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Editeur responsable
Panayotis Stamatopoulos
European Commission
DG Internal Market and Services
Unit A-4
B - 1049 Brussels
Tel: (+32 2) 296 17 72
Fax: (+32 2) 295 43 51

Editor
Nigel Griffiths
Fax: +32 2 295 43 51

Subscriptions
Anita Haase
DG Internal Market and Services
SPA2 1/002
B-1049 Brussels
Fax: +32 2 295 43 51
E-mail: Markt-smn@ec.europa.eu
www.ec.europa.eu/internal_market/smn.htm

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EDITORIAL

==== The Commission and the European Central Bank strongly support the initiative of European banking industry to create the Single Euro Payments Area (SEPA) which was formally launched on 28 January 2008. On that day the first cross-border, credit transfer payments were made electronically in Europe using the new SEPA standards. Over the next three years a 'quiet revolution' is going to take place in the European payments landscape with the objective of making electronic payments in euros throughout the whole of the EU as easy, efficient and convenient as national payments are already today (see page 4).

==== A key goal of the Single Market Review was to identify areas where the Single Market can bring tangible benefits to citizens. Retail financial services are such an area. Following extensive study and consultation, the Commission published last December a White Paper on the Integration of EU Mortgage Markets. Better integration in this area could reduce the cost of home loans for the consumer and the White Paper presents a balanced 'package' of measures to improve the efficiency and the competitiveness of these markets which can work to the benefit of consumers, mortgage lenders and investors alike (see page 8).

==== One of the priority 'deliverables' of the Lisbon Agenda has been finalised by EU institutions with the adoption of the new Postal Services Directive. This Directive aims to ensure high quality postal services for EU citizens and businesses, and confirms 31 December 2010 as the date for the full opening of EU postal markets, with the possibility for some Member States to postpone full market opening by two more years as a maximum. The Directive foresees the abolition of the postal monopolies in all Member States whilst maintaining a high scope and standard of universal postal service at affordable prices for all users (see page 16).

==== Defence markets in the EU are currently organised on a predominantly national basis which hampers innovation, competitiveness and efficiency. Divergent national policies create excessive red tape and ultimately lead to excessive expenditure on defence, whilst weakening the European Security and Defence Policy (ESDP). To overcome existing fragmentation and make progress towards the establishment of a common European Defence Equipment Market (EDEM), the Commission has proposed a package of measures to foster greater competitiveness in the sector and to enhance openness in intra-European defence markets. Part of the package is a proposal for a Directive on procurement in the defence sector which will facilitate cross-border procurement of Member States (see Special Feature on page 11).



Jörgen Holmquist
Director General for
Internal Market and Services,
European Commission

A handwritten signature in blue ink, appearing to read 'J. Holmquist', written in a cursive style.

Single Euro Payments Area becomes operational

The Single Euro Payments Area (SEPA) became operational on 28 January 2008 when the first electronic payments for credit transfers in euros were made across Europe using the new SEPA standards. This marks the first step in a major migration over the next few years during which customers will move from existing national electronic payment instruments to the new SEPA instruments in a market-led process. SEPA is a logical extension to the introduction of the euro and will produce substantial benefits through a more competitive and efficient payments market.

SEPA is the new Single Euro Payments Area that enables people to make payments throughout the euro area as quickly, safely and easily as they make national payments. In SEPA, all euro payments are considered domestic and are made with one set of payment instruments. SEPA is thus a natural progression to the introduction of the euro and another major step in realising the full potential of the Single Market for Europe.

On 28 January an important milestone in the SEPA migration process was reached with the official launch of the first SEPA payment instrument for credit transfers. For technical and legal reasons, the launch of the SEPA payment instrument for direct debits will take place subse-

quently, but should occur no later than 1 November 2009. For card payments the SEPA Cards Framework has been in force since 1 January 2008.

SEPA is an initiative of the European banking industry, represented by the European Payments Council, and is strongly supported by both the Commission and the European Central Bank (ECB). The Commission and the ECB see SEPA as an integrated market for payment services subject to effective competition with no distinction between cross-border and national euro payments. This calls for the removal of all technical, legal and commercial barriers between current national payment markets.

“Over the next three years a quiet revolution is going to take place in the European payments landscape. Making electronic payments in euros throughout the whole of the EU is going to become as easy, efficient and convenient as making national payments today.”

When fully implemented, SEPA will standardise the millions of everyday electronic payments made with credit transfers, direct debits and credit and debit cards. SEPA will allow customers to make and receive cashless payments in euros anywhere in the 27 Member States of the EU and in the neighbouring countries of Iceland, Liechtenstein, Norway and Switzerland, using a single bank account and a single set of payment instruments.

Migration process

Electronic payments within the EU are currently organised on national lines and, in the vast majority of cases, it is just not possible to make cross-border, electronic credit transfers, nor use a national debit card for cross-border payments. Furthermore a cross-border direct debit simply does not exist.

Over the coming three years this will change as the new SEPA products gradually replace national payment products. During the market-driven migration phase, customers will move from old national instruments to the new SEPA instruments. The aim is that a critical mass



At the SEPA launch event in Brussels 28 January Gerard Hartsink of the European Payments Council said that the implementation of SEPA will have an impact on every citizen, corporation, small and medium sized enterprise, merchant and public administration.



McCreedy: "After several years of hard preparation by the European banking industry and the EPC in particular, we now have a common standard for exchanging payment messages in euros throughout the EU and in the neighbouring countries of Iceland, Liechtenstein, Norway and Switzerland."

of payments will have migrated over to the new SEPA payment instruments by the end of 2010.

Industry-led initiative

The new SEPA payments have been developed by the banking industry under the aegis of the European Payments Council (EPC) which has coordinated the development of common standards and business rules for euro payments.

On 28 January, the Commission in conjunction with the ECB and the EPC held the "SEPA Goes Live" event to celebrate the official launch of SEPA. The event was attended by many distinguished guests and visitors drawn from the European payments world.



Gertrude Tumpel-Gugerell of the ECB: "This is a major step in the creation of the Single Market which is why the ECB has supported it. The banks have made this process a reality. It can help them expand their business. It is now up to them to use these opportunities."

At the event, Internal Market and Services Commissioner Charlie McCreevy said: "Over the next three years a quiet revolution is going to take place in the European payments landscape. Making electronic payments in euros throughout the whole of the EU is going to become as easy, efficient and convenient as making national payments today. SEPA is a fantastic opportunity for the European economy, for growth, for our citizens. To make the best use of this opportunity we need

everyone's skills, commitment and innovation."

ECB Executive Board Member, Ms Gertrude Tumpel-Gugerell added: "SEPA is all about integration, harmonisation and modernisation. It is a natural consequence of the single currency and a major step in the creation of the Single Market. That is why the ECB has supported the project closely over the past six years. Today's launch is the first visible result."

EPC chair, Gerard Hartsink, described the launch of SEPA as a historical first step and highlighted its importance: "The SEPA project is an even bigger project than the euro launch. SEPA will gradually replace existing electronic euro payment instruments in the SEPA area. This will have an impact on every citizen, corporation, small and medium sized enterprise, merchant and public administration."

