Internal Market Scoreboard

MAY 2002 - N°
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The Commission is keen to receive feedback on this Scoreboard, and to have
suggestions for future editions. Please send reactions to Mr. John F. Mogg, Director
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Please also use this address if you would like to receive a copy of this or future
Scoreboards.
Main Findings

Implementing the Internal Market’s Legal Framework

• Sweden, Denmark, Finland, the UK, the Netherlands, Belgium and Spain currently meet the European Council’s 98.5% transposition target. France, Greece, Germany and Ireland are furthest away from the target.

• The Barcelona European Council set a new 100% transposition target for all directives more than 2 years overdue. France and Luxembourg will have to work the hardest to meet this ambitious target by spring 2003.

• The total number of Internal Market infringement proceedings has risen by 2% since the November 2001 Scoreboard and currently exceeds 1500 cases. France and Italy still account for nearly 30% of all infringements.

• The 2002 Review of the Internal Market Strategy set a new target to reduce the number of infringement proceedings relating to the misapplication of Internal Market legislation by at least 10% by spring 2003. Ireland (100) and Spain (96) have the most outstanding cases.

Completing the Internal Market

• Only about 50% of target actions set out in the Internal Market Strategy have been completed on time. Between now and the end of the year, 13 actions will need to be completed. These include public procurement and the Community Patent as well as actions in the fields of financial services, energy, transport and competition policy.

• Fully integrated financial markets could add 43 bn euro p.a. to the Union’s GDP. The Financial Services Action Plan has made good progress: 27 out of 42 actions have now been completed.

Technical Barriers and the Functioning of the Internal Market

• The Barcelona European Council asked the Commission to report on technical barriers to trade in the Scoreboard. As a first response several brief analyses of industry sectors (i.e. telecom terminal equipment, construction products, bicycles and beer) highlight some important remaining bottlenecks as well as progress made.

• Significant price differences persist across Europe for general grocery and household items. Market fragmentation and the level of competition in the retail sector are key factors in explaining these differences. Consumers in some Member States can pay up to 4 times more for the same product as consumers in other Member States.
This Scoreboard is about performance and results. It measures progress, or lack of progress, on three fronts. First, how well Member States are implementing Internal Market legislation. Here there has been an improvement in most Member States' records concerning the timely transposition of Internal Market law and in a few cases a very marked improvement, but 8 Member States are still struggling to meet the European Council's target of a 1.5% transposition deficit. Member States will now need to work even harder to meet the additional zero tolerance target set by the Barcelona European Council for directives more than two years overdue. Member States must also begin to reduce seriously the number of infringements for which they are responsible.

Second, the Scoreboard looks at remaining technical barriers and progress made to plug outstanding gaps in the legislative framework. Remaining barriers must be removed if the EU is to exploit the Internal Market's full potential. Success is a prerequisite for the Union to become the strongest economy in the world by 2010. The realisation of an Internal Market without tax obstacles is a key priority for the Commission. Without decisive action to remove these obstacles, the EU will not become the most competitive economy. The next Scoreboard will highlight the nature and impact of obstacles and will outline the Commission's strategy to remove them.

The Barcelona European Council called on the Commission to highlight technical barriers to trade in this Scoreboard. While there are no readily available data which would allow us to identify clearly the significance of technical barriers for each Member State and compare their performance, the Commission has made a first attempt to describe the situation in certain product sectors including the real impact of remaining barriers to trade. Our preliminary conclusion is that, for some industry sectors a new approach may be needed, as current arrangements seem to have reached the limits of their effectiveness.

Third, the Scoreboard revisits the question of prices. While the Scoreboard traditionally examines inputs (e.g. directives adopted and transposed, infringements), what matters most is practical results. The Internal Market must deliver tangible benefits, enhancing opportunities and well-being for both citizens and businesses. Price convergence is an important indicator of the Internal Market's functioning. The Commission intends to publish regularly price information to promote transparency and raise awareness: this edition of the Scoreboard reports on the results of a price survey for common groceries which suggest that there is considerable scope for further price convergence – i.e. lower prices.

