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A SINGLE MARKET FOR CITIZENS

Interim report to the 2007 Spring European Council

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"Europe will not be built at a stroke, nor constructed in accordance with some overall plan; it will be built on concrete achievement" (Robert Schuman)

1. INTRODUCTION

The single market is one of the European Union's concrete successes. For individuals, it means the right to live, work, study or retire in another EU country. For consumers, it means higher quality and safety standards, and a wider choice of products and services at lower prices. For business, it means operating on a common set of rules and enjoying access to a domestic market of 500 million consumers. For Europe as a whole, it means a more open society and a more competitive economy in which new opportunities are created, social rights are respected and high standards of health, safety and the environment prevail.

Since the Commission launched the internal market initiative in 1985, the single market has come a long way in turning the four freedoms enshrined in the Treaty - the free movement of people, goods, services and capital - into reality. This has enabled the creation of a single currency and has brought tangible gains for European citizens and businesses - the abolition of border controls, a more competitive business environment, the ability to pursue studies or work in another Member State, cheaper air flights and mobile communications, to name just a few¹.

The single market has also been the source of sizable benefits for the EU economy as a whole: over the period 1992-2006, the estimated gains of the single market amount to 2.2% of the EU GDP and 2.75 million extra jobs. The single market initiative was much more than just an economic policy decision. From the beginning, it was accompanied by a social and regional policy agenda, backed up by EU structural funds, which allowed citizens in all regions to be linked up to and benefit from market opening.

Across the world, together with the Euro, the single market has become a symbol of the willingness of the EU's Member States to work together, in full respect of the rule of law and with mutual respect and trust. As a result, the EU has led by example, often setting global standards, demonstrating that competitive open markets can go hand in hand with high social, environmental and health standards.

The single market is dynamic, constantly evolving and adapting to new realities. As such it will never be "finalised" or "complete". In most areas, a solid regulatory framework is in place but gaps remain and the rules are not always fully implemented and enforced. New types of barriers emerge as markets evolve. The benefits of the single market to consumers and small businesses must be preserved, with gains being fully passed on to them. New forms of mobility emerge and rules governing free movement of workers need to be modernised.

While the initial focus of the single market exercise was on removing the main cross-border obstacles facing businesses, the single market of the 21st century should evolve to make markets work better and deliver even more tangible benefits for European citizens, entrepreneurs, workers and consumers alike in an enlarged EU.

¹ The annex provides further illustrations of the achievements of the single market to date.

To achieve that, the single market of the 21st century needs to face the changes of:

- Globalisation which offers many opportunities but which has intensified the competitive pressure faced by European business and increasingly blurs the distinction between the internal and external markets;
- Structural changes, with the rise of the knowledge economy, the growing role of services in the economy, increased energy dependency, climate change and an ageing population;
- A larger, more diverse EU, which has grown from a Community of 12 to a Union of now 27.

The EU single market gives Europeans a solid foundation on which to adapt to these changing realities. But it needs to evolve and adapt in order to retain its relevance and its contribution to economic growth and social cohesion. It needs to position itself, by fostering the development of quality rules and standards which shape global norms, to allow European citizens and businesses to take advantage of the opportunities of globalisation.

This interim report sets out a vision for the single market of the 21st century. It will be followed by a full review of the single market and proposals for further action in the autumn of 2007.

It builds on the findings of a public consultation, several "Eurobarometer" polls and a public hearing², as well as inputs from other EU institutions³. Its objective is to present first orientations for the on-going review and to sketch out a new vision for the single market of the future.

2. A VISION FOR THE 21ST CENTURY

21st century Europe is indivisible from the world economy. Its prosperity has and will continue to flow from dismantling barriers and creating open markets. This openness has been made possible and facilitated by a strong regulatory framework. The single market principles remain sound. The challenge of the 21st century is to adapt the application of these principles: to secure the right regulatory framework, to ensure that markets function properly, to promote competitiveness and to respond to the dynamism and change that flows directly from Europe's engagement with the world economy. The goal of the 21st century single market is to make markets work better for the benefit of European citizens, consumers and businesses, and to promote a more competitive and sustainable Europe. The EU has to ensure that the opening of markets and increasing competition results in fair commercial practices, so as to maximise consumers' welfare and continues to contribute to economic growth and jobs. The EU also has to equip itself to effectively handle the security, health and safety risks inherent in an open economy.

