The Internal Market –
Ten Years without Frontiers

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Views on ten years of the Internal Market

"The Internal Market is the major economic success of the European Union. It has helped to increase our prosperity and jobs. But it could work better still and more economic and structural reforms are needed if we are to meet the goals which we have set ourselves for growth and employment by 2010 - the Lisbon objective."

Patricia Hewitt, Minister for Trade and Industry, UK

"The Internal Market is a unique example of regional economic co-operation - different to anything that has been achieved in other parts of the world. It has contributed to peace and political stability, strengthened the EU economy and brought real benefits for citizens and consumers in the Union. An enlarged market of 25 countries and 452 million people presents exciting new opportunities as well as challenges which we must all face."

Leif Pagrotsky, Minister for Industry and Trade, Sweden

“The Internal Market is one of the EU's most important achievements: an economic area in which citizens can move freely and enjoy the right of establishment to work or set up a business. These freedoms have opened up greater opportunities for producers and consumers, particularly in terms of quality and transparency, fostered economic integration between European regions and ensured higher levels of growth and cohesion. The impending enlargement of the Union will allow new States and new citizens to benefit from the biggest single market in the world.”

Guiseppe Gargani, Chairman of the European Parliament Committee on Legal Affairs and the Internal Market

“The Internal Market has transformed Europe beyond recognition in ten years. It has created millions of jobs and hundreds of billions of euros of extra prosperity. It has dismantled barriers and opened doors. Europeans can live, study, work or retire wherever they like in Europe. Consumers have a wider choice of high quality products. Companies have access to much wider markets. Europe is better protected against economic downturns. But we need to make the Internal Market work even better. The next decade will be no less crucial. The Commission will take up the challenge with relish.”

Frits Bolkestein, Commissioner for the Internal Market

"The Internal Market has given a major boost to businesses, large and small, in the EU. Progress over the past decade has been impressive: many barriers to trade within the Union have been swept aside, and now the benefits of the Internal Market are underpinned by a single currency. We must, however continue to enable entrepreneurs to gain maximum benefit by implementing it promptly and properly throughout all Member States, as well as realising the necessary infrastructure. Only an efficient Internal Market will encourage Europe's competitiveness"

Georges Jacobs, President, Union of Industrial and Employers’ Confederations of Europe

Ten years: the benefits

Economic benefits

- EU GDP in 2002 is 1.8 percentage points or €164.5 billion higher thanks to the Internal Market.

- About 2.5 million jobs have been created in the EU since 1992 that would not have been created without the opening up of frontiers.

- Extra prosperity to the cumulated value of €877 billion over the last ten years has been created. That means €5,700 per household on average.

- The Internal Market has enhanced the ability of EU firms to compete in global markets. EU exports to third countries have increased from 6.9% of EU GDP in 1992 to 11.2% in 2001.

- The Internal Market has made Europe a much more attractive location for foreign investors. New inflows of foreign direct investment into the European Union have more than doubled as a percentage of GDP.

Benefits for citizens/consumers

- A wider choice of high quality goods and services: according to a recent Commission survey, 80% of EU citizens believe that the Internal Market has led to wider choice and 67 % that it has led to improved quality.

- In many cases, cheaper prices for goods and groceries thanks to the opening up of national markets and the resulting increase in competition.

- Lower telecommunications tariffs: technology combined with Internal Market liberalisation means, for example, that prices charged by the old national monopolies for national calls have been reduced by around 50% on average and those for international calls by around 40%.

- Lower airfares: a recent study estimates that the price of promotional fares fell by 41 % between 1992 and 2000.

- More than 15 million EU citizens have moved across borders to work or to enjoy their retirement. They enjoy proper welfare protection and can vote and stand for office where they live. One million young people have completed part of their studies in another country with the help of the Erasmus programme.

- Shoppers have full consumer rights when shopping outside their own country.

- Those contracting entities that have applied EU procurement rules have made savings. For example, the price of railway rolling stock has dropped by 40%.

Benefits for business

- Trade within the EU has become much easier. The absence of border bureaucracy has 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 mutual recognition principle means that in most cases companies can do business across the EU by complying with the rules in their home Member State.
- In many cases, rather than adding to red tape, Directives and Regulations replace a large number of complex and different national laws with a single framework, often reducing compliance costs for businesses, who pass those savings on to consumers.
- Business is positive about trading in the Internal Market: Over 60% of companies exporting to more than 5 EU countries said that the Internal Market had helped to boost their cross-border sales.
- New export markets have been opened up to small and medium-sized enterprises (SMEs) who previously would have been prevented from exporting by the costs and difficulties involved.
- 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.
- SMEs have benefited from lower electricity costs in those Member States where this segment of the market has been opened up to competition.

INTRODUCTION

It is ten years since the borders came down within the European Union and the Internal Market[1] was freed from a mass of obstacles that had prevented it from delivering its economic promise. This was the result of the 1985 White Paper - drafted by Commission President Delors and Commissioner Lord Cockfield – which set out for the first time a comprehensive list of what needed to be done to banish borders in Europe and established 31 December 1992 as the deadline for doing it.

Ten years on, this paper provides a broad-brush picture of the main benefits that have accumulated and the main further achievements made since then. It deliberately focuses on the positive side of the balance sheet, without failing to point out areas where the Internal Market has done less well.

The benefits of the measures set out in the White Paper are clearly being felt, as more and more individual citizens and businesses take advantage of the opportunities on offer. The Internal Market has not of course been the only factor at work: other major forces are also transforming our economies – ie. rapid and accelerating globalisation and the rise of new technologies, in particular the internet. The relationship between these forces and the Internal Market is complex and mutually reinforcing. Together, they have contributed to opening up the Member States' economies to more competition and brought immense benefits in terms of increased efficiency and competitiveness.

Moreover, the Internal Market has been further developed and strengthened in the last ten years. It has been extended into new sectors, such as air transport, telecommunications energy and financial services, which are crucial to the competitiveness of the economy as a whole. Consumer and environmental protections have been significantly enhanced. More has been done to improve the enforcement of Community law. And now, with the arrival of the euro, the pace of economic integration has been stepped up and many of the benefits of the Internal Market have been reinforced.

Yet, despite these successes, the Internal Market is not complete. Indeed, creating a genuinely integrated market is not a finite task, but rather an ongoing process, requiring constant effort, vigilance and up-dating. Whatever our achievements so far, new challenges are constantly arising. As many obstacles have been removed, other barriers have come to light and will go on doing so.

After enlargement in May 2004, the challenge will be to ensure the effective operation of an Internal Market of some 452 million citizens. Enlargement will offer major opportunities, but it also carries risks. There is likely to be a second harvest as the Internal Market expands across the continent. But it may be harder to remove existing barriers and prevent the emergence of new ones in a Union of 25 Member States.

The second challenge is to meet the Lisbon target of becoming the most competitive and dynamic knowledge-based economy in the world by 2010. This is a daunting challenge but it is achievable. Success will require far-reaching economic and structural reforms. The Internal Market is the essential context for these reforms.

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[1] The Internal Market also covers 3 EFTA States, Iceland, Liechtenstein and Norway, as a result of their membership of the EEA Agreement.

Structural reform is vital – not as an end in itself but as a means of creating the wealth to pay for an inclusive society. It is particularly important if the EU is to cope with the impact of an ageing population. In the next decade, millions of EU citizens will retire, reducing the proportion of workers compared with those in retirement. We must create more wealth if we are to pay for pensions, health and long-term care while enabling the standard of living to rise for the population as a whole.

1. THE ECONOMIC EFFECTS OF THE INTERNAL MARKET

More growth and more jobs

The Commission estimates that EU GDP in 2002 is 1.8% or €164.5 billion higher thanks to the Internal Market. And employment is 1.46% higher which means that around 2.5 million extra jobs have been created[2].

Over the last ten years, the Internal Market has increased the Union's GDP by €877 billion[3]. That amounts to an average of €5700 of extra income per household.

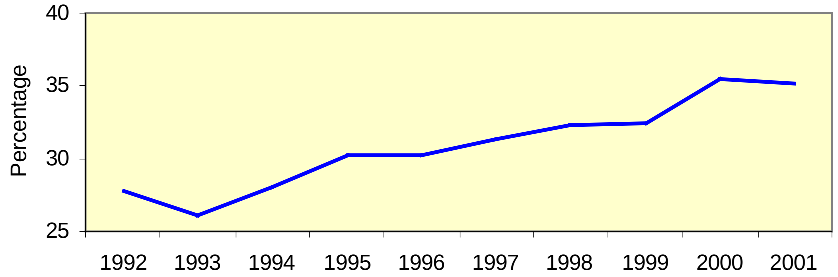
These figures are probably an under-estimate of the full impact of the Internal Market. They do not, for example, take account of the Internal Market's impact on service sectors other than the network industries[4]. Had these sectors been included, the figures would probably have been higher, even bearing in mind the relative weakness of the Internal Market in services.

The combination of the Internal Market and cohesion policies have ensured that these benefits have not missed out the poorest regions of the Community, as many feared they would. In fact, the opposite has happened, as many of these regions have actually enjoyed the highest growth rates and narrowed the gap with the rest of the EU.

The Internal Market has tied the economies of the Member States more closely together. And by eliminating exchange rate uncertainty, the euro has reduced the risks associated with cross-border trade and investment within the euro area.

As a result, trade between the Member States has expanded strongly. Since 1993, intra-EU trade has grown faster than EU GDP.

Figure 1: Cross-border trade has grown faster than GDP



Source: Eurostat. Intra-EU trade as a percentage of GDP.

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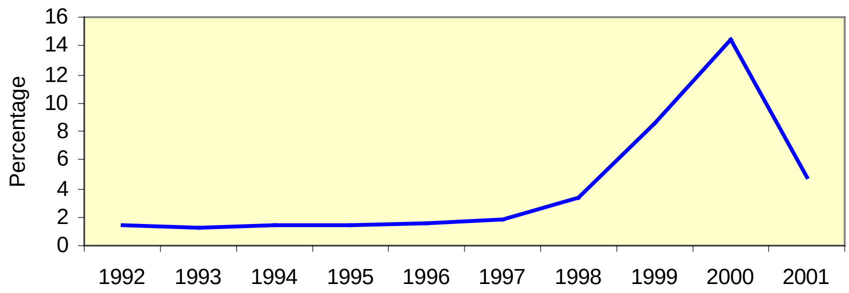
2 These estimates were produced using the Commission's QUEST II model. The quantitative data fed into the model was taken from empirical studies of the impact of the Internal Market on productivity growth and mark ups. More information, both on the model itself and the inputs used, can be found at: http://europa.eu.int/comm/economy_finance/publications/economic_papers/economicpapers123_en.htm
http://europa.eu.int/comm/internal_market/10years/docs/background_en.htm

3 This figure was calculated by adding together the additional annual GDP generated by the Internal Market since 1992.

4 Estimates for the growth and employment effects from the liberalisation of network industries are taken from the European Economy Review 2002, Chapter 3, Structural Reforms in Labour and Product Markets and Macro-economic Performance in the EU.

And companies have stepped up their cross-border investments to build up a European production base, although the downturn in the world economy in 2001 has naturally led to a fall-off in investment.