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1 Commission Communication "Towards an Internal Market without tax obstacles" (COM (2001) 582 final).
1. IMPLEMENTING THE INTERNAL MARKET’S LEGAL FRAMEWORK

A. Transposition of Legislation

Last year in Stockholm, the European Council set a target for all Member States to reduce their transposition deficits to 1.5% in time for the Barcelona European Council in March this year. 7 Member States (Denmark, Sweden, UK, Finland, Spain, the Netherlands and Belgium) met this target which shows that it is achievable, even for those Member States which, like the UK or Belgium, have a complex political structure for adopting legislation. The UK and Belgium, therefore, deserve considerable credit because they implemented concrete steps to ensure that the political will to meet the target was translated into effective action on the ground. The EFTA States also deserve praise, since they all improved their scores significantly.²

However, 8 Member States – i.e. the majority – did not meet the target. Given this somewhat disappointing overall performance, Heads of Government were left with no choice at Barcelona but to extend the period for meeting the target. All Member States are urged to cut their transposition deficits to 1.5% or less by spring 2003. An additional target for spring 2003 is the full implementation of all directives more than 2 years beyond their transposition date.

There now seems to be a leading group of Member States which have either met the target on a number of occasions or have taken steps which indicate that they will continue to be in compliance in the future. The challenge for the other 8 Member States is to catch up with the leading group. However, France and Germany, in particular, seem to have hit a wall, neither having made much progress over the last 6 to 12 months (with France actually falling back since last November). Together, they account for 40% of the EU economy, so any delays in these countries are particularly harmful to the operation of the Internal Market. A renewed commitment at the highest political level seems necessary to break this pattern.

The Barcelona Council urged all Member States to cut their transposition deficit to 1.5% or less by spring 2003.

² The Internal Market also covers 3 EFTA States, Iceland, Liechtenstein and Norway, as a result of their membership of the EEA Agreement.

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**Figure 1: Only 7 Member States are in compliance with the 1.5% target**

Note: The transposition deficit shows the percentage of Internal Market directives not yet communicated as having been transposed, in relation to the total number of Internal Market directives with a transposition deadline up to 15 April 2002. 1497 directives and 299 regulations currently relate to the Internal Market as defined in the Treaty.
With new directives continuously coming on stream, a good transposition record requires constant effort and any easing off can quickly result in Member States falling behind. Thus, even those who currently comply with the 1.5% target will have to continue to work hard to maintain their position.

**Figure 2**: The UK, Belgium and Austria have reduced their backlogs significantly since the November Scoreboard

<table>
<thead>
<tr>
<th>Country</th>
<th>Directive Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISL</td>
<td>-8</td>
</tr>
<tr>
<td>LIE</td>
<td>-9</td>
</tr>
<tr>
<td>NOR</td>
<td>-16</td>
</tr>
</tbody>
</table>

Note: Change in the number of outstanding directives since the November 2001 Scoreboard. For example, Finland’s backlog has increased by 4 directives.

Figures 3 and 4 constitute the ‘to do’ lists for Member States as they work towards the next spring European Council. Figure 3 indicates the number of directives which Member States will need to have implemented in order to (continue to) meet the European Council’s 1.5% target.

