

Internal Market: Opinions and experiences of Businesses in the 10 New Member States

Summary

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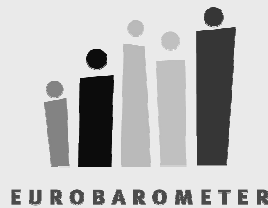
This survey was requested by the Internal Market and Services Directorate General of the European Commission and coordinated by Eurobarometer Team of the European Commission.

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Flash EB Series #190

Internal Market: Opinions and experiences of Businesses in the 10 New Member States

Conducted by
The Gallup Organization Hungary/Europe
upon the request of Internal Market and Services
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Survey organised and managed by the
Eurobarometer Team of the European Commission
(Directorate-General Communication, Unit A-4)

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THE GALLUP ORGANIZATION

Table of contents

- Table of contents..... 3**
- Introduction 4**
- 1. Perceptions of Single Market Measures 5**
 - 1.1. Elimination of customs documentation 6
 - 1.2. Abolition of border controls 6
 - 1.3. European product standards 6
 - 1.4. VAT procedures for sales within the EU 6
 - 1.5. The liberalization of capital movements 7
 - 1.6. European labelling and packaging rules 7
 - 1.7. European public procurement rules 7
 - 1.8. Rules for establishing a business in other EU countries 7
- 2. Effects of Single Market Measures 8**
 - 2.1. Impact on the level of competition 8
 - 2.2. Influence on company strategy 9
 - 2.3. Recruitment from other Member States 10
 - 2.4. Impact of enlargement on activities 11
 - 2.5. Impact of enlargement on trade 12
 - 2.6. Barriers to trade within the Single Market as a whole 13
- 3. Future of the Single Market 15**
- Conclusion..... 16**

Introduction

In the last 20 years the progress that has been made in developing the Single Market has been remarkable. Today, most EU citizens can live, study, work or retire in whichever country they like in Europe. And the consumers have a wider choice of high quality products and services, while companies have large and diverse markets at their disposal to develop their business with greatly reduced technical impediments.

The objective of the survey Flash Eurobarometer 190: “Internal Market in the New Member States” is to study the senior managers’ opinion on the changes in the general business environment in the European Union Single Market, on the various economic reforms introduced to make doing business easier in the European Union. This Survey complements a similar one conducted in February in the ‘old’ EU-15 Member States (see Flash EB 180: "Internal Market: Opinions and experiences of Businesses in EU-15").

The telephone interviews were conducted between the 27th of July and the 4th of August 2006 by the partner institutes of The Gallup Organization Hungary / Europe on behalf of Internal Market and Services Directorate General of the European Commission. The survey covers aspects as Perceptions of Single Market Measures, Effects of Single Market Measures and Future of the Single Market.

The target for this Flash Eurobarometer was defined as all companies – agriculture, non-profit and public administration excluded – employing 10 or more persons, in the 10 New Member States (NMS) of the European Union. The person interviewed in each company was a top level executive (general manager, sales/marketing manager, import/export manager, logistics manager).

In the country with the most companies, Poland, 500 respondents were interviewed. In those with the fewest companies (Estonia, Cyprus, Latvia, Lithuania, Malta, Slovenia and Slovakia) about 200 respondents were interviewed, and in the remaining countries (Czech Republic and Hungary), approximately 300 managers were consulted. Overall, Gallup interviewed 2552 companies across the NMS zone. (For the country breakdown of interviews and field periods, please refer to “Survey details” in the Annex of this report.)

During the data processing, each cell in the cross distribution of the sample was re-weighted up or down according to its real weight within the NMS zone. Thus, the total results presented are not affected by over- and under-samplings, and are representative of the total universe examined.

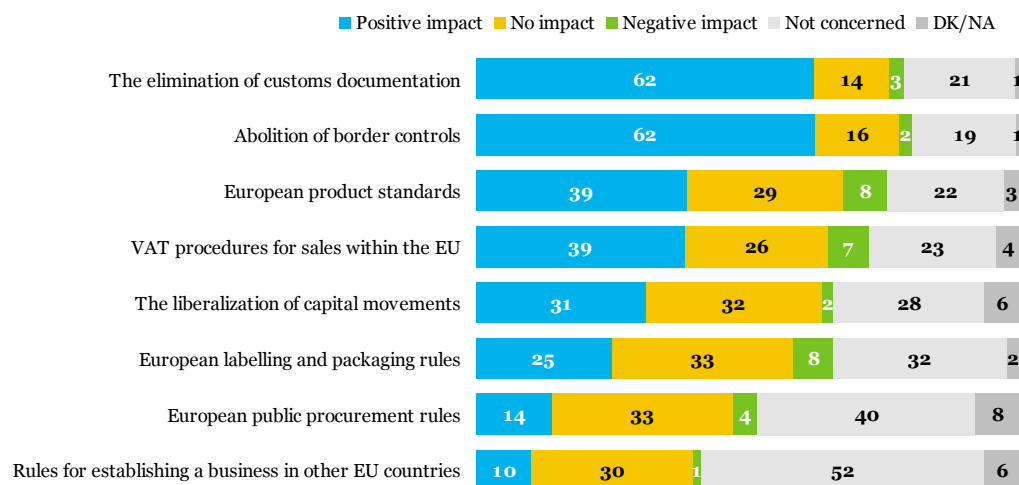
1. Perceptions of Single Market Measures