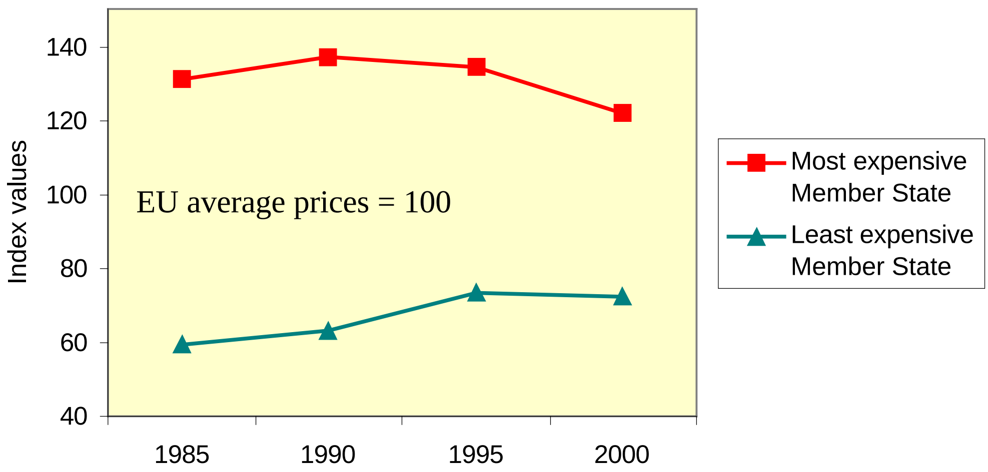
Figure 2: Cross-border investment has grown even faster than cross-border trade



Source: Eurostat. Intra-EU FDI as a percentage of GDP.

In addition, prices of goods for private consumption have converged significantly during the 1990s. This is another indication that Member States' markets are becoming increasingly integrated. The convergence process has slowed down since 1998, but the introduction of euro notes and coins may help to get it moving again by allowing easier price comparisons.

Figure 3: Prices converge towards the EU average

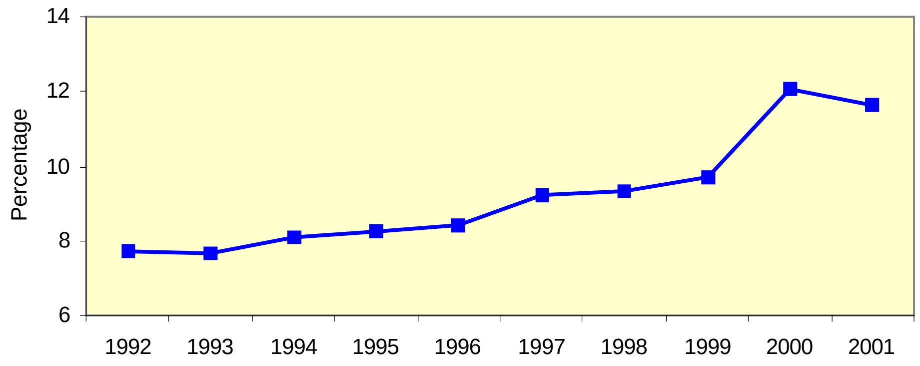


Note: Source: Eurostat and DG MARKT calculations. Price index values for most/least expensive Member State are calculated separately for each year.

Before 1992, there were many who believed that the Internal Market would become a "Fortress Europe" throwing up protectionist barriers and trading only with itself.

In fact, the opposite has happened. Over the past ten years, extra-EU imports into the EU have grown steadily. This is a clear sign that the EU market is increasingly open and that the existence of a single system makes market access easier for firms from third countries.

Figure 4: The Internal Market is open for extra-EU imports

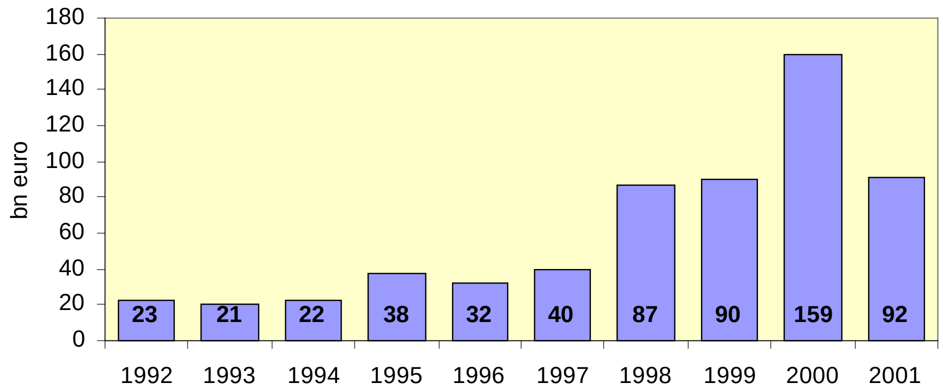


Source: Eurostat. EU15 imports from third countries as a percentage of GDP.

Moreover, the Internal Market has made Europe a much more attractive location for foreign investors. New inflows of foreign direct investment (FDI) into the European Union were four times higher in 2001 than they were in 1992, despite the fact that 2001 was generally a weak year for investment/FDI.

FDI brings enormous advantages – it not only increases investment but it also helps to diffuse innovation and increase productivity, and in so doing fosters growth.

Figure 5: …and attractive for foreign direct investment



Source: Eurostat. Foreign direct investment from third countries in EU15 (current prices).

Our companies have become more competitive

More imports and the establishment of a presence by foreign firms has increased competition in Member States' markets. This is confirmed by the results of an independent business survey recently undertaken by the Commission[5] which show that firms are experiencing more competition in their domestic markets.

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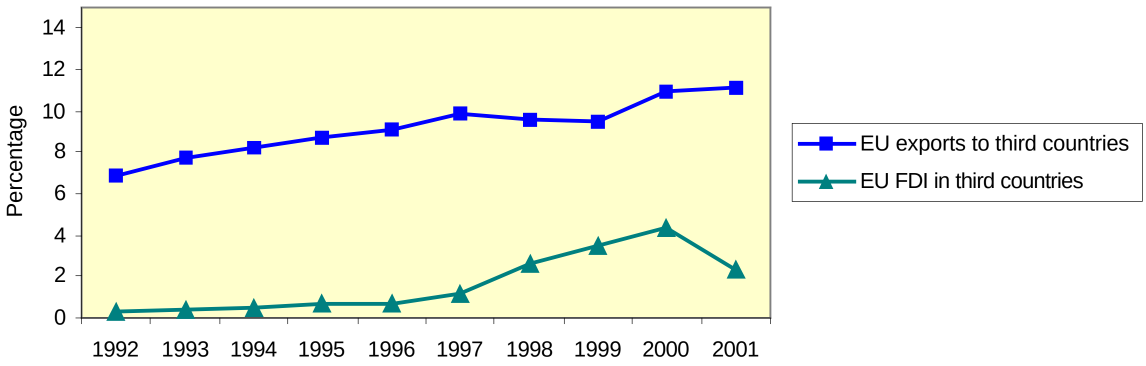
[5] Internal Market Scoreboard No. 11, November 2002.

The survey shows that many firms have responded to increased competition in a larger market by concluding co-operation agreements with companies in other Member States. There has also been rapid growth in the number of cross-border mergers and acquisitions (see chapter 9).

In addition, many firms – particularly larger firms – have become more productive and efficient thereby cutting costs. A recent study estimated that the Internal Market had boosted productivity in the most sensitive industrial sectors by 2% during the years 1992 and 1993[6].These efficiency gains and cost reductions have obviously enhanced the ability of EU firms to compete in global markets. Both EU exports to and investments in third countries have increased, with a dip in 2001.

Figure 6: EU exports to and investments in third countries have generally been growing faster than GDP



Source: Eurostat. EU15 FDI outflows and exports to third countries as a percentage of GDP.

Moreover, increased competition in the Internal Market has imposed pressure on cost-price margins which have fallen by as much as 3.6% in the high and medium sensitive industries[7]. This has ensured that cost reductions have been passed on to consumers and to other businesses who benefit from cheaper components and raw materials.

[6] NOTARO, Giovanni: European Integration and Productivity: Exploring the Gains of the Single Market. London: London Economics, May 2002, p. 23.

[7] Allen et al. (1998).

2. BUILDING THE FRAMEWORK

The Internal Market can only realise its full economic potential if its legal framework is complete, up to date and properly applied and enforced. A great deal has been done over the past decade to ensure that this is the case.

Box 1: The Internal Market's legal framework consists of:

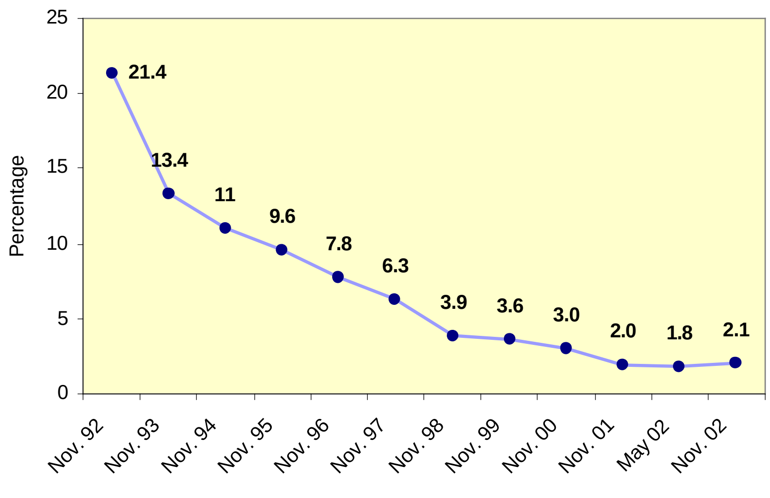
- Rules set out in the Treaty. These include the basic rules of free circulation of goods, services, persons and capital.
- Rulings of the European Court of Justice. These almost always concern very specific cases, but the principles and interpretations underlying them have to be respected throughout the EU.
- Secondary legislation - mainly Directives, which have to be implemented (or "transposed") into national law in order to take full effect.

Legislative activity has continued - the total body of Internal Market Directives has increased from 1291 in 1995[8] to 1475 in 2002. But efforts are increasingly focused on making sure that existing laws are properly implemented. This is the only way to ensure that Internal Market rights can be exercised in practice as well as theory.

Transposition of legislation

Sometimes, Member States do not implement on time the EU Directives which they have themselves agreed. However, the situation has improved considerably: the average transposition deficit (percentage of EU law not implemented) has declined sharply from over 20 % per Member State in 1992 to just over 2 % today. Even a 2 % deficit is too much as it means some Europeans cannot benefit from their full Internal Market rights.

Figure 7: Transposition deficits have decreased markedly over the last 10 years



Source: Internal Market Scoreboard No. 11, November 2002.

8 Figures from before 1995 are not comparable with current figures.

Infringement proceedings

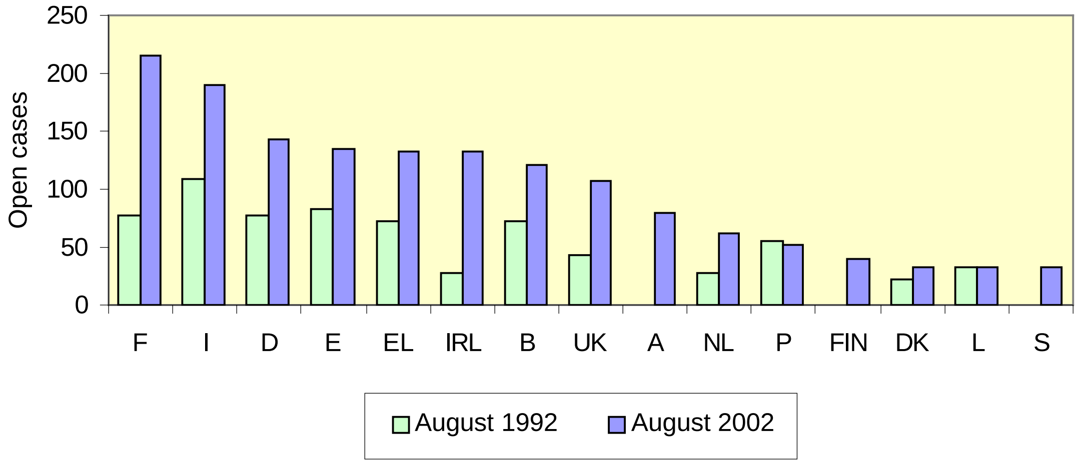
Directives not only have to be transposed on time. The domestic legislation which is adopted must also conform to all the requirements of the Directive.