Worldwide impact

With the launch of SEPA Credit Transfers on 28 January, EU banks are the first in the world to deploy a new file format based on global standards (ISO 20022 XML) for mass euro payment transactions. This innovation is likely to have an impact far beyond Europe as American and Asian corporations and banks have already started to realise the global impact of 31 countries moving jointly towards SEPA. SEPA is a real contribution to make the European payments industry the most innovative in the world.

Wider economic impact

Commissioner McCreevy recognised that SEPA is a tremendous opportunity for Europe to increase administrative efficiency and business competitiveness and thereby contribute to the achievement of the EU's Lisbon goals for competitiveness. He went on to point out that in the public sector SEPA can help drive eGovernment by provid-

ing a new vehicle for the development of transactional services in the areas of eProcurement and the efficient delivery of public services such as taxation and customs.

For banks, SEPA migration is both a challenge and an opportunity. Payments are essentially a volume-related business and the integration of national payment systems will produce substantial economies of scale thus lowering payment processing costs. It will also enhance competition by making cross-border competition for payments possible.

Commissioner McCreevy said that whilst competition will be increased, SEPA will also provide opportunities to increase the efficiency of existing payment systems and market new and profitable products such as eInvoicing.

"In my view, banks which actively embrace SEPA and see it as a business opportunity rather than a compliance exercise, will gain most in the long run."

Need for fast migration

Banks are not the only bodies which will have to change their practices for the full benefits of SEPA to be realised. Retailers, businesses and public authorities will also need to adapt.

As heavy users of payment instruments, corporations and public administrations stand to gain substantially from the efficiencies made possible by SEPA. They can, it is recognised, play an important role in the success of SEPA by being early adopters of SEPA instruments and thereby help realise anticipated cost savings. This point was picked up by both Commission

Benefits to consumers

Consumers will be able to make their euro payments throughout the SEPA area from a single bank account. From this account, consumers will be able to make credit transfers, direct debits and payment card payments in euros in the whole of SEPA, as easily as they make payments in their home country. People who live, work or study outside their home country will no longer need a bank account at home and another one abroad.

SEPA together with the Payment Services Directive will provide the following advantages to consumers:

- **Convenient credit transfers:** SEPA will guarantee that all euro credit transfers will be made in the same way everywhere in the SEPA, within a predictable timeframe and at the same cost irrespective of destination. Paying from Athens to Helsinki will also be as easy as paying from Berlin to Frankfurt.
- **Direct debits to and from anywhere in SEPA:** If regular bills have to be paid in euro to a beneficiary in another SEPA country, consumers will be able to pay these bills from their home country bank account by direct debit. It will also open up many other possibilities for regular payments and subscriptions.
- **Use payment cards (debit and credit) anywhere in SEPA:** when visiting another country, provided the retailer accepts the card, consumers will in principle be able to pay with their payment cards as they would at home. Similarly consumers will be able to use cards to make withdrawals from cash machines
- **Crediting of the full amount:** the full amount specified shall be credited without any deduction to the beneficiary.
- **Faster payments:** Under the Payments Services Directive, by 2012 at the latest, monies must be credited to a recipient's account at the latest by the end of the next business day (i.e. 'D+1' rule).
- **Immediate use of payments received:** the practice of value dating to the disadvantage of the user is no longer permitted; so when payment monies are credited to an account, a recipient will have full and immediate use of the monies.

and the ECB as well as by Gerard Hart-sink who urged "corporate customers, SME's and the public sector to support - not only in words but in actions - the migrations of national euro payment instruments to SEPA payment instruments."

Economic benefits

Impact studies undertaken by the Commission and the European Central Bank indicate that SEPA will create huge benefits. The study carried out by CapGemini for the Commission shows that the potential benefits from SEPA in payments markets alone could exceed 123 billion euro over the next six years, and could provide a further 238 billion euro if SEPA can be used as a platform for electronic invoicing .

A short migration period with a rapid changeover to the new SEPA products will accelerate cost savings for banks and infrastructures. The estimated operational cost savings to banks are almost five times greater than the required investments. Rapid implementation will reduce the duplicated costs incurred when operating existing legacy payment systems as well as the new SEPA systems during the migration period

In this light, rapid migration lies in the best interest of all SEPA actors, i.e. banks, corporates, retailers, public administrations as well as consumers. Early adopters can gain a competitive advantage over slow adopters.

"...the estimated benefits of SEPA could amount to 123 billion euro for payments and a further 238 billion euro if SEPA is used as a platform for electronic invoicing."

The studies also show that the process of SEPA migration will be a challenge, especially for banks. According to the Commission and ECB studies, banks may significantly reduce their costs, but will face increased competition. On the other hand SEPA will also offer banks an opportunity to market new, value-added services related to the payment chain, such as e-billing and e-invoicing.

Ms Gertrude Tumpel-Guggerell of the ECB recognised the challenges and opportunities ahead: "It is not time to sit back in admiration; it is time to use SEPA.

So let's rise to challenge; let's use SEPA, our key; and let's discover the great many opportunities that lie on the other side of the door."

The Commission and the ECB are therefore encouraging the banking sector to maintain momentum in the SEPA process so that users can migrate quickly in a market-led process to the new SEPA payment instruments.

Co-regulation

Speaking at the SEPA launch event in Brussels 28 January, Michel Pébureau (BNP Paribas) chair of the European Banking Federation said that SEPA is a perfect example of what co-regulation can achieve.

"The migration towards a pan-European environment must continue to be market driven," he stressed. "Banks have played their full role so far and they will continue to do so."

He also called for the rapid implementation of the Payment Services Directive which has a bearing on direct debit transactions and stressed the need for legal certainty in areas such as multilateral interchange fees (MIF) which underpin card business. This issue was also taken up by Mr. Jean-Paul Gauzès, member of the European Parliament, who pointed to the efficiency and security of existing national debit card schemes and the requirement for proper remuneration without which there would be no innovation and investment.

Chris De Noose of the European Savings Bank Group which represents thirty percent of the retail banking market in Europe, said that his member banks have invested considerable resources as SEPA will promote more competition, efficiency and innovation.

"Not only is it a good example of co-regulation of the banking industry with authorities," he said, "but it also means

co-responsibility for the future - that it becomes a real success. Now the baby has to grow into an adult.

"We all have an interest in migrating as soon as possible to the SEPA project and also, as savings bank we have a huge task to inform the people of the advantages of SEPA."

Jean-Michel Godeffroy, Director General, Payments and Market Infrastructure, ECB, highlighted the paradox that the big winners from SEPA will be the corporations but they had been slow so far to prepare for SEPA.

Henning Kagermann, CEO of the global enterprise software company SAP said that these projects were not simple for



Henning Kagermann of the enterprise software giant SAP said his company has been quick off the market developing the software solutions for large corporations. These have been in place for some months now.

corporates and people looked to his company as the market leader in enterprise application software to develop the necessary software solutions for corporations, banks etc.

"We stand in the middle between the customers and those who want to bring it to market and we have been quick off the mark," he said. "We have had the software solutions available since a few months for large corporations and for the mid-market. This will help fast penetration into the corporate world.

Benefits for businesses

From 28 January 2008 businesses will be able to make faster euro credit transfers in the SEPA area. By end 2009, payments with direct debits will follow and businesses will be able to set up cross-border direct debits in euros between any two SEPA countries.

