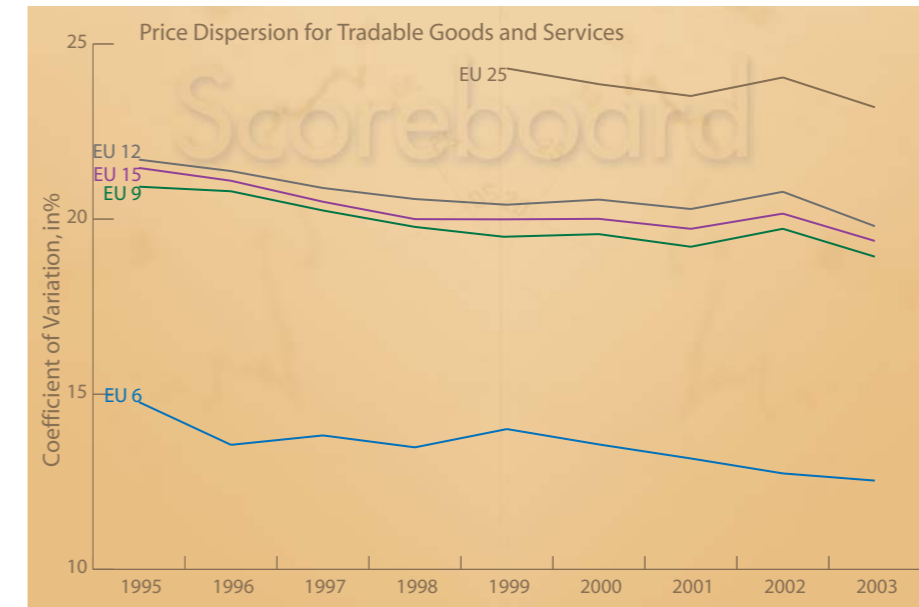
The figures above seem to indicate that:

- Prices for tradable goods and services are –as could be expected– overall less dispersed than for non-tradables.
- Over time, the more integrated the Internal Market becomes, the lesser the price dispersion for tradable goods and services. The figures between 1995 and 1998 show considerable decrease in price dispersion, followed by a phase of relatively stable price dispersion. The long-term trend seems to indicate that the Internal Market functions well.
- Price dispersion among EU-25 is much higher than among EU-15, as absolute price levels in the new Member States are still considerably lower than in the old Member States. However, for EU-25, we observe converging prices for tradable goods too. The accelerating economic activity in the new Member States in anticipation of accession was also accompanied by an increase in overall price levels. As a result, prices in the new Member States have come closer to the EU average, leading to general price convergence.

## B. Price dispersion for different levels of integration

Another way to measure the effectiveness of the Internal Market is to examine whether countries that have been members of the EU for a longer time show a higher level of price convergence. These countries have had more time to integrate their economies. As such, one should expect the lowest price dispersion among the EU-6 and the highest price dispersion among the EU-25.

Figure 20: The longer countries are member of the EU, the more prices have converged across countries



Source: Eurostat PPP data, calculations DG MARKT  
The graph shows the development of price dispersion for tradable goods and services over time, allowing to distinguish according to how long countries have been Member States of the EU.

But, integration is not only a function of the Internal Market. Territorial proximity, historical ties, similarity in preferences or the absence of language barriers are among other factors that determine the degree of integration of certain regions. While prices in Denmark, Finland and Sweden may be considerably higher than the EU average, they are relatively close to each other, due to their historically close connections. Similarly, price levels in Austria are closer to those of the EU-6 than, say, those in Greece or Spain, even though Austria joined the EU later and had thus less time to incorporate all measures of the internal market.

Nevertheless, it appears that there is a link between how long countries have been member of the EU and the degree of price convergence. Prices converge most across the 6 Member States that founded the European Communities, whereas price dispersion becomes much more important if one considers the figures for EU-25.