And even once they are on the statute books in the Member States, Community Directives still have to be properly applied in practice. Only if the various national authorities involved in this do their jobs properly can citizens and business take full advantage of their rights under Community law.

When EU law is incorrectly transposed or applied, the Commission can launch formal legal proceedings (or "infringement proceedings") against the Member State concerned. If these cannot be resolved by agreement, the Commission can ask the European Court of Justice for a judgement.

Unfortunately, the number of open infringement cases has soared from just under 700 in 1992 to just over 1500 today. This indicates that large numbers of Directives are not being fully applied at national level. The damage this does to the effective functioning of the Internal Market is enormous.

Figure 8: The number of open infringement cases has gone up considerably



Source: Internal Market Scoreboard No. 11, November 2002. Open infringement cases as at 31 August 1992 and 31 August 2002.

It is up to the Member States to improve the situation. The Commission will continue to be vigilant and to take governments to court where necessary. However, it is also important to make greater use of alternative mechanisms, such as SOLVIT[9], to make sure citizens are not deprived of valuable rights and economic benefits by incorrect application of EU law.

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[9] SOLVIT is a problem-solving network for cases of misapplication of EU Internal Market law by national or local administrations – for more information see: http://europa.eu.int/comm/internal_market/solvit

3. YOUR RIGHTS IN THE INTERNAL MARKET

The Internal Market is not just about purely economic gain. It has given all of us important new rights and freedoms – both in our capacity as citizens of the Union and as consumers.

European Citizens have benefited from a decade of opportunity

The Internal Market gives us a series of new rights which open up exciting professional and personal opportunities. Too many people either do not know about these rights or are unaware that they derive from the Internal Market. It is therefore worth re-stating what they are.

Box 2: As a citizen of the EU, you have the right to:

- Travel freely[10], settle and receive tourist and other services without discrimination in any Member State
- Work, practice a profession or set up a business in any Member State
- Travel to another Member State to seek work and retain your entitlements to unemployment benefit for up to three months
- Study, take up training and conduct research in another Member State
- Retire to another Member State and be paid your statutory pension in your new country of residence
- Stand and vote in local and European elections in your country of residence
- Receive medical treatment in another Member State and still be covered by your national sickness insurance scheme

Given that these rights exist, the next question is how many people have actually used them over the past ten years. The answer is quite a lot. For example:

- Up to 15 million EU citizens have moved within the Union since 1993.[11] And about 5 million EU citizens currently live in another Member State.[12]
- Between 35 000 and 45 000 qualified professionals each year seek and obtain recognition of their right to practice their profession in another Member State.
- One million young people have completed part of their studies in another country with the help of the Erasmus programme. And 200 000 people have benefited from traineeships in another country through the Leonardo da Vinci programme.

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[10] The Schengen Convention abolished the checks at internal borders of the signatory States and created a single external frontier, where checks for all the Schengen signatories are carried out in accordance with a common set of rules. The signatories are all 15 Member States except the UK and Ireland plus Norway and Iceland. The Treaty of Amsterdam incorporated these developments into the EU's legal and institutional framework.

[11] For a minimum stay of three months. Eurobarometer, February 2001.

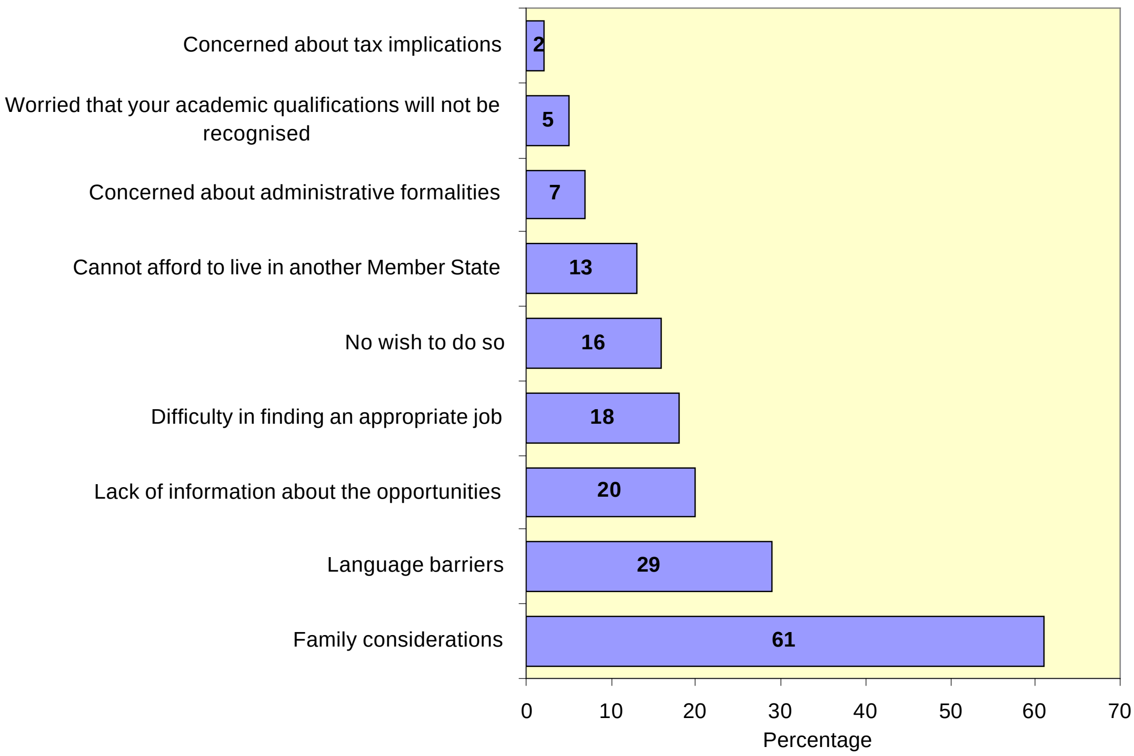
[12] In addition, about half a million citizens commute to work in another Member State. Report from the Commission to the European Parliament and the Council on the application of Directive 94/80/EC on the right to vote and stand as a candidate in municipal elections, COM (2002) 260.

- About 200 000 nationals from Germany and the United Kingdom reside in Spain and Italy, many of them pensioners[13].
- In local elections in 1996-2001 non-nationals stood as candidates in 8 Member States and were elected in 7 Member States. For example, in Sweden, 1829 stood for election and 408 were elected.[14]

An independent citizens survey recently undertaken by the Commission[15] indicates that more citizens are likely to avail themselves of their Internal Market rights in future. For example, it tells us that there are many more people who want to move than who have actually done so. 15% of respondents said that the idea attracted them.

In practice, however, there are still obstacles which cause many people to shy away from making the move. 11% of survey respondents said that they had thought about it but had given up the idea. The main reasons for giving up as shown in the chart below are family considerations and language barriers. These are facts of life, which policy makers can do very little about:

Figure 9: Reasons for giving up the idea of moving to another Member State



Source: Internal Market Scoreboard No. 11.

But some of the obstacles mentioned in the survey - such as the lack of clear information about opportunities in the Internal Market and the difficulties in finding an appropriate job – are being tackled (see box 3).

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13 As above.

14 As above.

15 Internal Market Scoreboard No. 11, November 2002.

Other deep-seated barriers, however, have barely been touched. For example, difficulties with the portability of pensions continue to discourage professionals from embarking on new careers.

<u>Box 3: Tackling obstacles to mobility</u>

Thousands of jobs throughout the EU at your fingertips: Looking for new job opportunities across Member States is now a good deal easier thanks to the creation of the EURES Network[16]. Job seekers can search for employment offers across Europe and/or use the network to post information on their employment preferences, qualifications and experience. The number of job vacancies in the EURES database has risen from about 20 000 in 1997 to over 200 000 in 2001. Employers can also team up with EURES. Last year, for example, EURES helped find 2700 seasonal workers to staff the winter tourist industry in Austria.[17]

Telling you exactly what you need to do to exercise your rights: If you are moving to, say, Denmark and you want to know whether your driving licence will be valid there, or whether your professional qualifications will be recognised, you can consult the Commission's Dialogue with Citizens[18]. You can also get information from the Europe Direct freephone number (00 800 67891011) from wherever you are in the EU. Where you have difficulty in exercising your rights, your query will be passed to the legal experts of the Citizens Signpost Service (also accessible from the Citizens website). Within 72 hours, you will receive personalised free advice on your Internal Market rights. Through the Signpost Service and other networks such as Euro Information Centres and Euro Consumer Centres, the Commission keeps its ear close to the ground, using Internet technology to get feedback on what works well and what needs improving.[19]

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16 http://www.eures.eu.int

17 Source: Social Agenda, April 2002, published by the Employment and Social Affairs Directorate General.

18 See http://europa.eu.int/citizens/

19 The Inter-Active Policy Making (IPM) Feedback Database.
See http://europa.eu.int/comm/internal_market/ipm.htm

A Better Deal for Consumers

The Internal Market has delivered tangible benefits for Europe's consumers – through increased competition combined with higher levels of protection.

Stronger competition

The evidence shows that prices for many goods in the Member States have not only converged during the nineties, they have often done so towards lower levels to the benefit of consumers. This is true for a range of fresh foods, beverages and consumer electronics which have had below average inflation rates and therefore have become cheaper compared to other goods and services. These products account for up to 25% of private consumption. Some of them have even become cheaper in absolute terms[20].

In addition, consumers have noticed an increase in the diversity and quality of the goods available. 80% of those responding to the citizens survey said that the range of goods had increased, while 67% said that quality was better.

A higher level of protection

The Internal Market's architects were always clear that its legal framework, as well as ensuring free movement and competition, must guarantee high standards of protection for consumers and the environment.

There are good economic reasons, as well as public interest ones, for ensuring that consumers are protected. They will not buy imported goods unless they are sure of their quality. Nor will they go to another Member State to buy products or make purchases from suppliers in other Member States using the internet unless they are sure of their means of redress if things go wrong. In other words, the Internal Market stands or falls on consumer confidence. Without it, it cannot function properly.

EU Consumer policy seeks to build and maintain this confidence. The following chart summarises how it does this at different stages in the purchasing process.

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[20] 2002-2003 Report on the Functioning of Product and Capital Markets (Cardiff Report).