SEPA will also provide businesses with the following advantages:

- Need for only a single bank account: SEPA will help businesses simplify payment and treasury management, as all financial transactions can be done centrally from one bank account using SEPA payment instruments.
- Payments handling is simplified as all incoming and outgoing payments can use the same format.
- Cost and time savings by consolidating their payment management. This will improve cash flow management, reduce banking and working capital costs and open up wider access to the single market.

SEPA can be used as launch pad for a development of value-added services such as e-invoicing and e-reconciliation, which will help businesses optimise their cash flow and accounting processes.

Benefits for public administrations

As heavy users of payments, public administrations will in general experience the same benefits as businesses – i.e. faster credit transfers throughout the SEPA and, from November 2009, the new SEPA direct debits which can also be used for cross-border payments. SEPA can additionally help drive e-Government and e-procurement, thereby promoting more efficient public services.

Benefits for banks

By providing new payment instruments in a common interoperable environment, SEPA will bring about further European payment integration and greater market efficiency. SEPA will allow banks to realise huge operational savings through product standardisation and channel simplification.

This enables economies of scale on a European level, reducing costs for processing and clearing and settlement. It also allows broader sourcing strategies to further decrease costs. The use of common standards by infrastructures will promote competition and thus allow banks to negotiate better services and better prices.

SEPA payment instruments will allow banks to expand their business and compete on a European level, as any bank can offer its services to anyone in SEPA. Banks will be able to extend their offering to customers through the provision of value-added services, such as e-billing and e-invoicing.

"Despite this," he cautioned, "the business case has to be demonstrated to corporates and additional value added services such as straight-through processing need to be added to the SEPA offering."

Mr Ziga Lavric, the State Secretary at the Slovenian Finance Ministry, stressed that public authorities can play an important role in helping push forward SEPA implementation and giving it the critical mass to make it a success, provided SEPA did not lead to a deterioration in the value characteristics of existing payment instruments. Furthermore, one of the keys, apart from removing legal obstacles is the development of value-added services to make SEPA fully worthwhile.

Mr. Jörgen Holmquist, Director General Internal Market and Services, in closing the SEPA Launch Event, thanked guests for their participation and encouraged everyone to go out and use the new SEPA payment instruments.

info

Michael Thom
TEL: +32 (0)2.296 06 68
Zuzana Kalivodova
TEL: +32 (0)2.299 58 01
FAX: +32 (0)2.295 07 50
Markt-H3@ec.europa.eu

Commission White Paper sets out strategy for EU mortgage markets

A White Paper on the Integration of EU Mortgage Markets has been published by the Commission which brings together the conclusions of a comprehensive review of European residential mortgage markets. It presents a balanced 'package' of measures to improve the efficiency and the competitiveness of these markets, to the benefit of consumers, mortgage lenders and investors alike. This can be achieved, in particular, through improvements in the areas of cross-border supply, product diversity, consumer empowerment and customer mobility.

Building on the Commission's strategy for retail financial services, mortgage credit has been identified as an area where integration is lacking and targeted initiatives could benefit both citizens and financial services providers alike. Obstacles have been identified in the market for residential mortgages that restrict the level of cross-border activity on both the supply and demand sides, and reduce competition and choice in the market.

While the influence of factors such as language, distance, consumer preferences or lender business strategies cannot be underestimated, there are a range of other factors which can be tackled by appropriate policy initiatives, in particular factors which prevent or substantially raise the cost of taking out or offering a mortgage credit in another EU Member State.

The potential benefits of removing these barriers could, according to some estimates, reduce the interest payable on a 100,000 euro mortgage loan by as much as 470 euro per year.

Objectives

The Commission is seeking to develop integration in EU mortgage markets by:

- facilitating the cross-border supply and funding of mortgage credit by removing the barriers and reducing the costs of engaging in cross-border activity;
- increasing the diversity of products that meet consumers' needs by removing barriers to the distribution and sale of products, including innovative and new products across Europe;

- improving consumer confidence by ensuring that consumers are empowered to make their own decisions and benefit from a high level of protection;
- facilitating customer mobility by ensuring that consumers wishing to change mortgage lenders are not prevented or dissuaded from doing so by the presence of either legal or unjustifiable economic barriers.

"Mortgage credit has been identified as an area where integration is lacking and targeted initiatives could benefit both citizens and financial services providers alike."

European mortgage markets are in general considered to be competitive and efficient at the national level. However, several studies have shown that the integration of EU mortgage markets would bring significant benefits to both mortgage lenders and citizens.

According to a study* carried out in 2005 by London Economics on behalf of the Commission, the value to the EU economy of such increased integration over the next ten years is estimated at 94.6 billion euro, which amounts to 0.89% of 2005 EU Gross Domestic Product (GDP). By 2015, the study estimates that integration of the EU mortgage credit market would raise EU GDP by 0.7% and private consumption by 0.5%.

Another study carried out in 2003 by Mercer Oliver Wyman** and the European Mortgage Federation suggests annual benefits of 0.12% to 0.24% of EU GDP in 2003.



The estimated benefits arise in both cases from the increased efficiency of mortgage lenders and the availability of a wider range of products.

Cross-border 'niche'

The Commission acknowledges that today only a small fraction of the European population is active cross-border and indications are that this is likely to remain relatively small in the short to medium term. Integration will therefore be predominately driven through cross-border activity by mortgage lenders for the near future.

Consequently, the Commission aims to facilitate the cross-border supply of mortgage credit by removing the barriers to and reducing the costs of engaging in cross-border lending.

In this way, consumers should be able to choose not only from the products and services which are currently available on their home market, but also from products and services which have been designed elsewhere in the EU and are offered to the consumer by locally established firms, local agents or brokers of EU lenders, or even on a purely cross-border basis.

Consumer savings

The White Paper also recognises that there can be no efficient market without confident and well-informed consumers, who are able to seek out and choose the best product for their needs.

Consumers will benefit directly and indirectly from the announced measures. Many of the measures to improve the efficiency and competitiveness of cross-border mortgage lending – both on primary and secondary markets – would lead to improved product diversity and, potentially, lower prices for consumers.

Consumers should also be able to access a wider range of products due to their increased mobility through better and more comparable pre-contractual information, improved access to and appropriateness of credit data, and less product tying.

"The potential benefits of removing these barriers could, according to some estimates, reduce the interest payable on a 100,000 euro mortgage loan by as much as 470 euro per year."

With the proposals on responsible lending, consumer confidence should be maintained or even improved, by minimising the chance of consumers choosing an inappropriate product.



What next?

During 2008, the Commission will be concentrating its work on:

- analysing, the costs and benefits of different policy options in order to assess an appropriate way forward;
- engaging in consumer testing of a revised European Standardised Information Sheet;
- establishing an Expert Group on Credit Histories;
- preparing, subject to an appropriate impact assessment, a Recommendation on land registration, foreclosure and property valuation;
- prepare scoreboards on the costs and duration of land registration and foreclosure procedures in order to encourage Member States to improve the efficiency of their procedures.

info

Jennifer Robertson
TEL: +32 (0)2.296 20 91
FAX: +32 (0)2.295 07 50
Markt-H3@cec.eu.int

* The Costs and Benefits of Integration of EU Mortgage Markets, London Economics, August 2005

** Study on the Financial Integration of European Mortgage Markets, Mercer Oliver Wyman and the European Mortgage Federation, October 2003

New study on conveyancing shows benefits of deregulation

A study by independent consultants on the EU markets for legal services associated with house and land sales (conveyancing services) finds that consumers pay less on average for conveyancing services and have greater choice under deregulated systems, with no loss in quality. Member States are being encouraged to review the findings and consider appropriate reforms where appropriate.