**Figure 3**: Workload of directives to be transposed by spring 2003 in order to meet the 1.5% target

<table>
<thead>
<tr>
<th>Country</th>
<th>Directives</th>
</tr>
</thead>
<tbody>
<tr>
<td>EL</td>
<td>81</td>
</tr>
<tr>
<td>F</td>
<td>80</td>
</tr>
<tr>
<td>IRL</td>
<td>77</td>
</tr>
<tr>
<td>A</td>
<td>74</td>
</tr>
<tr>
<td>D</td>
<td>73</td>
</tr>
<tr>
<td>L</td>
<td>70</td>
</tr>
<tr>
<td>P</td>
<td>69</td>
</tr>
<tr>
<td>UK</td>
<td>59</td>
</tr>
<tr>
<td>B</td>
<td>58</td>
</tr>
<tr>
<td>E</td>
<td>57</td>
</tr>
<tr>
<td>I</td>
<td>54</td>
</tr>
<tr>
<td>NL</td>
<td>52</td>
</tr>
<tr>
<td>FIN</td>
<td>52</td>
</tr>
<tr>
<td>S</td>
<td>48</td>
</tr>
<tr>
<td>DK</td>
<td>49</td>
</tr>
</tbody>
</table>
Figure 4 indicates the number of directives, which will have to be transposed by spring 2003 in order to meet the new 0% target for directives more than two years overdue. This is a zero tolerance target. Failure to transpose just one of these directives will mean missing the target. And transposing them is likely to be particularly difficult. They are already more than a year overdue. This length of delay cannot be explained simply by administrative laxity or problems with the parliamentary timetable. There are likely to be other more serious factors at work such as internal political conflicts, technical problems with the directive, or even a sheer unwillingness to transpose.

Figure 5 takes a look behind the statistics by showing what kind of gaps are created in the fabric of the Internal Market when Member States drag their feet. The consequences can be far-reaching: distortion of competition, hindering the mobility of workers, frustrating consumer interests, exposing citizens to potential health and environmental risks.

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Note: Current number of directives with a transposition deadline before 1 March 2001 which will have to be transposed by March 2003 in order to meet the European Council’s 0% target.

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The fragmentation factor is an overall indicator of gaps. It measures the number of Internal Market directives that have not yet been transposed by all Member States, as a percentage of all Internal Market directives. The fragmentation factor has come down to 7.7% (from 10% in the last Scoreboard and 26.7% when the Scoreboard was first published in 1997).
## Figure 5: 10 key directives with transposition deadlines before March 2001

<table>
<thead>
<tr>
<th>Directive</th>
<th>Not yet transposed by</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>95/46: Protection of personal data</td>
<td>F, IRL, L</td>
<td>No level playing field, potential abuse of data, hampers the free flow of information</td>
</tr>
<tr>
<td>96/48: Interoperability of the trans-European high-speed rail system</td>
<td>A, FIN, UK</td>
<td>No level playing field, delays the development of an integrated European high-speed rail system</td>
</tr>
<tr>
<td>96/61: Integrated pollution prevention and control</td>
<td>B, E, EL, L, UK</td>
<td>No level playing field, potential health and environmental risks</td>
</tr>
<tr>
<td>97/7: Protection of consumers in respect of distance selling contracts</td>
<td>E, L</td>
<td>Delays development of e-commerce</td>
</tr>
<tr>
<td>98/5: Practice of the profession of lawyer on a permanent basis</td>
<td>F, IRL, L, NL</td>
<td>Hampers the free movement of lawyers</td>
</tr>
<tr>
<td>98/8: Placing of biocidal products on the market</td>
<td>D, E, F, L, P</td>
<td>No level playing field, potential health risks, frustrates trade in these products</td>
</tr>
<tr>
<td>98/27: Injunctions for the protection of consumers’ interests</td>
<td>B, E, EL, L</td>
<td>No level playing field</td>
</tr>
<tr>
<td>98/44: Legal protection of biotechnological inventions</td>
<td>A, B, D, E, F, I, L, NL, P, S</td>
<td>Hampers innovation and research in biotechnological products, continuing fragmentation and uncertainty about the legal framework</td>
</tr>
<tr>
<td>99/36: Transportable pressure equipment</td>
<td>D, IRL</td>
<td>Frustrates trade in these products, potential safety risks</td>
</tr>
<tr>
<td>99/94: Availability of consumer information on fuel economy and CO₂ emissions</td>
<td>D, E, F, I</td>
<td>Diminishes transparency and integration of markets, continuing price differences</td>
</tr>
</tbody>
</table>
B. Infringement Proceedings

Even where directives have been transposed into national law, they are often transposed incorrectly or are not applied properly in practice. When this happens – and unless the Member States recognise and correct the problem – the Commission opens formal infringement procedures against the Member States that do not fulfil their obligations. The total number of open infringement proceedings continues to rise (+ 2%) – up from 1477 cases at the end of August last year, to 1508 cases at the end of February 2002.