Box 4	HOW EU CONSUMER POLICY PROTECTS YOU
STEP I: **A BASIC SENSE OF SECURITY**	Before they even go shopping, consumers need to know that any products they buy will be safe. There is a sound infrastructure in place to make sure that this is the case. It is made up of the following elements: • High standards which all products must meet. Compliance with these standards is closely monitored • Tough penalties for producers of defective products • An early warning system which allows sub-standard products to be withdrawn from the shelves
STEP II: **WHILE YOU ARE SHOPPING**	Consumers depend on the availability of clear and correct information on which to base their choices. EU law stipulates that: • Advertising and promotion campaigns must not be misleading or put competitors in a bad light • Prices must be displayed clearly and accurately • Any price reductions on offer must be real
STEP III: **WHEN YOU ARE SEALING THE DEAL**	EU law outlaws unfair contract terms that cause a significant imbalance in the parties' rights and obligations, for instance terms which contain punitive conditions and are stacked in favour of the seller. Additional protection is available to consumers making more complex and important purchases. For example: • A code of conduct for mortgage lenders commits them to give more detail on the loan itself (amount, duration etc), early repayment possibilities and redress procedures. More than 3600 lenders have signed up to this code[21] • A cooling off period of 30 days allows consumers buying life insurance to change their minds without incurring a penalty. Cooling off periods of between 7 and 14 days are foreseen for door-step contracts, distance contracts, including distance contracts for the marketing of financial services, and timeshares
STEP IV: **PAYING FOR YOUR PURCHASE**	EU law helps to reduce the cost of various payment methods and to make them more secure. For example: • It will soon ensure that cross-border credit transfers (in euros) cost the same as transfers within a Member State • It imposes a cap on the liability of credit card holders for unauthorised use of their cards. In the case of distance sales, the consumer can request cancellation of the payment • It prevents unauthorised disclosure of personal data and credit card details on the internet
STEP V: **PROTECTION IF THINGS GO WRONG**	Many consumers worry about what to do if something goes wrong with a product bought from a supplier in another Member State. Now, thanks to EU law: • Legal guarantees can be relied on regardless of where goods were bought within the Union; commercial guarantees are binding for the seller. • The producer is usually liable if the good is defective In addition, there are a range of simple, low-cost and effective means of resolving cross-border disputes without going to court (eg. European Consumer Centres/Euroguichets,

21 Lenders in three major Member States have yet to sign up to the Code to any significant degree.

22 http://europa.eu.int/comm/internal_market/en/finances/consumer/intro.htm#finnet
http://www.eejnet.org/

	EEJ-Net and Fin-Net[22])

A great deal more needs to be done to maintain and build consumer confidence in the Internal Market. This is vital if the Internal Market is to continue to function and it is increasingly demanded by consumers themselves. That is why the Commission has issued a new Consumer Policy Strategy setting out priorities for the period 2002-2006[23]. It centres on three objectives: a high common level of consumer protection, effective enforcement of consumer protection rules and the involvement of consumer organisations in EU policies.

[23] COM (2002) 208 final.

4. DELIVERING THE GOODS… AND SERVICES

The aim of the Internal Market is to make it easier and cheaper for firms to do business across borders. Ultimately, the goal is to turn the European Union into a single trading area, within which firms can do business just as easily as they can in their home market.

The results of the business survey show that there has been progress towards meeting this objective.

Box 5: Business is largely positive about trading in the Internal Market

- 40% of small companies said that they sell their products in other Member States.
- So did 60% of medium-sized companies and 70% of larger companies.
- Of companies exporting to more than 5 EU countries, 76% rated the impact of the Internal Market on their business as positive.
- Over 60% said that the Internal Market had helped to boost their cross-border sales.

Abolishing the physical frontiers

At one stage, the administrative formalities associated with cross-border trade were formidable. Businesses were required to fill in 10 different sets of forms for exporting to 10 different Member States. True, there was a big step forward in 1988 when the "Single Administrative Document" was introduced. The existence of one form for exporting to all Member States certainly reduced the costs. But this still meant that 80 to 100 million customs documents had to be filled in every year.

And of course, all this paperwork had to be checked before goods could enter the territory of another Member State. This meant long delays at border posts while these checks were completed.

Box 6: Frontier controls: the costs

In the late 1980s, the Cecchini Report[24] estimated that a lorry travelling 1200 km within a single Member State could complete the journey within 36 hours. But, if it crossed two borders, the journey time rose to 58 hours! The report also estimated that industry would save €8 billion per year and government €1 billion per year if the frontiers were abolished. And the big losers were consumers who were paying more for goods produced in other Member States.

[24] Cecchini Report on "The Cost of Non-Europe", 1988.

On 1 January 1993, the physical barriers for goods at the borders disappeared almost overnight. Millions of customs documents were done away with. This immediately made trading life in Europe far easier, cutting delivery times and reducing costs.

Tackling technical barriers

Negotiating their way through the maze of national technical regulations was also a big headache for business. Usually, these regulations pursued worthwhile objectives, such as health and safety or the protection of consumers or the environment. But – because they went about it in different ways – they created rigidities and obstacles to trade. Companies were forced to physically adapt their products before entering another Member State's market. This involved heavy costs, which made it impossible for many companies, particularly small companies, to export at all.

To overcome these problems, two basic solutions were devised:

- **Mutual recognition** – derived from the case law of the European Court of Justice, this principle allows products legally sold in one Member State to circulate freely throughout the Union. Companies can sell their products in other Member States while continuing to apply their own national rules.

- **EU technical harmonisation** – in more complex or sensitive sectors, EU Directives harmonise national rules. This also makes life easier for companies – complying with a single Directive is cheaper than complying with 15 different national laws.

Trade in goods within the EU is split roughly equally – with half covered by mutual recognition and the other half covered by EU technical harmonisation. Both of these instruments were in place before 1992[25]. However, a great deal has been done since then to refine them and to extend their use into new areas.

Surveys carried out for the Commission in 1999[26] indicate that the mutual recognition principle is working well where relatively simple products are concerned, although problems remain where more complex products are concerned.

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[25] Since 1984, Member States have been obliged to notify the Commission and each other of all draft technical regulations related to industrial goods (Directive 98/34/EC). This procedure aims to prevent the adoption of national measures that could create unjustified barriers to trade and to avoid the adoption of national measures in areas where harmonisation work has started at EU level. Since 1993, more than 6000 national technical regulations have been notified to the Commission. This instrument was extended in 1999 to cover Information Society services.

[26] Second Biennial Report on the Application of the Principle of Mutual Recognition in the Single Market, COM (2002) 419 final.

Box 7: Beer: a success story[27]

Beer is one example of an area where mutual recognition has removed most technical barriers.

Although beer is still not heavily traded across borders (because of high transport costs and strong consumer preferences for national brands), import penetration has increased over the years in most Member States and over 90 % of EU imports come from other Member States.

In practice, the major remaining obstacle to the smooth functioning of the Internal Market in beer lies not in technical barriers but in the large difference in excise duties and VAT rates.

Progress in the harmonised sectors

Where mutual recognition cannot work, harmonisation is the only way to ensure that trade can flow freely. Depending on the nature of the product, there are two different approaches:

- An approach based on harmonisation with performance requirements. This results in a single set of fully harmonised detailed provisions. It is used for products, such as pharmaceuticals, chemicals or automobiles, for which performance-oriented legislation with detailed testing methods is appropriate in order to guarantee consumer safety (see box 8).

- The "New Approach" – developed in the mid-80s to speed up the pace of legislation and facilitate its application. Directives cover large families of products and/or hazards and specify the essential safety (or other) requirements which products must meet before being placed on the market (see box 9).

[27] Internal Market Scoreboard No. 10, May 2002.

Box 8: A single type-approval procedure for passenger cars[28]

The EC type-approval system means that, once a car has been type-approved in one Member State, it can be registered and put on the market anywhere in the Community, without further testing. This cuts costs for manufacturers - complying with one set of rules is far cheaper than complying with 15.

Type-approval legislation has therefore helped to boost the competitiveness of the European car industry and to draw large amounts of foreign investment into the Union, particularly from Japanese car makers.

There are also advantages for consumers. EC type-approved vehicles are given an EC certificate of conformity which is valid throughout the Community. This makes life easier for people wishing to register their vehicle in another Member State.

And type-approval legislation is not just about harmonising standards at EU level - it is also about raising them. Thanks to EC legislation, cars are now safer and environmentally cleaner.

"A single certification procedure for motor vehicles, valid throughout the European Community, reduces costs for industry and prevents the re-emergence of barriers in the Internal Market. It is an essential ingredient in maintaining competitiveness."
Mr. Ivan Hodac, Secretary General of the Association of European Vehicle Manufacturers

The New Approach aims to encourage the adoption of flexible, cost-effective and technology-neutral legislation which facilitates innovation and therefore fosters competitiveness.

Manufacturers are free to apply in-house technical specifications to meet the essential requirements defined in New Approach Directives. But they can also apply harmonised European standards developed by recognised European standards organisations. These give a presumption of conformity with the relevant requirements.

Since 1990, over 2 000 of these standards have been developed[29]. Standardisation work on some Directives is nearly complete.

There are still problems in sectors such as construction products, machinery or pressure equipment where progress has been slow. However, momentum in these areas has now increased and the situation looks set to improve over the next few years.

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[28] Commission interpretative communication on procedures for the type-approval and registration of vehicles previously registered in another Member State, OJ C 143 of 15/05/1996.

[29] Internal Market Scoreboard No. 11, November 2002.

Box 9: Telephone equipment is covered by the "New Approach"

The so-called Radio Equipment and Telecommunications Terminal Equipment Directive covers a vast array of radio and telecommunications equipment such as GSM handsets, telephones, modems, remote controls, car-door openers etc. In one stroke, the Directive replaced 40 Commission Decisions and some 1 500 national technical regulations.

Manufacturers are now allowed to certify their own products and to attach the CE-mark - a single mark of conformity recognised throughout the Community. This has cut costs for business – particularly small businesses – and helped to foster innovation in the industry.

Levels of consumer confidence and satisfaction in the sector remain high and consumers can now choose from a broader range of products.

Important gaps remain … particularly in services

Despite these successes, there are still important gaps in the Internal Market. The biggest of these are in the area of services. Chapters 7 and 8 will address important parts of the services sector – public utilities and financial services - where progress is being made and the benefits are beginning to flow. But in services more generally, the Internal Market still functions very imperfectly.

For example, different national regulations, eg. relating to shop opening hours, health and safety and accounting, make it difficult for retailers to establish operations in other Member States. So far, only a few of the biggest players have done so.

"As a company which operates in six EU member states, the Internal Market touches as the very heart of what we do - selling quality goods to millions of customers everyday. The realisation of the Internal Market has made it easier for us to expand our business within the EU and rationalise our operations in terms of sourcing and merchandise. Businesses and decision-makers should not be complacent though; the success of the Internal Market in goods and the introduction of the euro have highlighted where barriers still remain. The Internal Market, now to be implemented in those countries preparing to join the EU, is a great opportunity to build a stable and profitable zone for all European citizens."

Daniel Bernard, CEO, Carrefour

Action is now underway to rectify the situation, based on the Commission's Services Strategy[30].The potential gains are very large. For example, in a survey on business services carried out for the Commission, 40% of supply-side respondents believed that eliminating barriers to cross-border trade in business services in the Internal Market would increase their sales by up to 20%[31].

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30 Internal Market Strategy for Services, COM (2000) 888, and Report from the Commission on the State of the Internal Market for Services, COM (2002) 441.

31 Statistical and technical annex to the Report on the Functioning of Community Product and Capital Markets, COM (2001) 736.

E-commerce has the potential to transform the Internal Market in both goods and services. It provides a means to realise benefits which the Internal Market already offered in theory but which were sometimes hard to achieve in practice for purely geographical reasons.

But business of any kind only flourishes in an atmosphere of trust and a reasonable degree of legal certainty. A number of Community legal instruments aimed at achieving this have been adopted – notably the Directive on Electronic Commerce[32], the Directive on Electronic Signatures[33] and the Directive on Intellectual Property Rights – though their full effects will only be felt when all Member States have transposed them into national law.

[32] Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market – OJ L 178, 17/07/2000.

[33] Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures. OJ L 013, 19/01/2000.