Looking at the *overall average*¹ results concerning the eight Single Market measures included in this question, the majority of company executives consider that the Single Market has had a positive impact on their firm's activities (35%). There are less executives believing that the Single Market has not had an impact on their company (27%) and only 5% of executives state that the impact has been negative for their business (on average one third of company executives are not concerned or do not answer – 34%).

Turning to details, a relative majority of company executives in the NMS10 group recognise the positive impact of two of the founding principles of the Single Market: the elimination of customs documentation (62%) and the abolition of border controls (62%). Two in five executives also believe that the European product standards and the VAT procedures for sales within the EU have positively impacted their firms' activities (39-39%). Less than one in three emphasize the positive impact of the liberalization of capital movements (31%), and one quarter of the European labelling and packaging rules. For the remaining two Single Market measures (European public procurement rules and rules for establishing business in another EU country) nearly half of executives say they are not concerned (40% and 52% respectively).

On the other hand, for the Single Market measures as liberalization of capital movements, labelling and packaging rules, public procurement rules and rules for establishing business in other country, around one third of executives indicate that they have not had any impact (ranging from 30% to 33%).

Perceptions of Single Market measures



Source:
FLASH EB 190
7 July – 04 August 2006

GALLUP

Q1. I would like to know whether the following European Union Single Market measures have had an impact on your firm's activities?
% NMS10

¹ Calculated the average for the 8 items within each of the answer categories (positive impact / no impact / negative impact / not concerned / DK/NA).

1.1. Elimination of customs documentation

The elimination of customs documentation is recognised by 62% of executives as having a positive impact on company activities. Only 3% state that the impact is negative.

No less than three quarters of executives working in industry confirm the positive impact of the elimination of customs documentation on their business activities. The positive impact has also been regarded high in companies in the trade sector being confirmed by more than two thirds of those interviewed. Large firms are more likely to benefit from this measure than smaller firms. As we would expect, companies actually trading with one or more old Member States, and companies regularly selling products or services to at least one member country, clearly benefit from the elimination of customs documentation.

1.2. Abolition of border controls

The elimination of customs documentation is one of the major factors necessary for the abolition of border controls, thus the relationship between the two would naturally lead us to expect similar opinions about both of these measures.

This presumption is confirmed in that the abolition of border controls follows very close behind customs documentation in terms of the average number of managers in the NMS10 recognising its positive impact on their firm's activities, being confirmed similarly by 62%; only 2% saying that the impact has been negative, and 16% saying this has no impact

The type of company positively impacted by the elimination of customs documentation is, as we would expect, also benefiting from the abolition of border controls. Large firms and companies are the most inclined to confirm the positive impact of the abolition of border controls for their business activities. Those exporting to old Member States and those having more trading partners in the EU are the most inclined to share this point of view.

1.3. European product standards

39% of company executives recognise the positive impact of European product standards on their business activities. Although lagging much behind the previous measures in terms of positive votes, overall this aspect ranks the third. In relatively high number, but less than one in three executives claim that their business activity has been unaffected by product standards (29%), while 8% say that for their firm's activities the impact has been negative. There are one in five executives mentioning they are not concerned (22%).

Managers working in the industry sectors are comparatively more positive about the impact of European product standards on their business compared to those operating in the services or construction sectors. The largest enterprises, with more than 250 employees, are the most positive about this measure. Companies actually exporting to the EU15 are the strongest in their assertions of the positive impact of this measure on their firm's activities, as well as those that have 2-5 trade partners in the EU.

1.4. VAT procedures for sales within the EU

A number of developments have taken place recently with a view to harmonising the value-added tax collection systems of the Member States and provide for a uniform basis for the collection of VAT. The progress made regarding VAT procedures for sales is favourably viewed in terms of their firm's

activities by 39% of company executives. Around a quarter of executives think this measure has no impact on their activities and 7% claim it has negative impact. There is another close to quarter of respondents mentioning they are not concerned (23%).