The market for conveyancing services is worth about 17 billion euro per annum and efficiency savings of even a few percent could result from deregulation and potentially save consumers millions of euros each year.

The study led by ZERP at Bremen University comprises an analysis of the effects of professional regulation on the efficiency and performance of the conveyancing services market.

Conveyancing services comprise, for example, pre-contract searches, transfer deed drafting, signature certification and deed registration in the Land Registry.

This market is of direct interest to consumers and of high overall economic significance. It is estimated that property turnover in the EU27 for 2005 was almost 1,800 billion euro (16% of EU27 GDP) with the corresponding turnover in conveyancing services being around 16.7 euro billion.

Different models

The study, surveying 21 EU countries, is the first of its kind and integrates a legal and economic approach. The different regulatory systems under which conveyancing services are provided were categorised into four regulatory models for analysis:

The traditional, highly regulated Latin notary system which exists in most continental EU countries. This model is characterised by mandatory involvement of notaries, quantitative restrictions on entry (*numerus clausus*), fixed fees and strict market conduct regulation.

The deregulated Dutch notary system under which no *numerus clausus* exists. Fees are negotiable and market structure and conduct regulation is less strict.

The lawyer system existing in the UK, Ireland, the Czech Republic, Slovakia and – to a lesser extent – Austria. This features quality control of professionals through licensing and professional exams, negotiable fees and lower levels of market structure and conduct regulation.

The Scandinavian licensed real estate agent system under which real estate agents provide legal services too. This system exists in Sweden, Finland and Denmark, each with its own characteristics. This model has little regulation on market entry, conduct and structure and has negotiable fees.

Conclusions

The legal part of the study assesses the justifications for restrictive professional regulation in this market. The study comes to the conclusion that, when put to the test, most of the arguments put forward do not seem to justify restrictions of the sort that feature in highly regulated systems.

The economic part examines empirically how professional regulation affects the market for conveyancing services by measuring the degree of regulation, the quality of services in a broad sense (using the results of a user survey) and level of fees. It examines the interplay between these using different classical econometric methods. This concludes that high levels of regulation generally go hand in hand with high prices whilst not resulting in higher levels of quality.

The Commission will now present the study to Member States, highlighting its results and asking for their reactions while encouraging them, when necessary, to consider appropriate reforms.

Proposals unveiled to develop EU defence equipment market



Defence markets in the EU are currently organised on a predominantly national basis which, the European Commission believes, hampers innovation, competitiveness and efficiency. Divergent national policies create excessive red tape and ultimately lead to excessive expenditure on defence, whilst weakening the European Security and Defence Policy (ESDP).

To overcome existing fragmentation and make progress towards the establishment of a common European Defence Equipment Market (EDEM), the Commission proposed a package of measures in December 2007 which include:

- a Communication with recommendations for fostering the competitiveness of the sector;
- a Directive on defence procurement to enhance openness and intra-European competition in Member States' defence markets;
- a Directive on intra-EU transfers of defence products designed to alleviate the obstacles to intra-Community trade.

The proposed new legislation sets out to create a genuine European market in this sector without sacrificing Member State control over their security interests.

Exclusion from the Single Market

For more than 40 years, defence and security matters have been excluded from European integration. As a consequence, defence markets have remained de facto outside the Single Market and have become fragmented along national lines.

Since the end of the Cold War, this fragmentation has become increasingly problematic. With severe budget constraints, on the one hand, and rising costs for military equipment, on the other, national defence markets in Europe are in many cases too small to manufacture and procure high-quality equipment at affordable prices. Far-reaching reforms have become indispensable if Europe is to maintain a viable defence industry and equip its armed forces adequately.

Defence equipment market

This is particularly important in the context of the establishment of a European Defence Equipment Market (EDEM). Given the sensitivity of the sector, Member States clearly have the lead role in this area, but the Commission can play a useful role in supporting Member States in their efforts. In particular, Community instruments can help establish a more homogenous regulatory framework, which is crucial for improving the efficiency of Europe's defence markets and boosting the competitiveness of its industries.

The Commission has consequently tabled two legislative proposals:

- a Directive on defence procurement, which will coordinate national award procedures for military and sensitive security equipment;
- a Directive on intra-EU transfers of defence products



which aims to significantly simplifying national licensing procedures.

Defence procurement

Up until now, the vast majority of defence procurement contracts have been exempted from the rules of the Single Market. This practice stands in contrast to the case law of the European Court of Justice (ECJ) and is an impediment to establishing an open defence market between Member States.



The same problem affects the procurement of sensitive non-military security equipment, albeit to a lesser extent. One reason for this is that current EU procurement rules are ill-suited to the purchasing of most defence and security equipment.

To improve this situation, the Commission has proposed a new Directive which is tailor-made for defence and security. When implemented, Member States will have rules at their disposal Community which they can apply to complex and sensitive procurements without putting at their legitimate security interests at risk. The end result will be a regulatory framework for defence which is more efficient and improves the openness of defence and security markets between Member States.

Security interests

Today's Community procurement rules do indeed apply to defence and security procurement but Member States can exempt contracts in these fields on the grounds that they need to protect their essential security interests. The legal basis for this exemption is Article 296 of the Treaty (for defence) and Article 14 of the current procurement Directive (for security).

According to the ECJ, the use of these exemptions must be limited to exceptional cases. In practice, however, many Member States have used them extensively to exempt almost all defence and sensitive security procurement from Single Market rules.

One of the reasons for this practice is the lack of Community rules suited to the specificities of defence and sensitive security contracts, namely complexity (which calls for flexibility) and special requirements for security of supply and security of information.

Since the rules of the current Directive have been de-



veloped for non-military and non-sensitive procurement, they do not sufficiently take these features into account.

As a consequence, most defence and sensitive security equipment is procured on the basis of uncoordinated national rules, which differ greatly in terms of publication, tendering procedures, selection/award criteria, etc. This

"...current EU procurement rules are ill-suited to the purchasing of most defence and security equipment."

regulatory patchwork is a major obstacle in the road towards a common European Defence Equipment Market and opens the door to non-compliance with EU Treaty principles. The lack of transparency and discrimination against suppliers from other Member States diminishes the openness of defence markets, with negative effects for all stakeholders.

Tailor-made provisions

The new Directive will apply to the procurement of arms, munitions and war material, as well as related works and services. At the same time, Member States can also use it for certain particularly sensitive non-military procurements in areas such as protection against terrorism, where contracts often have similar features as for defence.

It will contain a number of innovations tailored to the specificities of such procurement cases. Awarding authorities may in particular use the negotiated procedure with prior publication as a standard procedure, which gives them flexibility to negotiate all details of the contract. They may also require from candidates, specific clauses for security of information (in order to ensure the confidentiality of sensitive information) and for security of supply (in order to ensure to be always delivered in time).