5. BUYING SMART – PUBLIC PROCUREMENT

Every year, public authorities in the EU spend about €1 300 billion buying goods and services, from staples to supercomputers, from paper to power stations. This amounts to about €3 500 for every EU citizen. With a price tag like that, tax payers have a right to expect prudent spending and value for money. For many years, however, government was anything but a smart shopper. It tended to pay more than it should, often ending up with lower quality items.

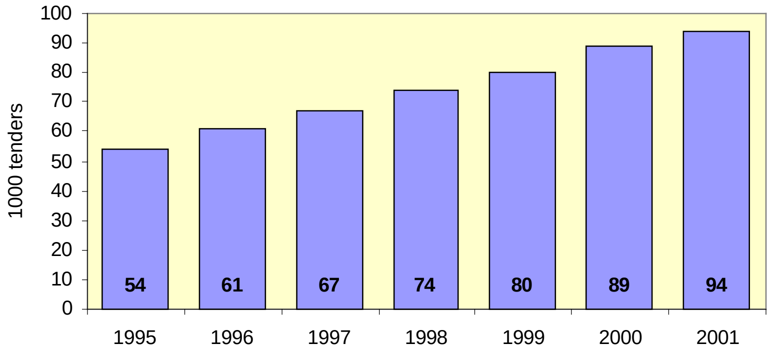
Most of the damage was self-inflicted. Rather than seeking out the best value for taxpayers' money, governments often used procurement to support national industries or geographic regions. In most cases, tenders were not (properly) advertised – leaving suppliers in other Member States with no chance to even find out about them, never mind put in a bid.

According to the Cecchini Report, governments were over-paying by €22 billion – often spending 25% or more than their counterparts in the private sector for the same filing cabinets, personal computers, cleaning services and so on. Not just once, but year after year. If private citizens or businesses behaved in this way, they would soon go bust.

The first Directives covering the buying of goods and the construction of major works date back to the 1970's, but they left important gaps. Today, market conditions in public procurement have improved. New Directives were adopted in the early 1990s to cover utilities (water, energy, telecommunications and transport) and services and to ensure that legal remedies are available to suppliers who feel that they have been unfairly excluded from contracts.

These rules require public authorities – as well as some private utilities – to publish invitations to tender. Not for all tenders, but only for those that exceed a certain value (typically, €200 000 for goods and services, and €5 million for construction projects), and which are therefore likely to interest suppliers in other Member States.

Figure 10: An increasing number of tenders are published on-line in Tenders Electronic Daily (TED)



Source: European Commission, DG Internal Market.

More and more contracting entities are now publishing their tenders in accordance with the provisions of the Directives They are published on-line in Tenders Electronic Daily (TED). Suppliers can search the TED database at no charge – seeking out the kind of markets that they are most interested in. There is also a growing number of intermediaries who alert interested companies to opportunities and advise them on how best to put their bids together.

Procurement markets are more open than ever before

Increased transparency and procedural guarantees of fairness have injected more competition into procurement markets. The estimated value of cross-border procurement as a proportion of all public procurement rose from 6%[34] in 1987 to 10% in 1998.[35] Whilst this is still considerably less than in the private sector where cross-border purchasing stands at about 20%, it is a significant improvement.

In some sectors with important public sector clients, such as public transport and railway equipment manufacturers, the impact of more open procurement has been rather dramatic. National railway companies, for example, invariably bought rolling stock from their national supplier. Now, with open procurement, domestic suppliers have been forced to cut their prices radically to fend off competition from other Member States. As a result, the price of rolling stock has dropped by 40%[36], generating huge savings.

However, old habits die hard

Those contracting entities who are exploiting the opportunities of open and competitive procurement are reaping the rewards. In Sweden, for example, a 1998 evaluation showed that € 363 million (or 1% of the value of total public procurement) had been saved by applying EU procurement rules, even though about half of the entities involved had not fully complied with the regulations.[37]

But many public authorities continue to behave in the same old ways. Greater success depends crucially on exposing government agencies which allow themselves to be over-charged to stronger public pressure and on a more pro-active attitude amongst suppliers. These should not be discouraged from taking legal action by the fear of biting the hand that feeds them. The sheer size of the procurement sector means that the potential for further savings is enormous – even a modest 5% saving through more competitive prices would reduce procurement costs by around €67 bn every year across the EU. This is more than four times the education budget for Denmark in 2000[38].

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[34] The Single Market Review, sub-series III, Volume 2, Public Procurement, p. 221.

[35] This figure is taken from an independent survey carried out for the Commission. See OJ C 330 of 21/11/2000. It includes both direct cross-border procurement – where contracts are awarded to contractors based in other countries – and procurement through affiliates of companies from other Member States established in the country where the contract is awarded.

[36] Estimate from the Union of European Railway Industries (UNIFE).

[37] "Effekter av lagen om offentlig upphandling", NOU, 1998.

[38] Ministry of Education, Denmark.

6. CONNECTING EUROPE – TRANSPORT, ENERGY AND TELECOMMUNICATIONS

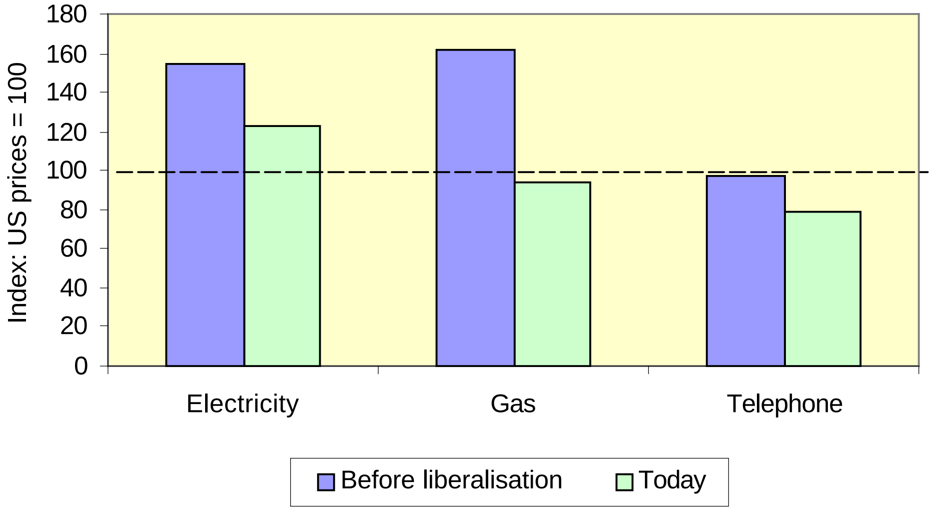
Transport, energy and telecommunications are the arteries of the Internal Market, the lifeblood of competitiveness. If they under-perform, so does the rest of the economy. If they are efficient, all other sectors benefit.

These key sectors were not included in the 1985 White Paper. The notion that they could be opened up to competition had very little support at the time. Many people feared that this could jeopardise the provision of essential public services.

Nevertheless, it became clear that change was necessary. The network industries were under-performing. They were dominated, for the most part, by monopoly providers who had no incentive to provide the best possible service at the lowest possible price, knowing that the customer had no choice.

This was bad not just for domestic consumers but also for European industry, which was losing out to its competitors in third countries who were paying lower prices for many of their business inputs.

Figure 11: EU business inputs are now cheaper relative to the US



Note: Price index for typical business inputs before liberalisation and today. US prices = 100.
Sources: International Energy Agency, Energy Prices & Taxes 3rd Quarter 2002. Eighth Report on the Implementation of the Telecommunications Regulatory Package, European Commission, SEC(2002)1329. For energy, today refers to 2000 figures.

Today, the gap between European and US electricity prices has narrowed. Gas prices have fallen to around US levels. And EU telecommunications costs - already slightly below those in the US in 1992 - are now considerably lower. This is due, at least in part, to the liberalisation which has taken place, to varying degrees, in all EU network industries.

Transport

Some of the most striking changes have occurred in air transport. In the past, the industry was tightly regulated on the basis of bilateral agreements between Member States. In most cases, if you wanted to fly between two major cities, you had little alternative but to fly with one of the national airlines.

But three successive packages of liberalising measures – adopted during the 1990s - have effectively turned all European-owned and controlled airlines, regardless of the Member State in which they are legally established, into "Community carriers" with equal rights of access to all the Community's markets and equal responsibilities under the law. The result is that any EU airline can now operate on any route within the Community.

This has triggered a number of developments in the industry:

- The number of promotional fares available has increased dramatically. This is due to the presence of low-cost carriers in the market and the way in which established carriers have responded to them (see box 10). According to a recent study[39] prices of promotional fares decreased by 41 % between 1992 and 2000. While some of the very lowest prices may not prove sustainable, the importance of promotional fares in the industry is unlikely to change.

- The number of "Community Carriers" offering scheduled passenger and freight services has risen from 119 in 1992 to 133 today, having peaked at 140 in 2000.[40] Since 1993 an average of more than 20 new carriers per year have been set up in the EU. Over 40 carriers formed in 1993 have shut down or been taken over.[41] All this points to dynamism and lively competition in the sector.

- The number of routes linking Member States has risen by 46 % since 1992 – giving passengers a wider choice of destinations and carriers. The number of routes where more than two carriers are competing rose from 61 in 1992 to 100 in 2001.[42] On such routes, business, economy and promotional fares were around 10 %, 17 % and 24% lower[43].

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[39] Updating and development of economic and fares data regarding the European Air Travel Industry, 2000 Annual Report. Commissioned by DG Transport and Energy / European Commission.

[40] Source: OAG summer schedules.

[41] Source: The European Airline Industry: from Single Market to World-wide Challenges, 1999, available at http://europa.eu.int/comm/transport/themes/air/english/at_8_en.html

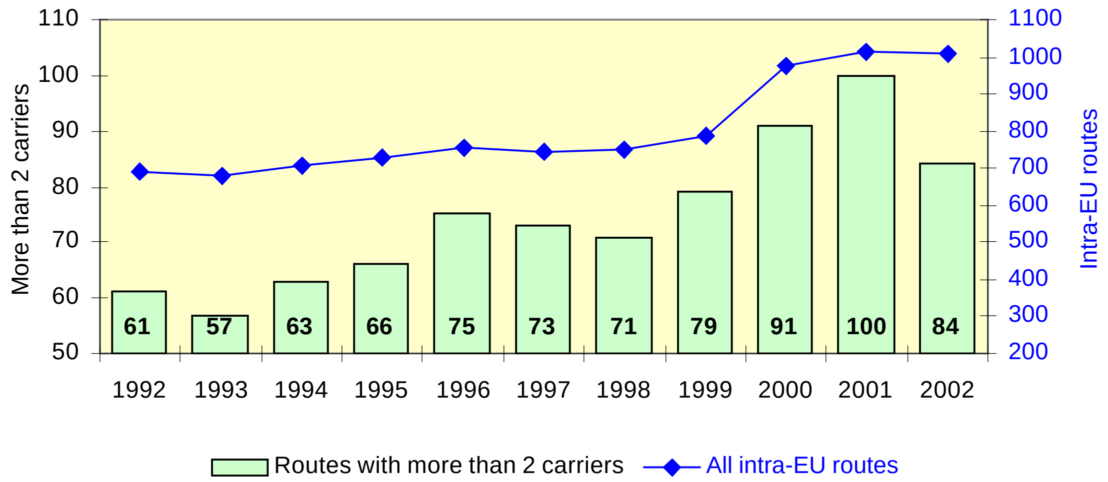
[42] Despite a general slump in air-traffic after 11/9/2001, the provisional 2002 figure for such routes remains higher than for any year in the 1990s.