France and Italy still account for nearly 30% of all infringement action. The number of open cases has increased significantly for the UK (+ 42%), Ireland (+ 13%) and Finland (+ 41%). It decreased for France (- 8%) and Germany (- 14%).

The two main categories of infringement action relate to the free movement of goods and services within the Internal Market and to environmental directives, which together account for nearly two thirds of all infringements. 10% of infringements concern taxation and customs.

Infringement proceedings are a critical instrument available to the Commission to ensure compliance with Community law. The Commission launches infringement proceedings particularly in cases of non-transposition (covered in the preceding section), in cases where it takes the view that national legislation is not in conformity with Community law as well as in cases where the law has been misapplied. While these proceedings may take considerable time, they tend to be effective in removing unjustified obstacles to the Internal Market. When cases go to the Court of Justice, the Commission prevails nine times out of ten.

Figure 6: The Commission is currently dealing with more than 1,500 infringements of Internal Market Law

Note: Open infringement cases as at 28 February 2002. These relate to cases of non-conformity or incorrect application of Internal Market law. They do not include cases of late transposition (for which infringement action is automatic) which are covered in the preceding section.

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1 Scoreboard 8 showed that 64% of the cases that go to the Court of Justice take more than 4 years to be resolved.

2 However, in 27 cases, where a Member State has failed to comply, the Commission has had to re-launch legal proceedings. Belgium (7), France (5) and Italy (4) failed most often to comply with Court judgements (cf. Scoreboard 9).
Cases of non-conformity may usually take some time to be set straight in particular when they require legislative changes to be adopted by the same national parliamentary procedures that resulted in the contested measures in the first place.

Cases of misapplication of Community law, on the other hand, should normally be resolved quickly. They are usually based on a complaint by citizens and companies, who need a quick solution to their practical problems: a citizen whose professional qualifications have not been recognised; a small business whose products have been taken off the shelves for no good reason. A legal procedure may thus neither be necessary, nor desirable from the point of view of the complainant, nor is it likely to result in important jurisprudence (which can have a major impact on the functioning of the Internal Market). These cases should, therefore, ideally be solved pragmatically. The Commission has in close co-operation with the Member States launched the SOLVIT initiative whose purpose is to do exactly that – i.e. resolve any cross-border problems arising from misapplication of Internal Market law by public authorities within a maximum of 10 weeks.⁶

In order to reduce the negative effects that the misapplication of Internal Market law has on the proper functioning of the market and therefore also on the benefits it delivers, the Commission has urged Member States in the Internal Market Strategy Review⁷ to reduce the number of these proceedings in which they are involved by at least 10%. At the moment, there are 681 cases of this kind open for all Member States. This number should come down to 613 by spring 2003 in order to meet this target. It is worth noting the difference between figures 6 and 7. While France and Italy have the most infringement cases overall, Ireland and Spain seem to be particularly prone to cases of misapplication of Internal Market law.

Note: Open infringement cases for incorrect application of secondary EU law (i.e. excluding Treaty law) as at 28 February 2002

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Implementing the Internal Market’s Legal Framework

**Figure 8: Only a third of infringement cases are solved early**

![Graph showing percentage of infringement cases solved early by country.](image)

Note: Number of cases closed by 28 February 2002 as a percentage of the number of all cases opened between 1 July, 1999 and 30 June, 2001.