Member States will still have the possibility to use Article 296 to exempt defence and security procurement contracts which are so sensitive that even the new rules do not satisfy their security needs. In most cases, however, Member States should be able to use the new Directive without any risk to their security. This has several advantages:

- The use of Article 296 can be limited to truly exceptional cases, as it is stipulated by the Treaty and the ECJ. This will enhance legal certainty for the awarding authorities;
- National procurement rules will be coordinated,

which streamlines the regulatory patchwork in these areas and reduces industries' administrative costs;

- The principles of the Treaty, in particular transparency, non-discrimination and openness, will be implemented in defence and security markets. This will improve the efficiency of defence spending and provide better value for money.

Defence Transfers

Up until now, trade in defence-related products within the Single Market has been constrained by a web of heterogeneous and disproportionate national licensing procedures. By streamlining those procedures, the Commission's proposal will help make European defence industries more competitive. It will also encourage greater involvement of smaller firms - SME's - in armament development and production. In addition, it should enable Member States to meet military needs at lower cost and enhance security of supply for public procurement and industrial cooperation.

To preserve the overall prevailing level of protection if security interests, these measures to boost intra-EU transfers will be complemented by mutual confidence-building



measures, notably guarantees for the protection of national security in case of re-exportation to third countries.

Removing administrative burdens

Licensing rules, which have to be complied with by defence companies wishing to exchange even components between subsidiaries within the EU, differ significantly from one Member State to another in terms of scope, competent authorities, procedures and timing. Furthermore, they typically do not establish any distinction between transfers to another Member State and exports to third

countries (i.e. an intra-Community transfer of a defence-related product commonly follows the same procedural requirements as the same export to any third country).

This patchwork of licensing schemes not only imposes a significant administrative burden on companies, but also induces long lead times – up to several months. The corresponding administrative burden on companies and public administrations and the indirect impact have been estimated to cost respectively at 433 million euro/year and 2.73 billion euro/year.

"The corresponding administrative burden on companies and public administrations and the indirect impact have been estimated to cost respectively at 433 million euro/year and 2.73 billion euro/year.

This burden is clearly out of proportion to actual need for control. Indeed, license applications for intra-Community transfers are hardly ever rejected: whilst around 11,500 licences for such transfers are annually issued, not a single request has been formally denied since 2003.

By improving conditions for commercial exchanges between European defence industries, the proposal will pave the way for increasing industrial cooperation and optimising supply chains, with the prime beneficiaries being large industrial groups with subsidiaries in several Member States. It will finally make a crucial contribution to a more competitive European industrial and technological defence industrial base.

Proposed measures

In concrete terms, the EU framework will induce Member States to replace as far as possible their existing individual licences by general licences for those intra-Community transfers where the risks of undesired re-exportation to third countries is under control, namely:

- purchases by armed forces of others EU Member States;
- transfers to certified companies of components in the context of industrial cooperation;
- transfers of products necessary for cooperative programmes between participating Member States.

Global licences, regrouping several transfers to several recipients by one supplier, should in principle cover most





of the remaining intra-Community transfers, individual licensing thus becoming the exception.

Member States will remain free to determine which products are eligible for the different types of licences, to set terms and conditions of such licences and to continue their cooperation in intergovernmental frameworks.

The shift from ex-ante to ex-post control will require additional guarantees designed to increase

confidence between Member States in their mutual ability to deal with exports to third countries following the initial intra-Community transfer. Member States will have to establish procedures on the basis of common criteria to certify the capacity of the recipient companies to properly handle the risks associated with the trade in defence-related products. Hence, any SME, wherever located in Europe, will be able to benefit from the simplified framework when transferring its products under a general licence to a certified system integrator located in another Member State.

In addition, there will be a 'safeguard clause' whereby, in exceptional circumstances concerning risks to national security, Member States can suspend or revoke general licences to certified companies.

The proposed Directive takes full account of Member States' need to protect their essential security interests as well as to respect their commitments under international armaments control regimes. Indeed, companies will be responsible for managing export limitations attached to transfer licences for defence-related products sourced from another Member State and will be prohibited from requesting export authorisations that infringe such restrictions. By reinforcing controls at the common external frontiers of the Community, the proposed Directive will also contribute to strengthening the fight against illicit trafficking of defence related products.

Strengthening Security and Defence Policy

The Directives on defence procurement and intra-Community defence transfers are crucial elements of the future common European Defence Equipment Market.

As such, they are not simply new pieces of legislation, but important contributions to strengthening the Union's Security and Defence Policy.

The two proposals allow Member States to safeguard their legitimate security interests and, at the same time, introduce the principles of the Single Market – transparency, openness and non-discrimination – into European defence markets. This will be to the benefit of all – taxpayers, armed forces and industries.

At the same time, the two proposals are in line with ongoing intergovernmental initiatives. The Defence Procurement Directive is complementary to the Code of Conduct of the European Defence Agency, which aims at enhancing cross-border competition for those defence contracts which are exempted from Community rules under Article 296.

The Directive on Transfers is fully compatible with the so-called Lol-Initiative, which aims at facilitating export and transfer procedures between the six major arms producing Member States (DE, ES, FR, IT, SW, UK).

This illustrates that the establishment of a European Defence Equipment Market is clearly a 'cross-pillar' endeavour. To accomplish this, however, much more remains to be done both in the intergovernmental and the Community arena.

The Communication accompanying the two legislative proposals has already identified a number of further actions to strengthen the sector's competitiveness: the use of common standards, a common system for security of information, improved coordination in the field of research. And this list is certainly not exhaustive.

All this clearly shows that the defence package adopted on 5 December, 2007, is only one step towards a European Defence Market – but an important one.

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http://ec.europa.eu/internal_market/publicprocurement/dpp_en.htm



Commission encourages better financial education for EU citizens

The Commission has adopted a Communication on Financial Education in which it stresses the importance of increasing the ability of Europe's citizens to understand and work with financial products and services. The Commission believes that better financial education will bring substantial benefits for consumers, the economy and society and in the Communication sets out some basic principles to guide financial educators and announces some practical initiatives.

Too many consumers lack a basic understanding of financial products and services. They do not choose the products that best meet their needs or make financial provision for the future. Financial education, the Commission believes, is a key element in 'empowering' citizens to take more appropriate financial decisions.

The new Communication sets out some basic principles to guide providers of financial education, based on existing best practices. These include:

- a call to make financial teaching available throughout citizens' lives, starting at school;
- the need to ensure impartiality and objectivity when delivering financial education;
- a recommendation to tailor programmes to the real needs of the target audience.

The Commission gives priority to the creation of a network of financial education practitioners. The opportunity for networking and learning from experience is supported by many stakeholders.

To promote this further, the Commission plans to establish a group of experts in financial education comprising representatives of Member State authorities (including education experts), financial services providers, consumer organisations and other groups where appropriate.

The aim will be to share and promote best practice on financial education; assist the Commission in identifying problems in its provision; advise the Commission on how the above principles are being implemented; monitor the performance and delivery of financial education and contribute to the evaluation of the measures contained in this Communication in the period to 2010.

The Commission wants to provide sponsorship to Member States and private actors to help them organise national/regional conferences on financial education. Most financial education programmes are local, regional or, at best, national in scope. As such, there is a need for awareness-raising events to take place as close to the target audiences as possible.

Online database

The Commission plans to develop an online database of financial education schemes throughout the EU. The purpose of this is to facilitate consultation of good practice and research findings. The online database will be made available in 2008.