[43] Source: The European Airline Industry: From Single Market to World-Wide Challenges.

Box 10: Established airlines have responded to the emergence of low-cost carriers

Short-haul pricing by established airlines is now strongly influenced by the need to compete with low-cost carriers. For example, British Airways has lifted many of the restrictions on its cheaper fares, such as the requirement to spend a Saturday night at the destination. On the London-Rome route, for example, the lowest fare not requiring a Saturday night stay is now £109 - down from £409 in 1992 – a reduction of 73%. [44]

Figure 12: More intra-EU routes and more competition



Source: European Commission, DG Transport and Energy. Intra-EU routes = cross-border routes excluding freight.

"The EU's air transport liberalisation programme within the Internal Market has been very ambitious. Decades of restrictions have been swept aside, opening up access to national markets where increased competition has led to more carriers operating on more routes throughout Europe, bringing important benefits, not just for passengers but for the airline industry itself. Further liberalisation is essential if the airline industry is to have the freedom it needs to respond to the present crisis and the benefits are to spread to the international stage."
Mr. Rod Eddington, Chief Executive, British Airways

A similar pattern has been repeated in other transport sectors:

- A road haulier from any Member State can now transport goods between destinations anywhere in the EU – as long as he holds a Community authorisation and meets the conditions for admission to the occupation of road haulage operator (which have been strengthened and harmonised at EU level). Before 1992, lorries often had to return empty from international deliveries – not because there was a lack of return load but because the haulier happened not to be the holder of the "right" document.

- Inland waterways operators can now compete without price fixing and other restrictions by national authorities. Prices have dropped by up to 30 % in Germany, Belgium, France

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[44] Source: UK Civil Aviation Authority.

and the Netherlands. And the tonnage transported has increased from 107 000 million tkm in 1990 to 125 000 million tkm in 2000[45]. This is a positive development; inland waterways are a safe, clean and efficient mode of transport.

- Liberalisation has also occurred in the maritime sector resulting in enhanced competition and the presence of Community operators in markets which had previously been reserved for nationals.

Telecommunications

Telecommunications was a good example of an industry that had become largely unresponsive to customer demand: characterised by a series of national public monopolies, often run in conjunction with postal services, the sector produced services that were expensive and often of poor quality. In 1999, for example, a short-distance call between two neighbouring Member States could be more than 3 times as expensive as a call from the US to Europe[46].

All this changed with a package of measures which culminated in the opening of national telecommunications markets to competition on 1 January 1998:

- Market opening has greatly increased choice for consumers. Over 95 % of the population in 12 Member States can now choose between more than 5 operators for long distance and international calls. A choice of more than 5 operators for local calls is also possible in 8 Member States.

- Competition between these operators is spurring innovation. There are now more advanced services than ever before. The average level of internet penetration in EU households, for example, was around 40 % in June 2002 – up from 18 % in March 2000. Furthermore, high-speed internet access is progressively gaining ground, and in October 2002 there are 10.8 million retail broadband customers in the EU.

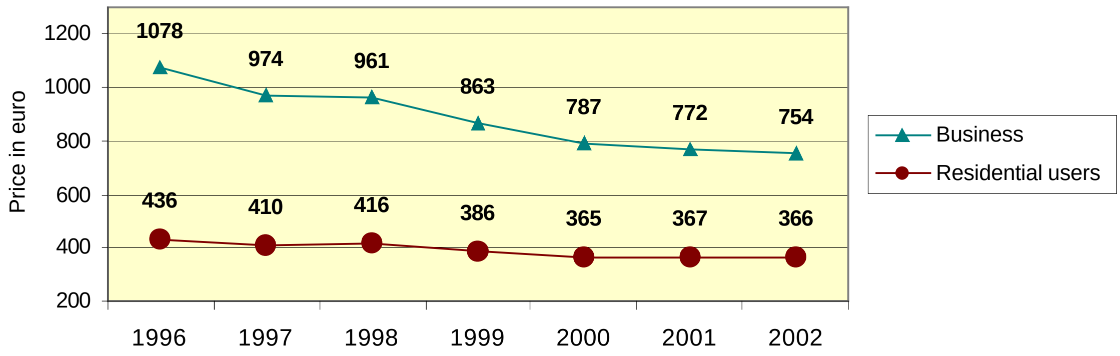
- Competition, combined with technological progress, is also bringing down prices. For example, tariffs charged by the old national monopolies for national calls have been reduced by around 50 % on average since liberalisation, and those for international calls by around 40 %. New operators in many Member States offer even lower prices, even for local calls: new entrant tariffs for national calls are up to 56 % lower and for international calls up to 65 % lower in some countries.

- As a result, the cost of a basket of national calls - including fixed charges and subscriptions - has fallen for both business and residential users since 1996. Business users pay, on average, 30 % less for the same service, while residential users pay 16 % less (see figure 13).

[45] Source: EU Energy and Transport in Figures. Statistical Pocketbook 2002 (forthcoming).

[46] All figures in this section are taken from the Eighth Report on the Implementation of the Telecommunications Regulatory Package, European Commission, SEC (2002) 1329.

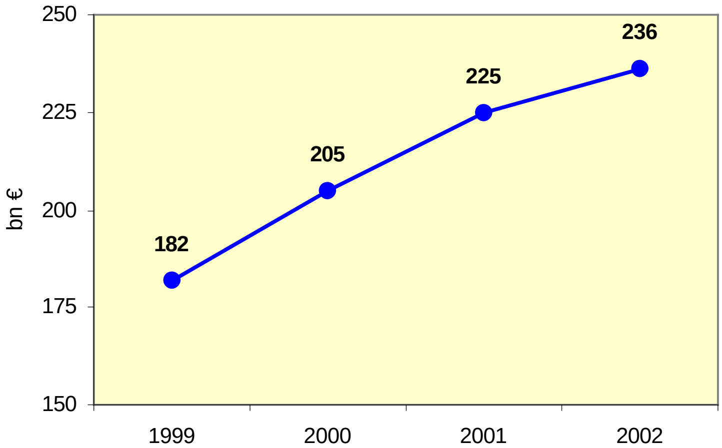
Figure 13: Telephone costs have fallen substantially



Note: The composition of the baskets for residential users and business users differs considerably, so that overall prices are not comparable. Source: European Commission, DG Information Society.

The Internal Market for telecommunications has contributed to the growth in the sector over the past few years. The combined EU market will expand to an estimated €236 billion in terms of revenue by end 2002, which represents an increase of 30 % over actual growth in 1999.

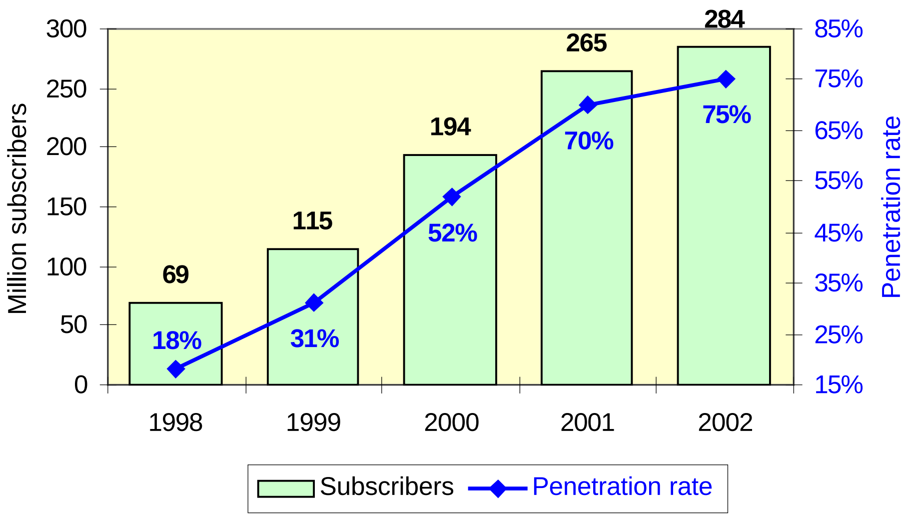
Figure 14: Strong growth of the EU telecommunications market



Source: European Commission, DG Information Society.

The fastest expanding segment is mobile services, with 6 % more subscribers this year, and with an average penetration rate of 75 % in June 2002. The EU now leads the world in using and manufacturing mobile phones. This explosive growth has been spurred in large part by the GSM standard.

Figure 15: Mobile services have exploded in recent years



Source: European Commission, DG Information Society.

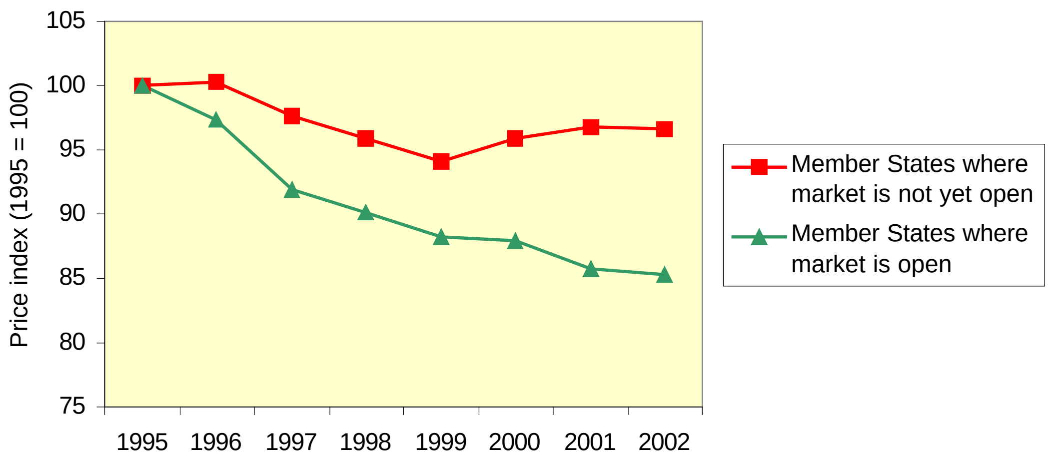
Energy

The gas and electricity Directives set out a step-by step approach to the opening up of markets for business consumers. The first step was taken in 1996 by requiring that approximately 30 % of the electricity market and 20 % of the gas market be opened to competition by 1999.

In fact, many Member States have moved faster than required by the electricity Directive and we are now faced with a situation where market opening in this sector is uneven across the different Member States.

This has a clear impact on prices. For example, in Belgium, France, Greece, Italy, Luxembourg and Portugal, where the electricity market for medium-sized industrial customers has yet to be opened, price developments in this segment of the market have been less favourable.

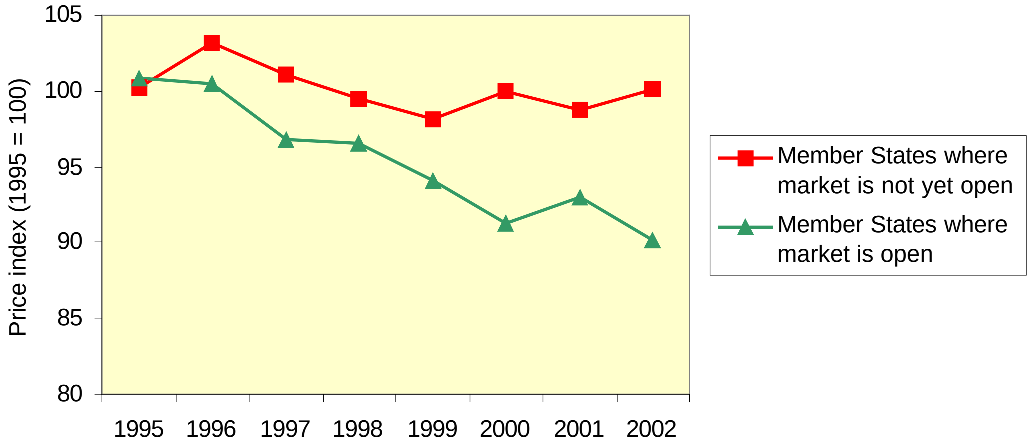
Figure 16: In liberalised markets industry benefits from lower electricity prices



Source: European Commission. July prices (in euro) for 2GWh/year customer.

