ECONOMIC BENEFITS OF THE SERVICES DIRECTIVE

Four good reasons for the timely and complete implementation of the Services Directive:

1. By simplifying the regulatory framework applicable to services and lifting barriers to market access it will encourage investment in your Member State (both domestic and direct foreign investment).

2. It will help accompanying the structural changes that are going on in the European economy, which is moving fast from industry toward knowledge based services.

3. It will enhance the economic performance in the sector – services- in which the EU can compete best.

4. It will modernise the way your public administration works and deliver considerable savings and efficiency gains in the medium/long term.

The role of services in the EU economy

- The aim of the Services Directive is to stimulate economic growth and employment in the EU. Services are by far the largest sector in the European economy. In most Member States they account for around 70% of GDP and total employment\(^1\).

- Services are the main driver for growth and job creation: between 2000 and 2005, total employment in the EU has increased by over 8.5 million, mainly driven by strong net employment creation of almost 11.5 million in the services sector, which has more than made up for the employment contraction in industry (down 1.6 million) and agriculture (down 1.2 million)\(^2\). Growth in services has been important in all Member States;

- Services are the main driver of foreign direct investment (FDI): in Western Europe, services are clearly becoming the largest jobs reservoir as they now provide 60% of new FDI jobs, against 40% for industrial activities, a change from 43% and 57% respectively, a year ago. It is the first time that FDI in services exceeded FDI in industrial activities in Western Europe\(^3\).

\(^1\) Source: Eurostat
\(^2\) Source: Commission report "Employment in Europe 2006".
\(^3\) Source: Ernst & Young’s 2008 European attractiveness survey
Expected positive economic impact of the Services Directive

- Several economic studies point towards significant gains in terms of foreign direct investment, growth and job creation that can be expected, by all Member States, from full and timely implementation of the Services Directive. A recent study carried out by the Dutch Planning Bureau (CPB)\(^4\) found that EU wide economic gains of the Services Directive could range between 60-140 billion euros, representing a growth potential of +0.6-1.5% of GDP, using conservative estimates.

- Another study carried out by Copenhagen Economics\(^5\) found that EU GDP is expected to increase, at a conservative estimate, by 0.8%, with positive growth rates in all Member States. That means economic growth equivalent to 57% of that engendered by the entire single market programme up to now (1992-2005). According to this study net employment is expected to increase by 0.3% (up to 600,000 jobs) and average real wages by 0.4% (again, with positive growth rates throughout the EU 27).

- The Copenhagen Economics study also forecasted that the Services Directive will reduce average prices for services. For example, for regulated services such as legal and accounting services it forecasts an average reduction of 7.2%. Higher wages in combination with lower prices should stimulate consumption in the EU, which in turn will lead to increases in demand for both goods and services.

Administrative burden reduction

- For many years complaints by businesses and results of public consultations and market research have consistently shown that excessive administrative barriers are a major barrier to direct investment (foreign and domestic) and dissuade access to foreign markets. SMEs are hardest hit. They very often do not have the expertise or financial means to cope with these burdens.

- The Services Directive sets out an ambitious programme of administrative simplification and burden reduction. It offers a concrete chance to put into practice the political priorities that have been pursued by the EU (and all individual MS) over the last years, and that sometimes have only been discussed at a theoretical level: to reduce burden on SMEs, encourage new investment and revitalise the business environment. This becomes even more important in the current times of crisis.

- The Services Directive offers powerful tools that can be used by Member States to make their economies more competitive and attract investment such as simplification of administrative formalities\(^6\), simplification and modernisation of authorisation schemes\(^7\) and the setting up of Points of Single Contact.

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\(^4\) The CPB already published economic studies on the Services Directive during the time of negotiations.
\(^5\) Published during negotiations on the Services Directive, in 2005.
\(^6\) Member States are obliged to critically examine and simplify their administrative formalities (for instance, requirements to submit certificates, original documents or translations);
\(^7\) Member States are obliged to simplify and modernise their authorisation schemes. The Directive establishes concrete obligations as regards the conditions that can be imposed to grant an authorisation, their scope (starting point being the national territory unless otherwise justified), the duration (starting point unlimited unless otherwise justified or unless number of authorisations limited) and the procedures as such (establishing, amongst other things, the principle of tacit authorisation).
• It is important to make full use of these tools as they will offer a competitive advantage and stimulate growth and investment in those Member States who effectively reduce burdens on enterprises. A simplified regulatory environment and user-friendly, well-functioning points of single contact are likely to have a considerable incentive effect on business (and encourage the creation of start-ups).

Examples of burdens that will be eased by implementation of the Services Directive

• Some Member States require businesses to meet an “economic needs test” to show that— even if they will provide better choice and value for consumers – they will not destabilise local competition. These tests leave room for arbitrary decisions. The total cost for one retailer, for 22 applications across the EU, was €5.9m.

• Businesses wanting to set up in another Member State face difficulties and costs just to find out what the legal and administrative formalities are. An engineering company had to spend 3% of its annual turnover on research into the differing legal requirements in just two other Member States where it wanted to supply services. An electronic hardware and services company spent €100,000 on external legal advice to establish the rules in only five Member States.