Managers from the trade and industrial sectors, managers from the largest companies recognise the positive impact for their firm. Companies that actually engage in trade with old Member States are much more positive about the impact of this Single Market measure on their business activities than others, and the executives of companies trading with 2-5 European partners claim the same.

1.5. The liberalization of capital movements

Executives claim in almost equal proportions both that the liberalization of capital movements has positive impact and that this has no impact on their businesses (31% and 32%, respectively). Only 2% say that the impact has been negative for their firm (and 28% that they are not concerned).

Here are slightly less differences among companies from different sectors but in general the same trend can be seen here as in our previous analysis. Companies in trade, largest firms or those actually exporting to old Member States and having more partners in EU are the most convinced of the positive impact of the liberalisation of capital movements on their firm's activities.

1.6. European labelling and packaging rules

Labelling and packaging regulation is viewed as having positive impact on business activities by one in four company executives (25%). One third of executives didn't see any impact (33%), and 8% of them see negative effects of this measure. There are another one third of executives mentioning they are not concerned (32%).

The impact of European labelling and packaging rules appears to be the most positive on the business activities of the largest companies, and companies in the trading and industry sectors. Companies actually engaging in trade with old Member States and those planning to engage in such trade are the most positive about the impact of this measure on their firm. Also, companies with more than two trading partners claim positive impact of the labelling and packaging rules in relatively high proportions.

1.7. European public procurement rules

According to current opinion among business executives, public procurement rules are not yet positively affecting the vast majority of companies in the Single Market. Only 14% observed positive impact of this measure, one third of them mentioning this has no effect at all (33%), and a small minority that it has negative impact (4%). Comparing to other Single Market measures, the ratio of those executives is very high who say they are not concerned (40%).

In this case, construction and services companies are slightly more enthusiastic about the impact of European public procurement rules on their firm's activities compared to other sectors, as well as medium sized and large companies. We also see that European public procurement rules have had a positive impact on those companies that plan to trade with EU15, as well as those that do not yet have any trading partners in the European Union.

1.8. Rules for establishing a business in other EU countries

The Flash Eurobarometer results show that there is considerable room for improvement regarding the rules of establishing a business in other Member States. As few as 10% of respondents consider that

the rules for establishing a business in other EU countries has had a positive impact on their company activities - the lowest positive score out of all eight measures. It is interesting to note that the ratio of those executives is the highest that mentioned they are not concerned (52%).

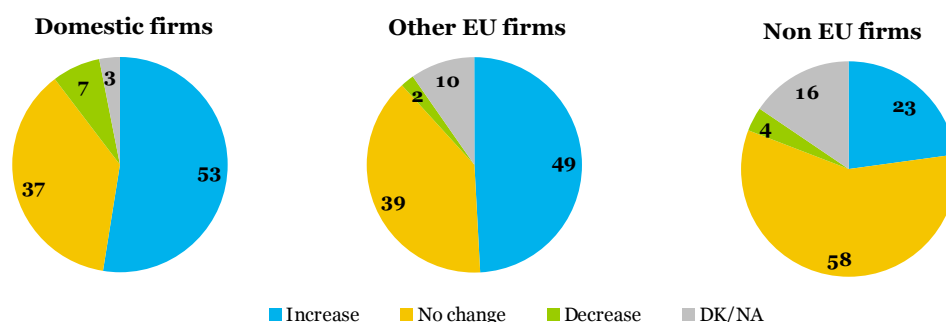
Again we see that large companies, companies exporting to old Member States and those with at least one trading partner in the EU have benefited more than other types of firms from the rules for establishing a business in other EU countries.

2. Effects of Single Market Measures

2.1. Impact on the level of competition

It is often assumed that in any economic marketplace, the level of competition increases as the extent to which goods, services, people and capital are free to circulate is widened. From the average results for the NMS10, it seems as if the Single Market increases the level of competition coming from domestic or other firms for nearly half the companies in the New Member States (53% and 49%, respectively), while it introduces no change in competition from non-EU firms (58%).

Impact on the level of competition



Q3. As a result of the Single Market, have you noticed an increase or a decrease in the level of COMPETITION in [COUNTRY] coming from...? % NMS10

Source:
FLASH EB 190
7 July – 04 August 2006

GALLUP

66% of company executives in Latvia claim that the level of competition coming from **domestic firms** has increased. The impact on the level of competition stemming from domestic firms has also been high in Lithuania (64%) and Cyprus (62%).

The ratio of executives who vote for a perceived increase in the level of competition coming from **other EU firms** is the highest in Poland (55%), followed by Latvian (54%) and Slovenian (51%) executives.