One way of bringing down the overall number of cases is to ensure that they stay on the books for as short a time as possible. In this regard, the situation improved slightly compared with Scoreboard 9, but still only 33% of cases are solved early (30% in November 2001).

Compared to the November Scoreboard there have been considerable changes at the individual Member State level – Portugal, Sweden, the Netherlands and Germany improved their early-resolution performance by more than 10%, but Finland, Greece, Spain, Luxembourg and the UK fell back by at least 5%. Again it is worth noting that the Member States with the highest number of application problems (Ireland, Spain, Italy and the UK) are not very good at settling cases early.
2. COMPLETING THE INTERNAL MARKET

A. The 2002 Internal Market Strategy Review – ‘Delivering the Promise’

The Strategy for the Internal Market is a 5 year process launched in November 1999 and reviewed annually. Its practical value is that it sets out what needs to be done by when in order to improve the Internal Market’s capacity to create more and better jobs and promote sustainable growth. This third review comes at a time when the euro is now a reality in our markets and streets, the 10th anniversary of the implementation of the Internal Market programme looms large, and the negotiations with the Candidate Countries are soon to be completed. Although considerable strides have been made since the January 1993 launch, there are still obstacles which stand in the way and gaps in the framework which need to be filled. This undercuts the ability of businesses, particularly SMEs, and citizens, often in their role of consumers, to take practical advantage of the opportunities offered.

**The record**

The 2002 Review paints a mixed picture. The success rate for completing all the specific target actions within the prescribed time limits is just over 50% - about the same as last year. It was not good enough then and it is not good enough now. We have to go up a gear.

But we should also recognise that there have been achievements – some of them considerable – see the table of targets hit. However, there are some issues where progress is just too slow to benefit those in greatest need – our consumers and small businesses.

The need for continuity is a central theme of the 2002 Review. There is no need to change tack but we do need to take decisions. The Review sets out what needs to be done between now and December 2003 towards achieving our objectives. In this year’s Review there has been a reduction of over 50% in the number of target actions – reduced from nearly 80 to just over 30. This gives a clearer and more focused idea of where the priorities are and where to target political energy.

**Targets hit:**

- Further liberalisation of Postal Services – competition to apply to more mail services within agreed timetable.
- Establishment of European Food Authority – essential for consumer confidence.
- Agreement on procedures for faster and better securities legislation drawn up in close co-operation with markets, users and regulators (Lamfalussy approach).
- Selling and servicing cars in Europe will soon be liberalised injecting more competition and choice to the benefit of consumers.
- New Telecommunications Package adopted - encourages increased competition and protects consumers.
- UCITS Directive adopted – more freedom for fund managers to invest across borders – and agreement on the Regulation on International Accounting Standards after just 6 months of negotiation – greater investment protection and comparable company accounts.
- Proposals presented for a more uniform, transparent and flexible regime for the recognition of professional qualifications.

**What needs to be done?**

The central message is that the EU must press ahead with the economic and structural reform agenda agreed at Lisbon and re-affirmed at Barcelona. This includes further action on liberalisation of gas and electricity to domestic consumers by 2004; plans to revitalise EU railways both for freight and passengers, to agree on numerous financial services...
Completing the Internal Market

issues like pension funds, and on the Single European Sky. Secondly, full use must be made of the time up to accession to remove many of the remaining obstacles and help the Candidate Countries prepare for full and active participation in an enlarged Internal Market.

**Targets missed:**

- Public Procurement Package still not agreed - reform necessary for both public sector and utilities, with potential savings of up to 50 billion euro.
- Community Patent frustratingly stuck – would provide legal certainty and lower costs, good for SMEs.
- Take-over Bids Directive – 12 years work called into question and Europe’s broader interests frustrated, but Commission will re-launch shortly.
- Pension Funds Directive deadlock – important in view of ageing population and deeper capital markets.
- Directive on Protection of Biotechnological Inventions still only transposed by 5 Member States – losing potential benefits of legal certainty and innovation in a sector which is crucial for Europe.
- Commission proposals for Services Strategy behind schedule due to complexity and slow input from Member States – great employment potential.
- 8 Member States failed to meet the transposition target set at Stockholm – causing legal uncertainty and leaving gaps in the Internal Market’s framework.