It also plans to support the development of a teacher training module on financial literacy. The Dolceta initiative has already proved very useful in facilitating the teaching of financial issues to adult learners.

Building on this, the Commission will start to develop a module on financial education for teacher-training purposes.



Complement to consumer protection

Financial education, the Commission stresses, should be seen not only as a means to address information asymmetries between consumers and providers, but also as a complement to consumer protection and to ensuring responsible behaviour by financial services providers.

This Communication is one element in the package of measures on retail financial services set out in the Commission's report on a Single Market for 21st Century Europe, whose aim is to improve the delivery of the benefits of financial market integration to Europe's citizens.

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Daniel Kosicki
TEL: +32 (0)2.298 05 70
FAX: +32 (0)2.299 86 30
Markt-GI@ec.europa.eu

Green light for Postal Services Directive delivers boost for Lisbon targets

One of the priority 'deliverables' of the Lisbon Agenda has been finalised by EU institutions with the adoption of the new Postal Services Directive. This Directive aims to ensure high quality postal services for EU citizens and businesses, and confirms 2010 as the date for the opening of EU postal markets.



On 31 January 2008, the European Parliament adopted the new Postal Directive and thereby completed the legal framework of the EU postal reform process. The final date for achieving full market opening is set at 31 December 2010, with the possibility for some Member States to postpone full market opening by two more years as a maximum.

The newly adopted Directive maintains the key elements of the Commission's initial proposal, in particular:

- the accomplishment of the Single Market of Community postal services via the abolition of the postal monopolies in all Member States;
- the confirmation of the scope and standard of universal postal service (i.e. permanent provision of postal

- service of specified quality at all points of the territory at affordable prices for all users);
- the reinforcement of consumers' rights and upgrading of the role of national regulatory authorities; and
- a list of measures Member States may take to safeguard and finance, where necessary, the universal postal service.

Why EU Postal reform?

The reform of EU postal markets started in 1992 with a Commission Green Paper on postal services. In view of the poor quality of postal services at that time, an ambitious reform programme was launched. The Postal Directive was adopted in 1997. This created a robust regulatory framework both at EU and Member States level which guarantees citizens a universal postal service, while gradually limiting the scope of the postal monopolies (the so-called reserved area: initially mail under 350 grams, amended in 2002 to 100 grams and reduced on 1/1/2006 to 50 grams). In short, the Directive has aimed at ensuring the best possible service through a gradual opening of the market.

Postal services are essential for communication and trade and as such have an important role to play in the economic and social cohesion of the EU. They are also strategically important as part of the wider communications and distributions market.

Many key sectors, such as e-commerce, publishing, mail order, insurance, banking and advertising depend on the postal infrastructure.

The key role played by the postal sector places it at the heart of the Lisbon Agenda. President Barroso, commenting on the vote of the Parliament at second reading, said: "This demonstrates the common commitment of Parliament, the Council and the Commission to reform to meet the Lisbon goals."

EU postal reform is unique and is being closely watched by other governments, regulators and operators. It certainly acts as a role model which is based on the objectives of: improving the quality of postal service, market monitoring and independent regulation, commercial freedom and progressive market opening.

Political success for Europe

The wide political consensus to commit to postal reform was not taken for granted at the beginning of the negotiations 15 months ago. Emotional aspects of this important public service had to be taken into account. Substantial efforts were made by the Commission to clarify the key elements of the proposal and demystify side issues raised by sceptics. A strong consensus finally emerged, in line with the objectives set out in the proposal adopted by the Commission in October 2006.



Commission President Barroso: "This (vote) demonstrates the common commitment of Parliament, the Council and the Commission to reform to meet the Lisbon goals."

In its first reading in July 2007, the EP paved the way for the overall political compromise. Under the impulse of the Portuguese Presidency, the Council acted quickly to adopt a Common Position, which was approved by the Commission early in November 2007. The second reading of the Parliament on 31 January 2008 confirmed that there was a broad political consensus on the way forward for opening EU postal markets to full competition. Both the Slovenian Minister, Andrej Vizjak, as well as the rapporteur Markus Ferber (PPE-DE), fully supported the Commission's constructive approach during the negotiations. The rapid adop-



tion of the third Directive is a political success for Europe.

Monitoring progress within the Single Market Review framework

EU postal reform will continue to require close monitoring notably regarding the development of competition to make sure postal reform remains true to its objective. Pro-active assistance by the Commission and constructive monitoring of the postal market will take place within the framework of the Single Market Review.

Provision of a high quality universal postal service is certainly one of this key elements requiring close monitoring, notably by the national regulatory authorities which have been put in place by the reform. Other equally important aspects include making sure that the general public and businesses have access to an affordable universal service. Particular at-

ention will also be paid to cost accounting and pricing thus ensuring that tariffs are related to costs.

What next?

The final date for achieving full market opening is 31 December 2010, with the possibility for some Member States to postpone full market opening by two more years as a maximum, and a temporary reciprocity clause is included applying to those Member States that make use of the 2 year transitional period.

The Single Market for postal services will only become operational if Member States and stakeholders actually commit fully to postal reform. The Commission will assist Member States with the implementation of the Directive to secure the high quality of services that the public expect.

The national regulators are instrumental in the correct implementation of the key elements of the Directive. They have made significant efforts to raise their expertise, resources and powers at national level over the last 3-5 years. This will certainly need to go further in the future as a multiple-operators environment becomes a reality.

In an open market, the wider industry can also be expected to raise its game and contribute even more to promoting the sector, not least through innovation and the provision of new services.

The new Directive is the final step in a long reform process that has already seen large areas of EU postal markets opened to competition, with very positive results and the mission of EU postal reform will continue.

As Commissioner Charlie McCreevy said: "The viability of the sector and the high quality of universal postal services



will be strengthened for EU citizens and businesses."

Decision-makers, citizens and businesses now realise that the postal sector can no longer be viewed through its traditional image, but has become a dynamic industry at the crossroads of the communication and e-commerce sectors. There is now a unique opportunity to commit to the last step of the reform process.

info

Hughes De le Motte
TEL: +32 (0)2.286 38 29
FAX: +32 (0)2.296 83 92
Markt-E4@ec.europa.eu

European Financial Integration Report 2007

The Commission has released its first European Financial Integration Report (EFIR), an annual analysis of integration of the EU financial services sector. EFIR is a new step in the monitoring of European financial integration, which merges two former reports: the Financial Integration Monitor and the Single Market in Financial Services Progress Report.

The main body of the European Financial Integration Report is devoted to economic analysis of EU financial integration and of the related impacts on market structures, competition, efficiency, innovation and stability. Policy achievements in EU 2007 and a complementary set of statistical indicators are included in the report as annexes.

Integration

Financial integration has indeed progressed although the speed and scope has not been the same across all market segments. Almost complete integration has been established in the unsecured interbank deposit market and government bond markets. For the wholesale segment – specifically equity markets – further integration will depend on progress in integrating securities clearing and settlement systems. As for retail markets, the lack of integration is reflected in wide price variations across Member States and low volume of direct cross-border transactions. Positive signals of increasing integration are provided by the declining trend in some retail prices and increasing use of distance selling channels.