Regarding the impact on the level of competition from other **non-EU firms**, the results are fairly similar for all New Member States, figures ranging from 14% in Estonia to 32% in Lithuania.

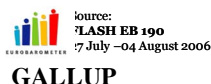
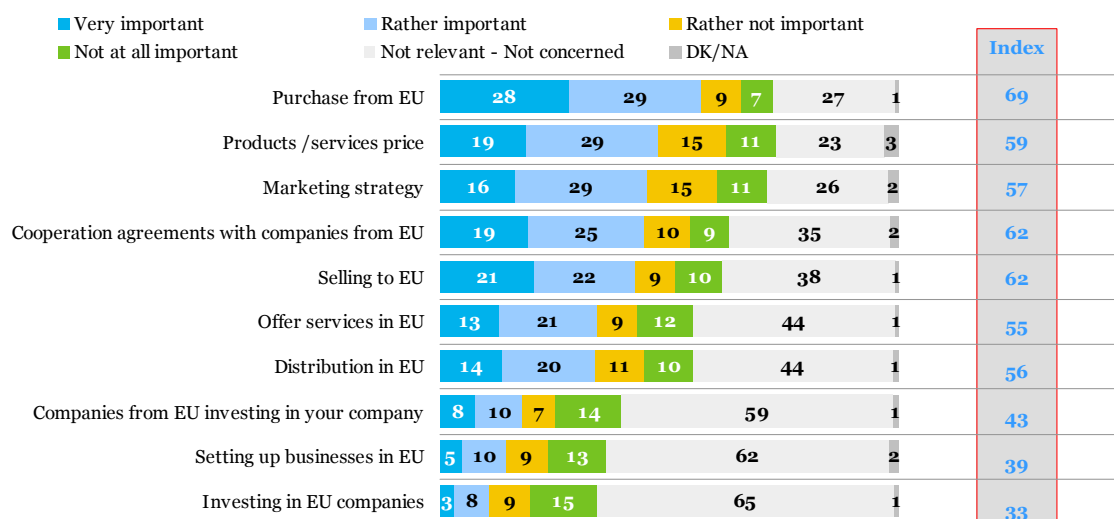
Companies in the trade and services sectors have been most exposed to an increased level of competition coming from **domestic firms** compared to firms in other sectors. Competition coming from **other EU firms** increased mostly in industrial sectors, while in the trade sector competition

coming from **non-EU firms** is perceived so. Large companies are more inclined to perceive a greater increase in the level of competition and we can say the same about companies having more than 2 trading partners in the European Union, regardless whether the competition comes from domestic, other EU or from non-EU firms. Companies that actually do not trade with EU15 but plan it perceived the highest increase in competition from domestic firms, while those companies that actually trade with EU15 mentioned in the highest proportion other EU firms and non-EU firms posing increased competition.

2.2. Influence on company strategy

In average, more than half of the business leaders recognise the significance of the impact of the Single Market on company strategy (53 points)². In order to give an overall view of the influence of the company strategy related factors at the NMS10 level, we converted the scores into an index calculated as follows: very important = 100, rather important = 66.7, rather not important = 33.3, not at all important = 0.

Influence on company strategy



Q2. For each of the following areas, how important has the influence of the European Union Single Market been for your company's strategy? % NMS10

Purchasing from other European Union countries has been an important influence on the strategy of 57% of companies contacted, thereby confirming the practical effect of the free movement of goods or services across the European Union.

In the spirit of improving the business environment and ensuring that market integration is not undermined by anti-competitive practices, **pricing of products or services** is considered the second most influenced area (48%).

Five areas mainly related to selling and distribution with indexes ranging from 55 to 62 points follow next. 45% of company executives state that the Single Market has been important for the development of their **marketing strategy**, 44% of company managers claim the importance of **co-operation agreements with companies from other EU countries**, 43% say that the possibility of **selling directly to other EU countries** has had an important effect on their company strategy, while for 33%

² This figure is the mathematical mean of the 10 indexes calculated for each of the items; for the calculation of indexes see the second sentence on this page.

offering services in other EU countries has been important and for 34% of company executives the Single Market has had an important impact on **distribution in the EU**.

The last three areas relating to **setting up businesses** in other Member States and **investment** (both **inward** and **outward**) are confirmed as being influential factors in the strategy of between 11% and 18% of companies. For these three areas the number of those executives claiming that the influence of the Single Market is unimportant outnumbered those saying the contrary. We should also emphasize the high ratio of those executives who are not concerned in these questions (62%, 59% and 65%, respectively).