The same effect is visible for household users. In a small number of Member States, these users can choose their electricity supplier. In the UK, for example, 34 % of people have already changed their supplier. In these Member States, prices have decreased more than in Member States where users still have to buy electricity from their state monopoly.

Figure 17: Households also benefit from lower prices in liberalised markets



Source: European Commission. July prices (in euro) for 3.5 MWh/year customer.

The liberalisation process will soon be completed allowing all types of user in all Member States to benefit fully. The Barcelona European Council in Spring 2002 agreed that all non-household consumers should have freedom of choice of supplier by 2004 (ie. 60% of the market is to be opened up). And Energy Ministers recently reached a political agreement that will lead to full market opening by July 2007, ie. for household users as well.

Of all the electricity consumed in the EU, only 8% is supplied across national borders. This is because of capacity bottlenecks between national networks. For example, the maximum transmission capacity between France and Spain is still less than 4 % of total production capacity[47].

Steps are now being taken to tackle this and other critical bottlenecks. The Barcelona European Council set a cross-border inter-connection target equivalent to 10 % of installed national production capacity by 2005[48].

Public services of high quality which are accessible to all

Initial fears that market opening would have a negative impact on employment levels or on the provision of services of general economic interest have so far proved unfounded.

Key public service obligations continue to be met. Consumers have access to essential public services in most areas of the Community. For example, a survey of 45 000 EU

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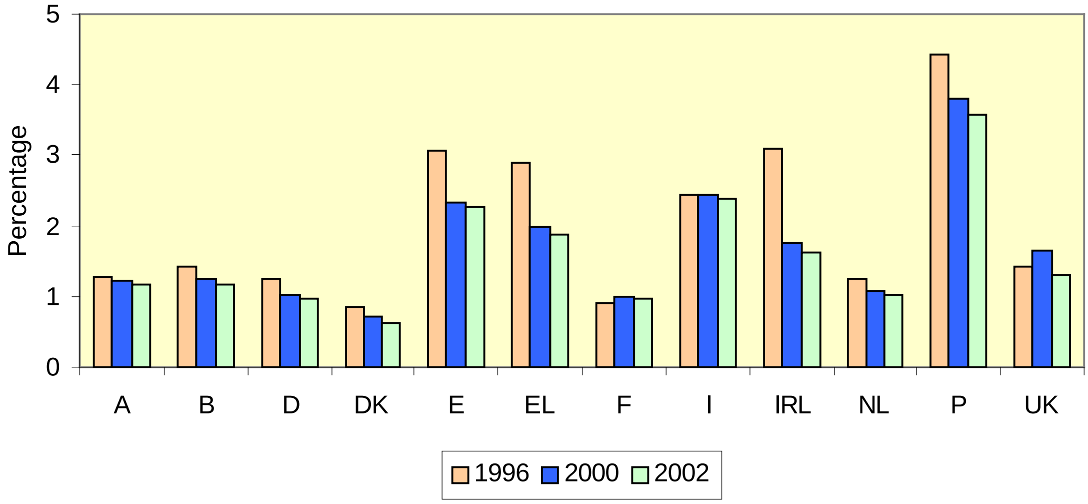
[47] Based on data supplied by the Union for the Co-ordination of Transmission of Electricity (UCTE), 2001.

[48] Cf. Presidency Conclusions of the spring 2002 Barcelona European Council at: http://ue.eu.int/en/Info/eurocouncil/index.htm

households shows that 96% of them had a telephone (fixed telephone connection, mobile telephone or both) at the end of 1999. Mobile telephony has helped to solve accessibility problems in isolated regions.[49]

In addition, competition has made services more affordable. For consumers in the lowest income brackets, the percentage of personal income needed to buy the standard basket of telephone calls has fallen in most countries between 1996 and 2002.

Figure 18: Low-income users spend a lower percentage of their income on telephone calls



Note: Percentage of individual income (for those in the lowest 20% income bracket) necessary to pay for a basket of telephone calls comprising a majority of national calls and subscription fees for small users. Source: Evolution de la performance des industries de réseaux prestataires de services d'intérêt général, Document de travail des services de la Commission.

The percentage of income needed to pay for an annual consumption of 1 200 kWh of electricity has also fallen in almost all cases.

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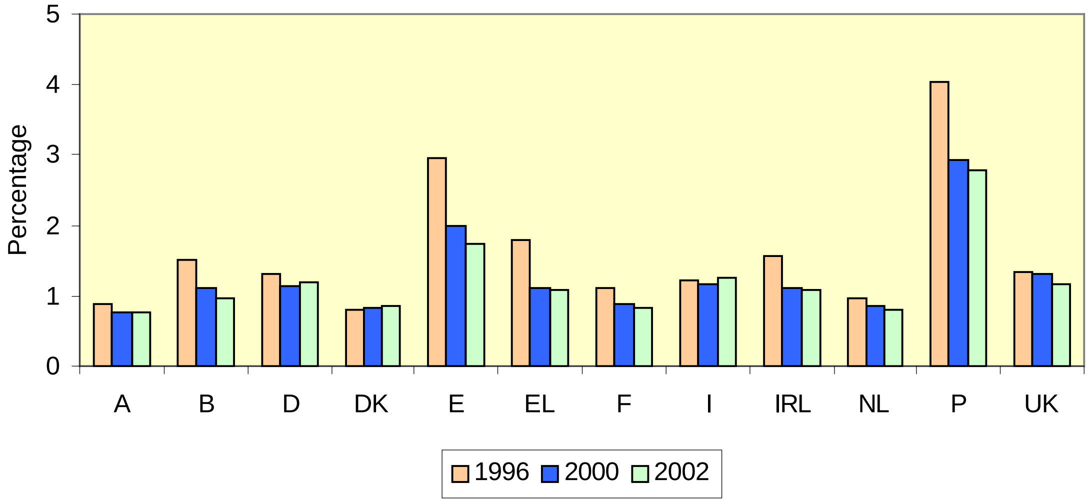
[49] Market performance of network industries providing services of general interest: a first horizontal assessment - presented as an annex to the 2001-2002 Report on the Functioning of Product and Capital Markets (Cardiff Report), COM (2001) 736.

Figure 19: Lower income users also generally spend less of their income on electricity



Note: Percentage of individual income (for those in the lowest 20% income bracket) necessary to pay for a yearly consumption of 1200 kWh. Source: Evolution de la performance des industries de réseaux prestataires de services d'intérêt général, Document de travail des services de la Commission.

The impact of market opening on employment has been broadly positive. Job losses, particularly amongst former monopolies, have been more than compensated for by the creation of new jobs thanks to market growth.

In telecommunications, for example, job creation associated with the emergence of new competitors has more than outweighed job losses in countries where the former national monopoly has decreased its workforce. Total employment in the sector has increased in all but two Member States between 1996 and 2000. In seven Member States, it has increased by more than 20%[50].

Overall, the liberalisation of the network industries is estimated to have led to the creation of nearly one million jobs across the EU (see chapter 1, footnote 4).

50 See above.

7. FINANCIAL SERVICES AND MARKETS – THE OIL IN THE EUROPEAN ECONOMY

Efficient financial service provision and financial markets are central to the running of economies, by allowing consumers and companies to invest savings, borrow, and manage risk in the most effective way possible. Financial markets connect companies looking to raise money to invest in future performance with investors looking to make the most of their savings in the way that best suits both.

As such, financial service and market integration is crucial to the future success of the EU economy, by pooling liquidity, promoting competition and efficiency and reducing costs for enterprises and consumers, and so acting as a catalyst for growth across all sectors of the economy.

Before 1993, there were important measures based on common minimum requirements to ensure that banks, insurance companies and other financial providers could register and obtain a license to do business in other Member States.

However, cross-border financial activity was ultimately more the exception than the rule. For example, as late as 1988, the average market share of foreign banks in Member States was limited to a meagre 1%. Cross-border life assurance activity in Europe was less than 1% of total life assurance business. And in 1992, cost differences to consumers making cross-border payments varied by up to and beyond 100%.

Progress, but not enough

Under the 1992 Programme, there were improvements with key Directives being adopted right across the spectrum of financial services:

- In **banking**, major measures were adopted or amended, delivering benefits such as a single passport to set up a branch or provide cross-border services. The impact of this has been greater competition and price reductions for certain services. Fee levels also dropped post-1992, and credit card prices fell across the board to narrow the range of price divergence by about 30%.
- In **insurance**, a number of core Directives were adopted, enabling the free provision of services and establishment on the basis of a single passport. The impact of this has been greater competition, in particular within Member States.
- And in **securities**, common rules against insider trading and most importantly of all, a European passport for investment firms looking to offer their services to investors in other Member States were adopted.

But by the mid-to-late 1990s, the limits of this approach were being felt. Progress was either disappointing – with Europe's financial markets remaining fragmented - or already being overtaken by events and forces at work, in particular:

- The **introduction of the Euro** acted as a major catalyst for change by enhancing the price transparency of European markets and revealing previously hidden barriers and inefficiencies.
- Electronic commerce and **improved technology** revolutionised the possibilities for cross-border trade on markets or in financial services.
- **Market innovation** increased as new types of financial entities emerged, and the whole role and nature of stock exchanges changed.

Above all though, it became clear that Europe did not possess the necessary financial apparatus to compete effectively with its international partners. To give but one example: as recently as 1996, the average amount traded per day on the three major EU stock exchanges combined was only $12.8 billion, compared to $13 billion for Nasdaq alone, and $16 billion for the New York Stock Exchange[51].

Something needed to be done and was, with the adoption of the Financial Services Action Plan (FSAP) in 1999, a framework for action containing 42 measures. These aim *inter alia* to:

- create a single wholesale financial market to allow companies to raise capital on an EU-wide basis, including through improvements to the EU's whole financial reporting structure;
- complete a single EU retail market, ensuring consumer choice while maintaining consumer confidence and protection;
- underpin all this through state of the art prudential rules and supervision.

These changes are central to the achievement of Europe's economic ambition to be the most competitive and dynamic knowledge-based economy in the world and are needed now. European Heads of State and Government have called for a single EU financial market by the end of 2003 and for the Action Plan as a whole to be delivered by 2005. Thirty two of the forty plus measures envisaged have already been adopted. It is vital that this momentum is kept up, and that measures are consistently implemented and enforced.

New research has further underlined the importance of integration by showing that huge economic gains and efficiencies for all sectors of the economy across all Member States can be achieved if EU financial markets integrate further. Even this is likely to underestimate the real effect as it ignores the huge potential benefits of such market in an enlarged European Union.

Box 11: Economic benefits of further integration

- A single market for securities and improved market access could result in an increase in EU-wide GDP of 1.1% - or €130 billion in 2002 prices over a decade or so. Total employment could increase by 0.5%[52].
- Businesses are expected to get cheaper finance: the reduction in the cost of equity capital resulting from integrating EU equity markets is estimated at 0.5% whereas the decrease in the cost of corporate bond finance resulting from an integrated and increased corporate bond market is estimated at 0.4%.[53].
- Further integration of retail markets could yield potential gains in terms of interest rates of 0.7% of EU GDP[54].