Market structures and competition

European financial integration has changed market structures, due in part to merger and acquisition activities. The continued consolidation process has resulted in rising concentration ratios in many markets. As regards competition,

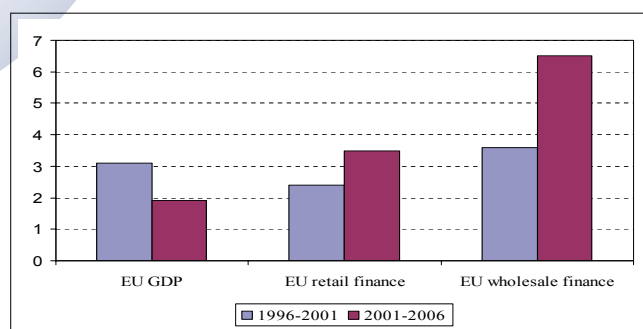
available evidence suggests that consumers and SMEs would benefit from stronger competition at the EU level. New distribution channels (Internet, mobile communication) are likely to enhance competitiveness in retail markets.

Efficiency and innovation

The favourable economic conditions recently have improved efficiency indicators relating to EU financial markets and institutions. However, there is still significant potential for improvement. Fragmentation (in particular on the retail side) or relative underdevelopment (in new Member States) prevents economies of scale and scope from being realised in a number of markets. Financial innovation has been progressing quickly, resulting in new products and practices.

Financial stability

Progress in financial integration has multiplied the market links between Member States and across financial sectors. The multiplication of major pan-European financial institutions and groups, the internationalisation of capital markets and the increasing ownership links resulting from the enlargement of the European Union are examples of market links with potential effects on financial stability.



Average real growth of GDP and financial services in the EU-25 in %

Whether these trends lead to more even risk distribution or contagion depends on the quality of risk management, legal framework and supervision, including the quality of cooperation across borders.

"Our financial services sector is still characterised by an uneven level of integration of wholesale and retail financial markets," commented Internal Market and Services Commissioner Charlie McCreevy.

"While integration of capital markets has progressed significantly in recent years, it has not yet reached its potential in retail financial services. The analysis has also confirmed that competition in some segments is insufficient.

"The good news is that the global competitiveness of EU financial services industry has been improving. And the EU equity, bond and investment fund markets have been growing stronger than their US counterparts."

info
 Fabio Fiorello
 TEL: +32 (0)2.299 84 12
 Marianne Wolfbrandt
 TEL: +32 (0)2.296 75 78
 Daniel Kosicki
 TEL: +32 (0)2.298 05 70
 Sander Oosterloo
 TEL: +32 (0)2.299 59 10
 FAX: +32 (0)2.299 86 30
 Markt-GI@ec.europa.eu

Adoption of 'equivalence mechanism' paves the way for decisions on third country accounting standards

The Commission has taken another step further towards the establishment of a common set of worldwide accounting standards for listed companies. Following a favourable opinion of the European Parliament a Regulation has been adopted which sets out the basis for deciding which third country Generally Accepted Accounting Principles (GAAPs) can be considered equivalent to IFRS system adopted by the EU.

The EU has the objective of arriving at a common set of worldwide accounting standards for listed companies. For the interim, a key part of this strategy is to eliminate existing costly and burdensome reconciliation requirements between the EU and its key trading partners.

Using the definition of equivalence and

the mechanism established by this Regulation, the Commission will shortly be presenting proposals for decisions on which third country GAAPs should be accepted as equivalent with effect from 2009. The Commission will also be able to propose allowing third country issuers to use, in the EU, GAAPs which are not equivalent for a transitional period ending in 2011 at the latest, provided these are converging with IFRS or the respective third country intends to adopt IFRS within a short timeframe.

Under these decisions, foreign issuers listed in the EU will be allowed to continue preparing their accounts using their GAAP instead of having to restate their financial statements using IFRS.

In December 2007, the US Securities and

Exchange Commission adopted proposals to dispense with the reconciliation requirement to US GAAP for foreign issuers using IFRS, including EU companies.

The EU was the first major jurisdiction to make (as from 2005) IFRS mandatory for its listed companies, thus setting the foundation for the current success of these standards, and it remains by far the largest jurisdiction applying IFRS. Commissioner for Internal Market and Services Charlie McCreevy said: "This is a crucial milestone towards our objective of promoting the efficiency of capital markets by establishing a common worldwide accounting language. Without this Regulation in place we would not be able to proceed with key decisions on the acceptability of third-country GAAPs in the EU."

info http://ec.europa.eu/internal_market/securities/transparency/index_en.htm#equivalence

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Programme to cut red tape delivers results

The Commission's programme for the radical simplification of EU law is already delivering results: some 300 legal acts representing about 5,000 pages of the Official Journal have been removed from the roughly 95,000 pages of the Community acquis as a result of the legislative simplification process under way since October 2005. The 2007 Action Programme to cut administrative burdens is also bearing fruit.

Simplification of EU legislation aims at making rules clear, easy to understand and more user-friendly without watering down essential regulatory protection. The Commission's 'Second progress report on the strategy for the simplification of the regulatory environment' shows some concrete results directly affecting business and the general public and the elimination of 300 pieces of legislation with more to come.

Regularly updated since its launch in 2005, the simplification programme is now composed of about 164 initiatives covering all policy areas. The programme uses legislative techniques such as repeal, codification and recasting.

Progress so far:

- Since October 2005, the Commission has already put forward about 400 legal acts for repeal, modification or replacement.
- The Commission has adopted 80% of its 2007 simplification programme.
- More than half of the multi-annual rolling programme covering the 2005-2009 period has now been delivered. So far, the Commission has adopted 91 proposals composed of:
 - 24 so-called autonomous acts adopted via the comitology procedure;
 - 16 adopted by the co-legislators (Council and EP);

- 44 still pending before the co-legislators and
- 7 which are either reviews where there was no need for a legislative action, or merged initiatives.

The report which complements the Commission 'Strategic Review on Better Regulation' underlines that the Commission is effectively delivering on its commitments under the rolling programme.

2007 Action Programme

In January 2007, the Commission presented an ambitious Action Programme to achieve a 25% cut in administrative burdens in the EU by 2012. Substantial savings have been achieved during the first year of operation of the Action Programme.

Five fast track actions adopted in 2007 have resulted in savings for companies of an estimated 500 million euro by cutting red tape imposed on business. A further 800 million euro savings is expected to follow shortly.

For example, companies will no longer have to order costly expert reports concerning mergers or divisions of small enterprises unless there is a clear demand for them. Freight carriers will not have to carry separate transport documents and



statistical obligations will be simplified.

In the area of company law alone, 75 information obligations were identified that are particularly burdensome and seem outdated, excessive or duplicative. Company law is therefore the pilot priority area for cutting red tape and the Commission will table proposals in this field before the summer of 2008.

The Commission also announced its intention to come forward later in 2008 with a further wave of fast track proposals in areas such as easing information requirements in the transport, agriculture and maritime sectors.

The Commission also reported on how it is using impact assessments in the policy-making process.

All new Commission proposals undergo an impact assessment that provides a thorough analysis of all significant economic, social and environmental impacts.