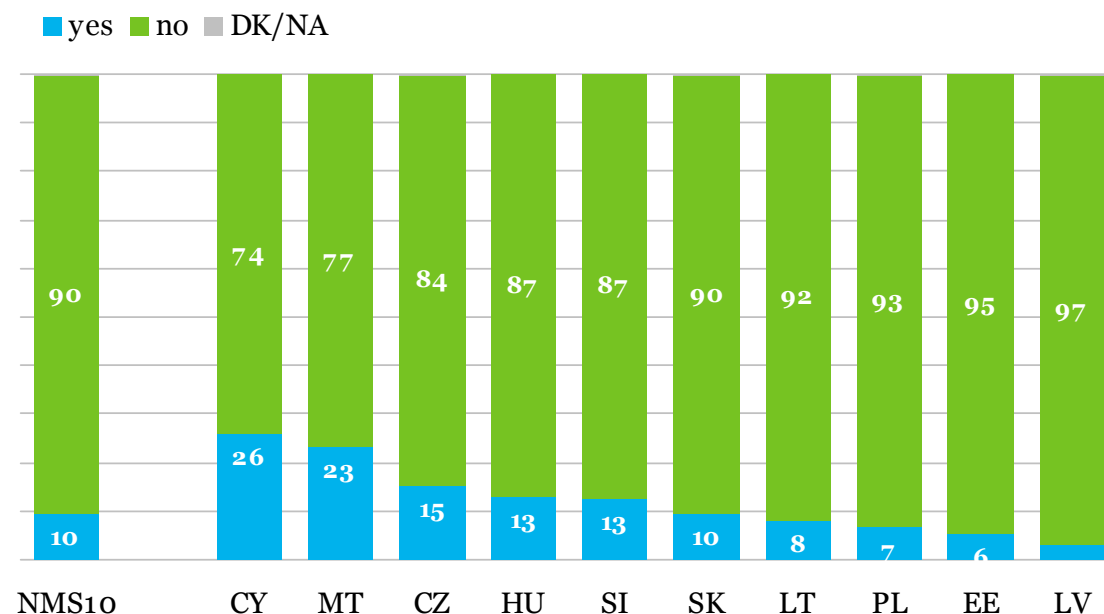
Business leaders in industry are generally likely to believe that the Single Market has important influence on their company strategy. There are however some exceptions: companies from the service sector consider in the highest proportion the influence on inward and outward investments to be important.

2.3. Recruitment from other Member States

The NMS10 employers are not very active in recruiting staff from another Member State: only 10% of companies confirm they recruited personnel who have moved from another Member State.

There are only two countries that relatively stand out: Cyprus with 26% and Malta with 23%. The Czech Republic (15%), Hungary (13%) and Slovenia (13%) follow next with around one in seven companies claiming to have recruited staff who moved from another Member State. In the remaining countries, less than or equal to 10% of company executives have previously recruited staff from another Member State, with the lowest proportion of mentions in Latvia (3%).

Recruitment from other Member States



Source:
FLASH EB 190
7 July – 04 August 2006

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Q4. Has your company in [COUNTRY] recruited staff who have moved to [COUNTRY] from another Member State?
% by NMS10 and by country

Company executives who have not recruited staff from other Member States were asked to identify the most important and the second most important reasons that explain this³. The principal factor spontaneously cited by 60% of company managers is that the local or national employment market is sufficient, 49% mentioning this as the most important, and 11% as the second most important reason. We underline the fact that this option was not specifically proposed in this question, it was a spontaneous option near by the “other” and “DK” answer categories. More than half of the executives indicated answers other than those proposed when asked to specify (56%), and one in five didn’t want or couldn’t answer the question (22%).

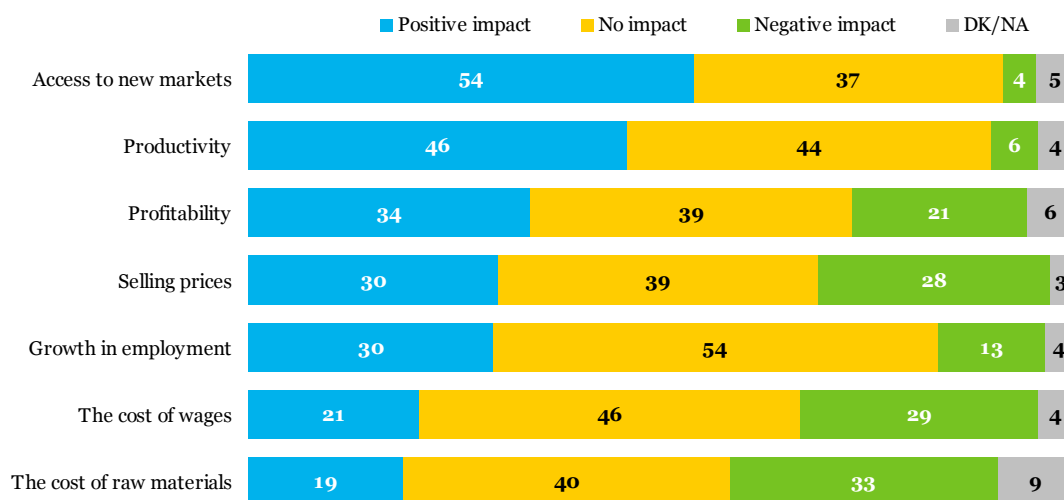
One of the main recurring reasons was the wage differentials and financial incentives (18%), followed by reasons as lack of information on how to recruit (14%) and difficulties in assessing professional experience and qualifications (9%). Insufficient language skills played a primary role for only 8% of company executives not to recruit staff from another Member State. Issues that involve social security right difficulties, immobility and pension provision are not major inhibiting factors for recruitment from other Member States (5%, 4% and 1% respectively).