This fully functioning single market, supported by a sound but flexible regulatory framework and a stable currency, is a means to many ends. It is key to improving the quality of life,

² Documents and findings are available at: http://ec.europa.eu/internal_market/strategy/index_en.htm

³ See Opinion of the Economic and Social Committee of 17 January 2007 on the Review of the single market INT/332 – CESE 89/2007 EN/o.

fostering innovation, facilitating growth and jobs and generating benefits for European consumers. It is a means to respond to and shape the forces of globalisation. It fosters the internal competition essential for external competitiveness. It stimulates a common approach to standards for safety, health, the workplace and the environment required for a single market without distortions – standards which partners worldwide then have to meet if they are to benefit from the single market. Through the EEA and increasingly through the European neighbourhood policy the rules and standards of the single market stretch beyond the borders of the EU. Frequently the world looks to Europe and adopts the standards that are set here. This works to the advantage of those already geared up to meet these standards, and should contribute to improving the living and working conditions worldwide.

The single market of the 21st century will be:

- **A single market for consumers and citizens:** the single market generates benefits for consumers by enlarging choice and lowering prices and protects them through food and product safety standards, substantial privacy rights and guarantees against unfair competition and trading. The single market was particularly effective in bringing down prices and increasing choice in areas such as air transport, telecommunications and cross-border payments in Euro. It has generated job opportunities, allowed greater movement of persons and facilitated student exchange.

Yet more should be done to make its benefits even more tangible across a range of economic activities and to improve confidence in the quality of products and services. This applies not only to domestic products and services but also to imports. It applies to emerging sectors of importance such as health services.

In addition, the rise of e-commerce and cross-border shopping has made it particularly important to empower consumers effectively and to reduce the fragmentation of consumer protection rules.

- **A single market for an integrated economy:** a well-functioning, more integrated single market and a fair and effective competition framework are essential to ensure a level-playing field among enterprises across the EU and to encourage them, in particular SMEs, to engage more in cross-border activities. With the momentum towards a European labour market, new forms of mobility emerge and rules governing the free movement of workers need to be modernised.

The spread of the use of the Euro, which will progressively become the currency of most Member States, will also be essential to maximise the benefits of the single market, allowing it to reach its full potential. The single currency brings transparency to the single market, allowing consumers to compare the prices of goods and services directly, and firms to compare costs more easily.

By creating deeper, more flexible and diversified pan-European financial markets, the single market and the single currency together improve financing conditions for both private citizens and businesses and enhance the resilience of the EU to external financial shocks. The pursuit of investment in trans-European networks and market opening in network industries should also contribute to the further integration of the EU economy.

- **A single market for a knowledge society:** the single market should increasingly focus on making markets for knowledge and technology intensive goods and services work better, encouraging dynamic fast-growing sectors and creating market conditions which stimulate innovation through the emergence of lead markets.

Markets are still too fragmented in areas of crucial importance to the knowledge economy, such as telecoms. Important obstacles remain also in other services sectors. Improving the cost-effectiveness, quality and legal certainty of the system of intellectual property rights and spreading the use of new information and communication technologies on a pan-European basis will be essential to tap our research and innovation potential.

At the same time, the regulatory framework will need to be administratively light, flexible and forward-looking, so as to anticipate and facilitate change.

- **A single market for a well regulated Europe:** The success of the single market has depended in part on the establishment of a consistent and effective set of rules. The single market exercise was an exercise of simplification, replacing national rules and regulations in many areas with a common set of Community wide rules. The dismantling of barriers went hand in hand with the establishment of new rules through harmonisation or mutual recognition of national legislation, including the respect of labour rights and the adoption of laws on health and safety and environmental protection.

With the passage of time and experience gained, it is timely to examine how these laws are being implemented and if they are generating the impacts originally foreseen. The benefits of the single market will not materialise if the rules are not correctly applied, if laws are not implemented, if the rights created are not satisfactorily upheld and redressed, if regulations prove too costly to apply, or if rules are abused, for instance by anti-competitive behaviour or illegal trafficking.

This requires an ongoing effort to improve the implementation of laws. It requires close coordination between the national and the EU levels and reinforced administrative cooperation between the Member States, including through the use of information technology, in fields such as financial services, competition and consumer law, justice, tax, customs and policing. It also requires a critical assessment of how existing laws can be improved to see what works and what does not, to explore how administrative burdens can be reduced – and to make the changes needed, including through simplification and/or repeal of legislation. Better implementation and enforcement is essential to provide the legal stability, predictability and stability needed by consumers and businesses in the single market.

- **A single market for a sustainable Europe:** the single market, with the four freedoms, is a catalyst for change, driving innovation and productivity growth that in turn creates the jobs and prosperity on which wellbeing and a better quality of life depend. But in recent years many European citizens have raised concerns about the perceived disruptive impacts of globalisation. Anticipating and

accompanying change for the people and sectors directly affected by market opening is essential; it is a matter of social justice.

