

## Examples of problems which the Services Directive would help solve

Administrative barriers to service companies setting up their business or providing their services in another Member State are burdensome even for large companies with plenty of finance and access to legal advice. For SMEs, the costs and the dissuasive nature of such red tape can be insurmountable. The result is that consumers get less choice and pay more.

The Directive would get rid of some of these barriers immediately it came into force. Subsequently Member States would work together and with the Commission to remove any other unnecessary barriers and to ensure that full information was conveniently available to businesses on remaining, justifiable, formalities. By improving cooperation between national authorities, the Directive would also help clamp down on “rogue” companies.

It is often difficult for service businesses to establish themselves in other Member States:

- Businesses may have to wait months or years before getting all the necessary licences and permits. Often they do not even get a reply to their application.
- 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 company, 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! For example, one services trade association put the direct costs of getting the information necessary to establish a presence in a single country at between €80,000 and €160,000.

It may be just as hard to supply services in another EU country temporarily or occasionally:

- 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.
- In one Member State a longstanding limited company from another Member State was deemed not to have sufficient share capital to carry out its business. Then it was asked to provide a personal guarantee for future debts from shareholders and their spouses. The company decided not to operate in the Member State in question and chose a non-Member State instead.

Apart from having to pay more for services due to the costs to businesses of unnecessary red tape, consumers may also suffer directly from discrimination and lack of information:

- In some Member States, EU citizens have been charged different access fees to museums or different fees for participation in sports events, such as marathons, entirely because of their Member State of residence.
- Lack of cooperation between Member State authorities can jeopardise consumer protection and health and safety. For instance, an institution in charge of labour law in one Member State has reported that to find out whether a company carrying out services in its territory was genuinely established in another Member State, rather than just a “letter box” firm, they had to hire private detectives because they received no assistance from the Member State where the company was allegedly established.