2.4. Impact of enlargement on activities

The graph below presents the results for the perceived impacts of the enlargement of the Single Market in May 2004 at the level of the NMS10. Except with the impact on cost of raw materials and cost of wages, the answers relating positive experience outnumber those based on negative ones.

Since a majority considers that the latest enlargement did not impact the Single Market in all of the areas covered (average of “no impact” answers is 43%, “positive impact” answers average at 33% and

Impact of enlargement on activities



Q6. For each of the following, could you please tell me whether the 2004 enlargement of the EU had a positive or negative effect on... % NMS10

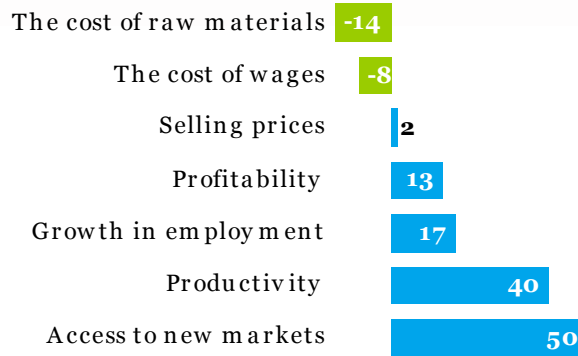
Source: LASH EB 190 7 July – 04 August 2006

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“negative impact” answers at 19%), we decided to assess the difference between the “positive” and “negative” results by simply subtracting the latter from the former in order to construct an “impact score”.

³ The item “*Transitory measures put in place for workers from the new Member States*” asked in EU15 countries is not applicable in NMS10.

The “impact score” at the NMS10 level shows that company executives recognise the widening of the Single Market. The balance leans towards access to new markets (+50 points) and to productivity (+40 points). The score is positive for the growth in employment, profitability and selling prices areas, too (+17, +13 and +2 points, respectively). However, when it comes to costs of either raw materials or wages, more company executives consider the impact to be negative than those with a positive perception (-14 and -8 points).



Executives of large and medium sized firms, companies operating in the industrial sector and, as we might expect, those trading with the old Member States and having more trading partners in the EU are most positive about the fact that the enlargement of the Single Market to 10 new countries has given their firm the opportunity to access new markets.

Large firms are the most positive about the impact of the Single Market enlargement in May 2004 on productivity, profitability and the cost of raw materials, while medium sized firms about selling prices and the cost of wages.

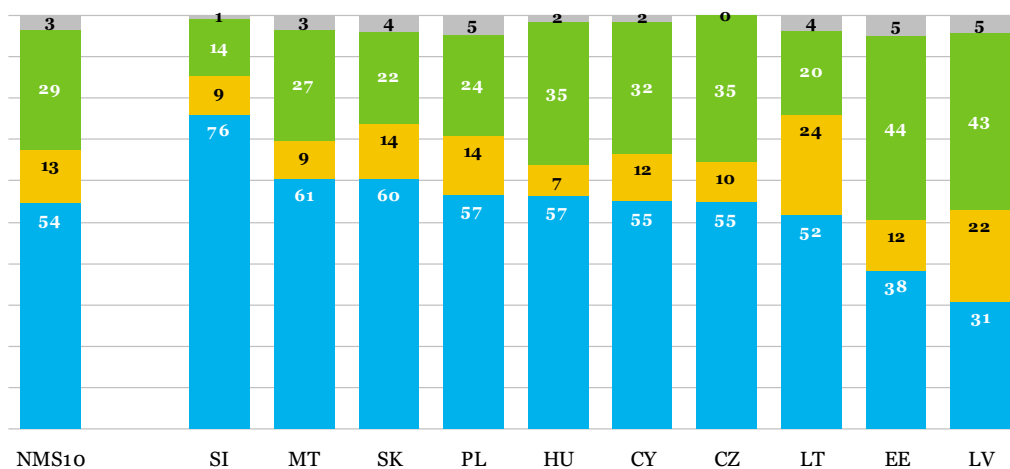
Companies engaging in construction are the most positive about the effect enlargement has on profitability, selling prices, growth of employment and cost of wages, while those engaging in industry emphasized the positive impact on access to new markets, productivity and cost of raw materials. Those from the trade sector see the positive impact on productivity, profitability and growth in employment.