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51 Based on data from the Fédération internationale des bourses de valeurs (FIBV).

52 "Quantification of the macro-economic impact of the integration of EU financial markets", London Economics study for DG Internal Market.

53 See above.

54 Forthcoming study for DG Internal Market by Instituto Valenciano de Ivestigaciones Económicas (IVIE).

8. HIGHER STANDARDS OF PROTECTION IN THE WORKPLACE AND FOR THE ENVIRONMENT

There has been significant progress over the past ten years in protecting the environment and the rights of EU citizens in the workplace. Harmonised social and environmental legislation, underpinned by the Internal Market, has enabled considerable improvements to be made on fundamental issues like health and safety at work and air quality.

Better protection at work

A conscious political decision was taken in the 1980s that the Internal Market project would be accompanied by a strong social dimension. As a result, important items of EU legislation have been introduced in a number of key areas:

- **Working time -** EU legislation establishes minimum daily, weekly and annual periods of rest and adequate breaks, as well as a maximum limit on weekly working hours.

- **A safer working environment** – special rules apply to workers using hazardous materials and those employed in certain sectors, such as construction and mining. This legislation is having an effect – the latest data shows that the number of accidents per 100 000 persons employed fell by 9.9% between 1994 and 1998. The number of fatal accidents fell by 17.5% during the same period.

- **Consultation and representation –** the Works Council Directive ensures better information and consultation in companies operating trans-nationally in the Internal Market. Over 700 works councils have now been established covering about 40% of companies and 60% of employees falling within the scope of the Directive

- **Equality between women and men –** EU legislation seeks to guarantee equal pay for equal work or work of equal value.

- **Protection against discrimination** – EU law prohibits workplace discrimination on grounds of sex, race, colour, religion, handicap or sexual orientation.

A cleaner environment

Prior to the development of an EU environmental policy, a number of serious environmental and health issues were affecting the Member States. Acid rain and poor air and water quality represented a major problem across Europe. Standards in dealing with major accident hazards varied widely across the EU, a factor in dramatic accidents such as the Seveso disaster. Lead in petrol posed a risk to the health of Europe's children. Although there are still many serious environmental challenges ahead, the situation has undoubtedly improved considerably in many areas:

- **Emissions from motor vehicles** - a harmonised approach to this issue has enabled significant environmental improvements to be made whilst maintaining the free sale and circulation of vehicles throughout the EU.

- **Cleaner water –** the quality of European rivers and lakes has improved considerably as pollution from sewage or agriculture diminishes. During the 1990s, signs of organic pollution of water such as biochemical oxygen demand and ammonium levels have fallen by 20-30% and 40% respectively[55]. This has lead to fish returning to their traditional breeding grounds in rivers such as the Thames, the Seine and the Rhine.

- **Cleaner air –** European legislation has contributed to decreases in a wide range of air pollutants. For example, overall emissions of acidifying substances that are bad for human health, attack the architectural heritage of the EU and reduce crop yields, have been reduced by 38% between 1990 to 1999[56].

In addition, the development of the Internal Market has facilitated the movement of environmental goods and services. This in turn encourages the spread of best practice in the use of environmental technology and has helped the EU Eco-industry sector to become a €183 billion business, one of the fastest growing sectors in Europe.[57]

[55] Environmental Signals 2002.

[56] As above.

[57] ECOTEC report for the Commission, 2002.

9. KEEPING THE PLAYING FIELD LEVEL – TAX AND COMPETITION POLICY

The purpose of the Internal Market is to allow firms from across the EU to compete with each other – but competition must be clean and fair. Tax and competition policy both play an essential role in creating and maintaining a level playing field.

Tax

A significant body of legislation on VAT and excise duties had to be adopted before the physical borders could be dismantled on 1st January 1993. In the area of excise duties a harmonised tax structure was introduced and common minimum rates were agreed. And in VAT, a transitional system was introduced which is still in place today.

This transitional system was a major achievement; it eliminated some 60 million customs clearance documents annually. But it is still burdensome for economic operators and susceptible to fraud.

The Internal Market would function better with an origin based system (taxation at the place where the seller of a product or service is established). This would allow intra-EU sales and purchases to be treated in the same way as those taking place within a Member State. However, taxation issues are decided on the basis of unanimity and the current political climate is not ripe for such a move. The Commission has therefore reserved it as a long-term goal and is currently focusing its efforts on simplifying and modernising existing VAT provisions.

There are also distortions in certain markets when excise, VAT or other taxes diverge too much. High profile examples include alcohol, cigarettes and automobiles. In the latter case the Commission has suggested a change in Member State's systems so that taxation is related to the use of a car rather than its acquisition.

Competition

An effective competition policy is essential for ensuring that the free play of competitive forces in the Internal Market is not unduly distorted so that goods and services are provided to users and consumers on the best possible terms.

Box 12: European competition policy is based on four main areas of action:

- The **"Antitrust rules"** (Articles 81 and 82 EC Treaty) which prohibit anti-competitive agreements between undertakings as well as the abuse of dominant positions held by one or more undertakings.
- The **Merger Regulation,** which subjects large-scale mergers above certain turnover thresholds to Community control with the aim of preventing the creation or strengthening of dominant positions.
- Special rules on the **liberalisation** of economic sectors in which **State-granted exclusive and special rights** for certain undertakings exclude or unduly limit competition (Article 86 EC Treaty and secondary EC legislation).
- The **State aid rules** (Articles 87-89 EC Treaty) which - subject to certain exceptions - prohibit any aid granted by a Member State or through State resources which would distort competition by selectively favouring certain undertakings or branches of production.

The Commission is the European Competition Authority which has exclusive competence to implement these rules except for the areas of Antitrust and Liberalisation, in which the Commission shares its enforcement powers to a certain extent with the Member States' own competition authorities and courts.

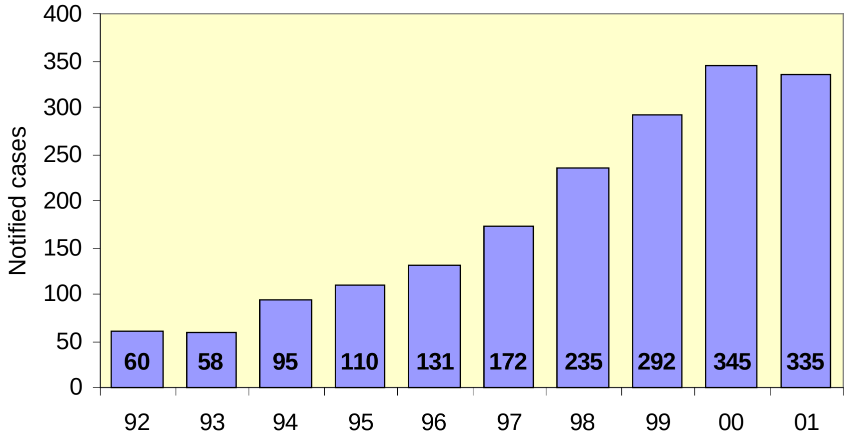
In the area of **Antitrust**, the Commission has stepped up the prosecution of cartels and vertical restriction schemes.

- Since 1992, over 30 Commission Decisions imposed fines on cartels. For example eight companies were fined €855 million in 2001 for participating in eight distinct secret market-sharing cartels affecting vitamins products (the *Vitamins cartel).*

- Several car manufacturers were fined for forcing authorised dealers in some Member States to refuse to sell cars to foreign buyers who wanted to benefit from lower prices and shorter delivery times. In 1998 the Commission fined Volkswagen €90 million. In 2001, Daimler Chrysler was fined €71 million.

The number of concentrations notified to the Commission under the **Merger Regulation** has increased dramatically over the past ten years.

Figure 20: the number of notified cases has increased



Source: European Commission, DG Competition.

The share of cross-border mergers and acquisitions has increased from 25.8% of total mergers and acquisitions to 39% between 1992 and 2001, indicating an accelerating pace of cross-border restructuring in European industry. The integration of markets within the EU and globalisation are the most important driving forces behind this development.

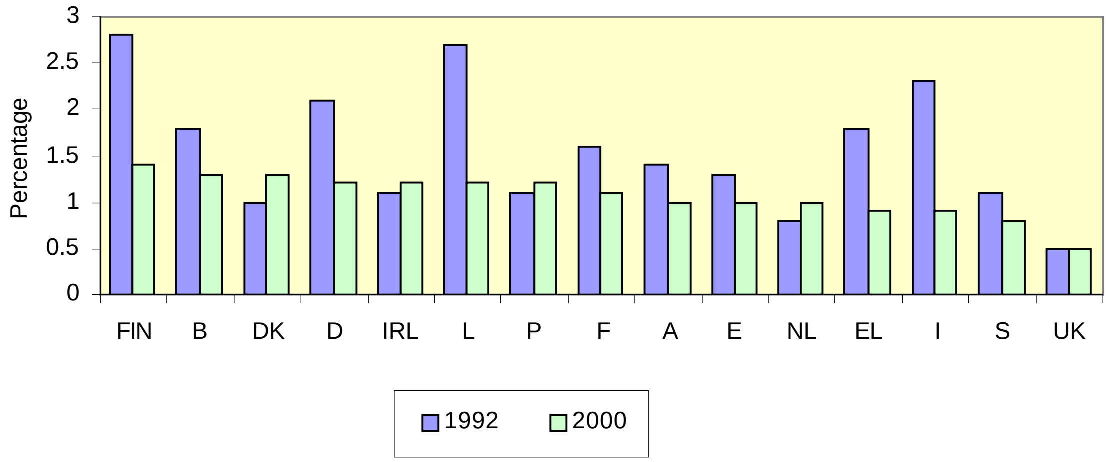
In many Member States, **state-granted exclusive and special rights** for certain undertakings have traditionally eliminated or reduced the scope for competition in particular in the network industries. Articles 86 in conjunction with 82 of the Treaty give the Commission an effective tool to liberalise state-monopolised sectors including those providing services of general economic interest.

In the past decade, the Commission has used this tool in various ways, notably in the telecommunications sector through a series of Directives and individual Decisions, but also with regard to other issues such as airport landing fees or pilotage fees in sea ports.

In order to avoid distortions of competition because of handouts by national governments, Member States must notify to the Commission all new proposals for **State Aid** as well as changes to existing aid packages. These can only be put into effect once the Commission has decided that they are compatible with the Internal Market. Where the Commission comes to the conclusion that the aid does not comply with State aid rules, it cannot be granted. If the aid has already been awarded, the Commission will order the Member State to recover it from the beneficiary[58].

Over the last ten years, the underlying trend in state aid has been downward for the vast majority of Member States. For the EU as a whole, the overall volume of state aid fell from €104 billion in 1992 to €82 billion in 2000. More striking is the drop in aid as a percentage of GDP over this period: from 1.5% to 1.0%.

Figure 21: State aids have declined as a percentage of GDP in almost all Member States



Note: State aid as a percentage of GDP. For A, FIN, and S 1995 data have been used instead of 1992. Source: European Commission, DG Competition

In spite of this downward trend, the cumulative effect of €82 billion of aid annually continues to have a considerable distortive effect on competition in the Internal Market. Member States have been urged to reduce aid levels further, particularly by eliminating aid which has the greatest distortive effects and reorienting aid towards horizontal objectives such as protecting the environment, promoting training, research and development and strengthening small and medium-sized enterprises.

58 As of October 2002, 79 recovery cases remained open: in 25 of these cases, the beneficiary was bankrupt, 15 were the subject of court procedures while the remainder were under discussion with the Member State in question.