Concerns have also been raised about the increasing pressure on the natural environment, resulting from globalisation and the emergence of rapidly growing economies around the world. Ensuring that the single market sustains and promotes high levels of environment protection is also necessary. Environment standards in turn have prompted the development and deployment of environment technologies which have given European entrepreneurs a 'first mover' competitive edge in global markets.

Recognising both the social and environment aspects of the single market are key conditions for gaining public confidence in the single market as a means to improve the quality of life, and they are both investments in the future. Market opening must therefore be accompanied by regional development, employment, lifelong learning, social and environment policies that equip people, businesses and territories to adapt to and benefit from change.

- **A single market, open to the world**, acting as a global standard setter. The EU cannot secure prosperity by looking inwards – it needs to exploit and build on its internal strengths in the world economy. The single market makes Europe attractive for investors and companies from across the world.

It has spurred the development of rules and standards in areas such as product safety, the environment, securities and corporate governance which inspire global standard setting. It gives the EU the potential to shape global norms and to ensure that fair rules are applied to worldwide trade and investment. The single market of the future should be the launch pad of an ambitious global agenda.

3. DELIVERING THE SINGLE MARKET VISION

Dismantling barriers without developing an EU-wide regulatory framework to preserve public interests will not lead to lasting integration.

A range of instruments in various policy domains (internal market, competition, tax and customs to name a few) has been used to create and sustain the single market. These tools need to be used more effectively and coherently. Recent efforts in applying "Better Regulation" principles, namely in conducting impact assessments, carrying out stakeholder consultations, and seeking practical solutions to implementation issues (for example, "hands on" preventive or problem-solving approaches and tools such as SOLVIT and assistance networks such as the European Consumer Centres) need to be continued. The integrated market base which has been established for goods will continue to be strengthened. Existing laws and regulations in all sectors will be systematically reviewed and revised to ensure that they are having the desired impacts and to ensure that their application does not entail unnecessary administrative costs or burdens.

Given the maturing of the single market, new approaches are needed which are:

- **More impact-driven and result-oriented:** Whereas traditionally, single market policy was aimed at removing cross border barriers, mainly through regulatory

means, the emphasis for the future will be on ensuring a better functioning of markets for the benefit of citizens, consumers and entrepreneurs, with a view to promoting a competitive business environment, which respects consumer choice and is socially and environmentally responsible. The EU should act when markets do not deliver and where it will have maximum impact. It should be better able to anticipate structural adjustment and assess its consequences. This requires:

- improved assessment of citizens', consumers' and business' needs, not just from an economic perspective, but in terms of choice and satisfaction;
 - closer monitoring of market functioning and performance, both at a sectoral and economy-wide level, including through sector-specific enquiries;
 - improved assessment of the social impact of further integration and of the opening up of sectors to competition, and of the ways in which national and EU cohesion programmes can help assist the anticipation and adaptation to changes linked to economic integration.
- **More effective:** Using instruments consistently and effectively in a Europe of 27 is not any easy task. The Commission will continue to play its key role as guardian of the Treaty, using all the instruments at its disposal, acting as the guarantor of the bargain of trust between the Member States. In playing this role it will need to take account of the increased diversity in a Union of 27 Member States and to find ways to build on best practice and foster trust on which the system of mutual recognition is built. At the same time, the regulatory environment has to be flexible enough to respond to the ever increasing pace of change. Therefore, a diverse and flexible mix of instruments should be employed. This includes:
 - finding the right balance between harmonisation and mutual recognition of rules and between the use of directives and regulations, tailoring the instrument to the desired result;
 - developing tools that complement legislation, such as the work of agencies, guidance, exchange of best practice, self- and co-regulation;
 - stepping up efforts to simplify and modernise existing rules, including through the screening of national legislation and cooperation mechanisms such as those provided for in the services directive;
 - pro-active enforcement of competition rules;
 - improved application of and enforcement of EU law through *i.a.* a more efficient management of infringement procedures and the fostering of non-judicial, problem-solving mechanisms.
 - **More decentralised and network-based:** The EU institutions cannot deliver an effective single market on their own. We need to rethink how to involve all

relevant actors and to improve ownership of the single market in the Member States. This may include:

- strengthening the role of national regulators and improving the cooperation and networking of Member States' administrative, judicial and regulatory authorities;
 - promoting a better coordination between the authorities in charge of the various aspects of the single market at national level, as well as between the national and the EU levels.
- **More responsive to the global context:** The EU must think globally – a well functioning single market is needed to allow Europe to compete in the global market place and to exploit globalisation to Europe's advantage. A European Globalisation Adjustment Fund has been put in place to cushion the impact of changes in world-trade patterns. Single market priorities must be linked to the global agenda, including the Doha trade negotiations and the recent set of bilateral trade negotiations. It should also:
 - extend aspects of single market policy through the neighbourhood policy;
 - increase benchmarking of EU rules against practices in non-EU countries;
 - do more systematic monitoring of imports and consumption prices to check if benefits of openness to global markets are being passed on to consumers;
 - promote greater global regulatory convergence - including where appropriate the adoption of European standards - internationally through international organisations and bilateral agreements;
 - support European supervisors and private regulators in deepening their international cooperation;
 - reinforce bilateral regulatory cooperation with the EU's main trading partners.
 - **More accessible and better communicated:** Citizens, companies, local and regional authorities must be able to understand and invest in the many opportunities the single market can offer. They should find clear answers to their questions or problems. A lot can be done to improve communication and to publicise the opportunities offered by a more integrated Europe. This may include:
 - encouraging the Member States and regional/local authorities to develop information plans;
 - rationalising single market information sources and better publicising their role;
 - facilitating one-stop-shop access for SMEs;

- empowering consumers to obtain redress collectively when the costs outweigh the benefits at the level of the individual;
- conducting targeted training of key officials at national level;
- revisiting the role of the Commission's Representation Offices in the Member States.

4. CONCLUSION

The single market is essential to opening opportunities that will allow Europeans to meet the challenges of the 21st century and fully reap the benefits of a more globalised world. The new approaches for implementing the vision of the 21st century single market will be explored in more depth in the months to come.

A full review of the internal market will be finalised in the autumn of 2007. It will consist of an assessment of the achievements of the single market to date, an examination of what has worked well but also of areas and issues which have prevented it from delivering full benefits to citizens. An important part of the review will focus on what needs to be changed or done differently to ensure that future single market policy is designed to take advantage of and to influence globalisation in the direction supported by EU citizens. Wherever possible the review will be accompanied by practical proposals, if needed legislative proposals. Where this is not immediately possible the review will indicate the steps and timing which will lead to concrete proposals.

The review will be underpinned by a number of Commission studies and analyses. The preparatory process will include an examination of the instruments and working methods used to build the single market so far, to evaluate their effectiveness and to consider what changes might be needed in the future. Ways to improve market monitoring will be thoroughly examined. Several initiatives in the field of consumer law, health services, product markets, intellectual property rights and standardisation bodies are also under way. They are being shaped as part of this review and will be fully coherent with the vision set out in this interim report.

The proposed timing has been chosen to allow sufficient time for in-depth discussions in the different Council formations and between the EU institutions, so that clear policy conclusions can be drawn by the 2008 Spring European Council. The findings and proposals of the report and those of the social reality stock-taking should also feed into the reassessment of the European guidelines for growth and jobs, in the context of the Lisbon Strategy.

The single market is a means; it is not an end. It is a means to enable everyone in the EU - individuals, consumers and businesses - to make the most of the opportunities offered to them by a more open and integrated EU. It is a means to advance the interests of European citizens in an era of globalisation, by giving Europe more strength and influence on the world stage. It is a means to steer economic growth and to achieve a competitive and open Europe, a Europe of buoyant markets and healthy trading relations, which can deliver solidarity, full employment, universal access to services of general interest, high social and environmental standards, and high levels of investment in research and education to prepare for the future. The report of the Commission this autumn will translate these objectives into an operational strategy to deliver the single market of the 21st century.

ANNEX: ACHIEVEMENTS OF THE SINGLE MARKET TO DATE

Since its inception, the European Community had been working towards a single market. A full customs union - the abolition of all tariffs on trade between Member States - was the first step, achieved in July 1968.

Building on these initial achievements, the single market project really began with the Commission's blueprint of 1985, endorsed by the Member States in the Single European Act of 1986, which set 31 December 1992 as the target date for removing internal frontiers within the EU, allowing people, goods, services and capital to circulate freely.

Ten years on, the Commission produced a detailed evaluation which retraced the progress made since the opening up of frontiers on 1 January 1993 and offered a round-up of the achievements of the EU internal market in the decade 1992-2002 - SEC(2002) 1417.

The analysis of the economic impact of the single market was updated recently by a publication of the Commission's Directorate General for Economic and Financial Affairs (European Economy Economic Papers, No 271, January 2007). Recent Eurobarometer surveys have also highlighted the opinions and experiences of EU citizens and business.