2.5. Impact of enlargement on trade

More than half of the company executives engage in the trade of products or services with the old Member States: 6% for less than two years and 48% for more than two years. A further 13% intend to do so in the coming 3 years, while nearly to one third of company executives do not intend to exploit this market in the short term (29%).

Impact of enlargement on trade

■ Yes ■ No, but I intend doing so over the next 3 years ■ No, and I don't intend doing so over the next 3 years ■ DK/NA



source:
FLASH EB 190
7 July – 04 August 2006

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Q7. Could you please tell me whether your company engages in the trade of products or services with one or more old EU Member States?
% NMS10

If we group the first two response options “yes, for less than 2 years” and “yes, for more than 2 years”, Slovenia becomes the country most engaged in trade with old Member States (76%). Malta ranks next with 61%, followed by Slovakia at 60%. Latvian executives are the least likely to engage in activities of this kind (31%).

Industrial companies are considerably more likely to engage in trade with the old Member States than firms in other sectors. Large firms are also more likely to engage in trade with the EU15 than SME's. It was highly expected that companies with more than five trade partners in the European Union be also more engaged in trade with EU15.

2.6. Barriers to trade within the Single Market as a whole

The results show that certain barriers still remain more than a decade after the launch of the Single Market. 49% of companies are currently not exporting to other Member States. This section of the report explores the possible reasons why these companies are not tapping into the Single Market.⁴

For 29% of companies not selling products or services to other EU countries, **local demand is perceived to be sufficient** and it is therefore not necessary to export to other Member States. Another relatively widespread issue is the perceived **unsuitability of products** for export with 19% of executives mentioning this. A very significant one quarter of executives mentioned a reason that the survey did not anticipate in the list of possible answers to explain why they do not export to the EU (23%).

7% of companies explicitly confirm that they would like to export but **need more information**, 6% are prevented from exporting within the Single Market for **financial reasons** and another 6% underline the fact that their company does not export within the EU because they **have not yet considered the possibility** of doing so. 5% of companies have already tried to export but

⁴ This question was asked from all those who answered “none” at A3 “Apart from [OUR COUNTRY], in how many countries of the European Union do you regularly sell products or services?”

encountered problems, and in the smallest mention rate, 4% state that they would like to export but are worried about **encountering barriers**.

Barriers to trade within the Single Market as a whole



A3. Apart from [COUNTRY], in how many countries of the European Union do you regularly sell products or services?

Source: FLASH EB 190
7 July – 04 August 2006

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Q9. What is the main reason your company is **not exporting** to other countries within the Single Market?

% by NMS10

Base: only those who don't regularly sell products or services in any other country

Among the companies which don't regularly sell products and services in any country, the most convinced that **local demand is sufficient** are those active in the construction sector, the smallest firms, and those which don't trade with the old Member States. Companies whose **products are not suitable for export** are generally in services, are medium sized companies and those who have no intention to trade with EU15.

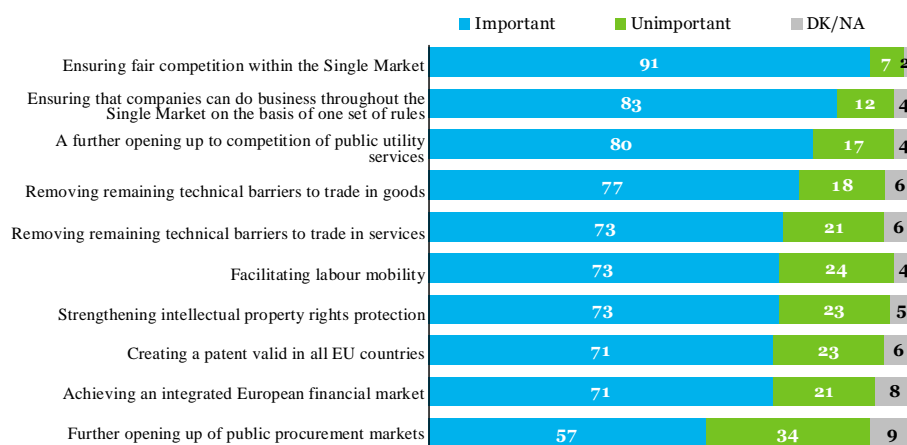
In assessing firms that have **not yet considered the possibility** but could potentially present an opportunity for increasing intra-EU trade tend to be from the trade sector and medium sized firms. SME's and industrial companies are more likely to **lack the financial means to export**.