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http://ec.europa.eu/enterprise/admin-burdens-reduction/index_en.htm
http://ec.europa.eu/enterprise/key_issues/better_regulation/index_en.htm

Provision of certain gambling services: Sweden

The Commission has decided to send an official request for information on national legislation restricting the supply and promotion of certain gambling services to Sweden. In April 2006 the Commission sent a similar request for information to Sweden concerning sports betting. In this new case the Commission wishes to verify whether

all national measures relating to poker games and tournaments are consistent and therefore compatible with Article 49 of the EC Treaty, which guarantees the free movement of services.



The Commission's decision relates only to the compatibility of the national measures in question with existing EU law. It does not touch upon the existence of monopolies as such, or on national lotteries. Nor does it have any implications for the liberalisation of the market for gambling services generally, or for the entitlement of Member States to seek to protect the general interest, so long as this is done in a manner consistent with EU law i.e. that any measures are necessary, proportionate and non-discriminatory.

The letter of formal notice is the first step in an infringement procedure under Article 226 of the EC Treaty. Sweden has two months in which to respond. The Commission hopes that the answer it receives will lead to an early and satisfactory resolution of the matter.

Restrictions on gambling services: Germany

The Commission has decided to send to Germany an official request for information on national legislation restricting the supply of gambling services.

The Commission wishes to verify whether the measures in question are compatible with Articles 43, 49 and 56 of the EC Treaty. This decision relates only to the compatibility of the national measures in question with existing EU law. It does not have any implications for the liberalisation of the market for gambling services generally, or for the entitlement of Member States to seek to protect the general interest, so long as this is done in a manner consistent with EU law i.e. that any measures are necessary, proportionate and non-discriminatory.

The letter of formal notice is the first step in an infringement procedure under Article 226 of the EC Treaty. Germany has two months in which to respond. The Commission hopes that the answers it receives will lead to an early and satisfactory resolution of the matter.



Special rights held by the State/public entities in Portugal Telecom

The Commission has decided to refer Portugal to the European Court of Justice as it considers that the special rights held by the State in Portugal Telecom discourage

investment from other Member States in violation of EC Treaty rules.

Restrictions on the establishment of retail facilities in Poland

The Commission has decided to send an official request for information on the Polish legislation restricting the establishment of retail facilities in Poland. The Commission wishes to verify whether the measures in question are

compatible with Article 43 of the EC Treaty which guarantees the freedom of establishment. The letter of formal notice is the first step in an infringement procedure under Article 226 of the EC Treaty.

Free movement of services: Sweden

The Commission has decided to send a reasoned opinion to Sweden as it believes that restricting the choice of legal adviser for persons receiving legal aid to lawyers whose

services will not lead to claims for additional costs is contrary to Article 49 of the EC Treaty.

Public procurement: Italy

The Commission has decided to refer Italy to the European Court of Justice over the procurement of waste

management services by the city of Contigliano.

Public procurement: Germany

The Commission has decided to refer Germany to the European Court of Justice over a contract for the supply of a software application. The Commission has also decided to send a reasoned opinion to Germany concerning

the award of a public service contract for the disposal of biodegradable and green wastes by the municipality of Bonn.

Non-implementation of 'MiFID'

The Commission has decided to refer three Member States to the European Court of Justice over non-implementation of the Markets in Financial Instruments Directive (2004/39/EC), known as 'MiFID', and its implementing Directive (2006/73/EC). The Member States concerned

are the Czech Republic and Poland for Directive 2004/39/EC and the Czech Republic, Poland and Spain for Directive 2006/73/EC. The deadline for transposition of those measures expired on 31 January 2007.

Non-implementation of Single Market laws

The European Commission has acted to ensure that the Capital Requirement Directives are implemented in Hungary and Spain and that the Fifth Motor Insurance Di-

rective is implemented in Belgium, the Czech Republic, Greece, Ireland and Malta.

More information on infringement proceedings relating to the Single Market is available at:
http://ec.europa.eu/internal_market/infringements/index_en.htm

The latest information on infringement proceedings concerning all Member States is available at:
http://ec.europa.eu/community_law/eulaw/index_en.htm

Internal Market Scoreboard

Member States back on track

According to the latest Internal Market Scoreboard, on average 1.2% of Internal Market Directives for which the implementation deadline has already passed are not currently written into national law. This is down from 1.6% in June 2007 and equals the best-ever result of December 2006. The average deficit is once again below the 1.5% interim target agreed in 2001. Member States are also on the right track towards achieving the new 1% target by 2009 as agreed by the EU's Heads of State or Government in March 2007, with 15 Member States having already reached this new target.

This Scoreboard is the first to measure the performance of the 27 Member States of the EU and Bulgaria and Romania deserve special mention, as they were able to quickly transpose most of the Internal Market legislation (acquis). Both Member States have already reached the 2009 target, with an average transposition deficit of 0.8%.

22 Member States are below the target transposition deficit of 1.5%. This is an even better result than that achieved in December 2006, when 19 Member States reached the 1.5% target.

Slovakia is in first position and is only 9 Directives away from a 0% deficit. Denmark, Latvia and Lithuania closely follow, with 10 Directives overdue.

Four Member States that missed the 1.5% target 6 months ago - the Netherlands, Ireland, Spain and Italy - are now on target. Italy is now below the interim target of 1.5% for the first time, with a transposition deficit of 1.3%. 12 Member States have achieved or equalled their best result ever: Belgium, Germany, Estonia, Greece, France, Ireland, Italy, Malta, the Netherlands, Austria, Slovenia and Slovakia.

15 Member States are already in line with the future deficit target of 1.0%.

The Czech Republic, Luxembourg, Portugal, Poland and Greece failed to reach the 1.5% target. The Czech Republic's deficit is about three times the average EU deficit.

The performance of Portugal and to a lesser extent that of Greece and Poland is, in absolute terms, not yet satisfactory. But Portugal and Greece have made very good progress over the last half year.

Infringements

However, Member States too often fail to apply Internal Market rules correctly: only ten Member States have managed to reduce the number of infringement proceedings against them.

10 Member States managed a reduction of their infringement proceedings over the last half year. 11 Member States have recorded an increase of their cases, whilst four Member States still have the same number.

Even if many Member States have seen an increase in their infringement proceedings caseload, this increase is quite limited between 1 (Austria and Lithuania) and 7 cases (Germany and Malta).

Italy managed to reduce the number of its infringement cases by 19 over the last six months but still remains the country with the most cases. The second-best performer is Cyprus which has reduced its caseload by 9 cases.

A breakdown of infringement proceedings by sector shows that the environmental rules are still the source of the largest number of cases (22%), followed by taxation and customs union rules (17%), energy and transport (12%), and employment (10%).

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http://ec.europa.eu/internal_market/score/index_en.htm

INFRINGEMENT PROCEDURES

If the Commission obtains or receives convincing evidence from a complainant that an infringement of EU law is taking place, it first sends the Member States concerned a letter of formal notice.

If the Member State does not reply with information allowing the case to be closed, the Commission sends a reasoned opinion, the second step of the infringement proceedings under Article 226 of the EC Treaty. If there is no satisfactory response within two months, the Commission may then decide to refer the case to the European Court of Justice in Luxembourg.

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Anita Haase
European Commission
DG Internal Market and Services

Unit A4
SPA2 1/002
B-1049 Brussels
Fax: +32 2 295 43 51
E-mail: Markt- smn@ec.europa.eu