The following provides illustrations of the benefits derived from the completion of the European single market.

(1) Living in the European single market – benefits for the citizens

- an increase in welfare of 480€ per head in 2006 compared to a situation without the single market, corresponding to a 2.2% increase of GDP over the period 1992-2006.
- the possibility to study abroad, which is considered positive by 84% of EU citizens. 1.2 million young people have completed part of their studies in another Member State with the help of the Erasmus programme.
- the ability to travel in another Member State. Compared with ten years ago, the majority of citizens (72%) of Member States find travelling within the EU easier, notably in those countries having signed the Schengen agreement.
- the right to work and live abroad: although temporary restrictions remain, the possibility to work in another Member State is seen as positive for 70% of European citizens. More than 15 million EU citizens have moved across borders to work or to enjoy their retirement. They can vote and stand for office where they live. EU migrant workers enjoy the right to equality of treatment as regards employment, remuneration and other conditions of work, as well as social and tax advantages. They can be accompanied by their family members, irrespective of their nationality. The creation of the European Health Insurance Card has facilitated reimbursement of health care during a temporary stay in another Member State. Several legislations and programmes are in place to facilitate the mobility of researchers and guarantee automatic recognition of diplomas in a wide range of professions such as architect, midwife, pharmacist, doctor, nurse, dentist and veterinary surgeon.

- a wider choice of high quality goods and services: 3 in 4 European citizens (75%) think that the possibility for products from other Member States to be marketed under the same conditions as domestic products has had a positive impact. 73% consider that the single market has contributed positively to the range of products and services on offer. The introduction of the euro has made easier to compare prices across borders.
- in many cases, lower prices for goods and groceries thanks to the opening up of national markets and the resultant increase in competition. 67% of European citizens perceive increased competition in areas such as transportation, telecommunications, banking and insurance services as a good thing. In the field of telecommunications, competition has stimulated the development of advanced innovative services and the deployment of broadband networks, which are now available to 85% of the EU population. Telephone prices charged by the old national monopolies for national and international calls have been reduced by more than 40% on average between 2000 and 2006.
- shoppers have full consumer rights when shopping outside their own country. A majority of citizens (53%) consider that internal market rules have increased consumer protection within the EU. Specific European legislations are in place to ensure high levels of product safety requirements, to prevent and combat misleading advertising and unfair terms in contracts, to define air passenger rights or to open a bank account in another Member State.
- as a result of more open and competitive public procurement rules, governments save up money to spend on priorities such as health and education. For example, the price of railway rolling stock has dropped by 40%.

(2) Operating in the European single market – benefits for business

- a single market of close to 500 million people: this allows larger businesses to benefit from enormous economies of scale. Meanwhile, new export markets have been opened up to small- and medium-sized businesses which previously would have been prevented from exporting by the cost and hassle.
- easier cross-border trade within the EU: the absence of border bureaucracy and the spread of the euro have cut delivery times and reduced costs. Before the frontiers came down, the tax system alone required 60 million customs clearance documents annually: these are no longer needed. The use of the mutual recognition principle also means that in most cases, even where there is no harmonisation of technical specifications or other rules, companies need only one authorisation - from their home Member State - to provide a product or service anywhere in the EU. Problem-solving tools such as SOLVIT provide answers to possible questions arising from cross-border trade.
- easier ways to start or buy a business: networks such as the European business support networks provide assistance to new entrepreneurs to set up their business throughout Europe. The EU regional policy play a direct role in the development of business support services to SMEs in areas such as access to finance, management and marketing. The EU competition law provides for a level-playing field in terms of mergers and acquisitions within the EU. Mergers among

European companies registered in different EU countries can also now be simplified by creating a "European company".

- the spread of EU standards and labels: thanks to the efforts of technical harmonisation and the work of standardisation bodies, goods complying with the required standards can then move freely within the single market. This gives companies EU-wide market access, simplifies procedures and cuts costs, as well as it ensures technical interoperability and a high standard of safety.
- new sources of contracts and fundings: companies are now able to bid for contracts to supply goods and services to public authorities in other Member States, thanks to the opening up of public procurement.
- both small commercial users and larger businesses have benefited from lower telecommunications costs as well as from lower electricity costs in those Member States where these segments of the market have been opened up to competition.
- further benefits for business will accrue from the completion of the financial services action plan, which will mean cheaper finance for businesses of all sizes and will liberate listed companies from having to comply with 27 divergent sets of national rules when they want to raise money.