Companies that present an explicit interest in increasing intra-EU trade (answered that they **would like to export** but need more information or are worried about encountering barriers) tend to be in the smallest companies from the industrial sector. The largest companies and those that are actually trading with EU15 companies have already tried to export but **encountered problems**.

3. Future of the Single Market

The **guarantee of fair competition** is identified as a priority area for future Single Market policy in the New Member States. The large majority of executives emphasized this question as important (66% as very important and 25% rather important) to be tackled in the future by a Single Market policy. Almost all company executives in the NMS10 countries believe in the importance of ensuring fair competition in future EU policies, far topmost in Hungary and Poland (both 95%).

Activities to be included in the future Single Market policy



Source:
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Q8. I would like to mention a number of activities which could be part of future Single Market Policy. Could you tell me whether you consider that for your company it is very important, rather important, rather unimportant or not important at all that future Single Market Policy tackles the question of... % NMS10

Looking at the results by type of company, in general the executives from the industry sector emphasized a series of future Single Market policies in the highest number. They think the Single Market should in the future tackle the questions of fair competition, one set of rules instead of twenty-five to do business, strengthening intellectual property, creating a patent valid in all EU countries, and achieving an integrated European financial market.

For executives from the trade sector the issues of further opening up to competition of public utility services and removing remaining technical barriers to trade in goods are more important.

Business leaders operating in the construction sector mentioned in the highest number that in the future they expect the Single Market to remove the remaining technical barriers to trade in services, and to further open up the public procurement markets.

Conclusion

Thirteen years after the launch of the Single Market, **companies in the NMS10 are generally experiencing the positive aspects of the Single Market**. While 35% of company executives consider that the Single Market has had a positive impact on their firm's activities, fewer executives, 27% believe that the Single Market has not had an impact on their company, and only 5% state that the impact has been negative for their business. The elimination of the administrative tasks associated with customs control is particularly appreciated.

From the average results for the NMS10, it seems as if the Single Market increased the level of competition coming from domestic or other EU firms for nearly half the companies among the New Member States (53% and 49%, respectively), while it introduces no change in competition from non-EU firms (58%).

Almost half of the executives recognise that the Single Market has shown important influence on their firms' pricing strategy (48%), and yet more executives mentioned the area of **purchasing from other European Union countries** as bearing important influence on their strategy (57%), thereby confirming the practical effect of free movement of goods or services across the European Union.

The results suggest that **certain barriers still remain** more than a decade after the launch of the Single Market. 29% of companies do not sell products or services to other EU countries because **local demand is perceived to be sufficient**. Another relatively widespread issue is the perceived **unsuitability of products** for export (19%). A very significant one quarter of executives mentioned a reason that the survey did not anticipate in the list of possible answers to explain why they not export to the EU (23%).

The majority of executives consider that enlargement has not had an impact on their business activity (average of "no impact" answers is 43%, "positive impact" answers average at 33% and "negative impact" answers at 19%). However, when the perceived positive and negative impacts are weighed up, the calculated "**impact score**" shows that company executives recognise the widening of the Single Market. The balance leans towards access to new markets (+50 points) and to productivity (+40 points). The score is positive for the growth in employment, profitability and selling prices areas, too. However, when it comes to costs of either raw materials or wages, more company executives consider the impact to be negative than positive (-14 and -8 points).

Access to new markets stood out as being the most welcome aspect of the enlargement of the Single Market (54% of executives stating so), and this result is somewhat supported by the fact, that more than half of the company executives engage in the trade of products or services with the old Member States: 6% for less than two years and 48% for more than two years. A further 13% intend to do so in the coming 3 years. Companies in industry are considerably more likely to engage in trade with the old Member States than firms in other sectors. Large firms are also more likely to engage in trade with the EU15 than SME's. It was highly expected that companies with more than five trade partners in the European Union be also more engaged in trade with EU15.

Half of the companies confirm that they regularly sell products or services to other Member States in the EU as a whole (51%). The main reason cited by executives whose companies do not engage in trade with their fellow Member States is that local demand is sufficient (29%). However, the results show that a significant proportion have no products suitable for export (19%).

The results of this study reveal that the **guarantee of fair competition** is identified as a priority area for a future Single Market policy in the New Member States. A vast majority of business leaders would like to see **one set of rules instead of 25** when they do business in the EU, and the further opening up to competition of public utility services.