On a practical level, the Internal Market must be made to work better for ordinary citizens, and for small businesses, who often tend to see trading across borders as being only for large companies. Lastly, there is a continuing emphasis in the 2002 Review on the fundamentals (or ‘nuts and bolts’) of the Internal Market like compliance and enforcement, infringements (covered in Section I) and on problem solving. These are all issues which often do not get the necessary political attention, but where it is essential that they are carried out effectively so that the Internal Market can work in practice and not just in theory.

**Targets to be achieved no later than December 2002:**

- How to open up gas and electricity markets for business – industry freedom of choice of supplier to be effective by 2004.
- Establish Single European Sky and decide on new rules on airport slot allocations.
- Tie up the second package of measures to revitalise European railways for both passengers and freight including high safety standards.
- Finalise proposals on pension funds, financial conglomerates and prospectuses – good for consumers and key for integrated securities markets.
- Modernise EU competition rules – greater involvement of national authorities and courts in enforcement.
- Change the EC Merger Regulation to ensure effectiveness of merger control in the context of globalisation and enlargement.
- Complete the ‘Tax Package’ - will help eliminate tax barriers and unfair tax competition.
- A state-aid framework for utilities used by general public and means to monitor performance.
- Protect consumers’ economic interests by improving enforcement co-operation between public authorities.
- Build up and strengthen Internal Market infrastructures in Candidate Countries.

*Note: These are in addition to continued efforts on missed targets.*
B. Financial Markets Integration and the Financial Services Action Plan

Financial integration will bring immediate and tangible benefits to the Union. There is a clear link between a well-functioning, integrated financial sector and overall economic growth and job creation. A recent study estimates that an integrated financial sector could add 0.5 – 0.7 % annually to EU GDP or 43 bn euro.\(^9\)

The FSAP is now halfway through its timetable for implementation. There is widespread recognition that Europe must deliver all necessary reforms on time – that is by 2005 at the latest. The Barcelona European Council and, before it, the Mid Term Review held in February\(^{10}\) 2002 stressed again the vital importance of integrated capital markets for achieving higher economic growth and job creation, for financial stability and to enable consumers and businesses alike to reap the full benefits of the euro.

The Barcelona Council called specifically for adoption of the International Accounting Standards Regulation and the proposed directives on collateral, market abuse, insurance intermediaries, distance marketing of financial services, financial conglomerates, prospectuses and pension funds as early as possible in 2002.

Recent progress in Council and Parliament demonstrates that the commitment to implement the FSAP is strong. For example, Council and Parliament agreed the Regulation on International Accounting Standards after a single reading.

The agreement on the Lamfalussy process in order to speed up legislation in the securities field to keep up with market developments and to tap directly the expertise of national regulators is an important step in the overall process.

Out of a total number of 42 measures, 27 have now been finalised. 10 of these are legislative instruments. In addition, 9 communications and 8 reports or recommendations have been adopted in accordance with the time-table. 9 proposals are currently under negotiation in Council and Parliament. 6 measures as well as the revised Take-over Bids Directive have still to be tabled by the Commission.

\(^{10}\) Cf. press release summarising the main conclusions of the Mid Term Review (cf. http://europa.eu.int/comm/internal_market/en/finances/actionplan/02-36.htm). Detailed as well as regularly up-dated progress on the implementation of the 42 FSAP measures is available at http://europa.eu.int/comm/internal_market/en/finances/actionplan/index.htm
<table>
<thead>
<tr>
<th>Completed Legislative Measures</th>
<th>Entry into effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directive on Electronic Money</td>
<td>April 2002</td>
</tr>
<tr>
<td>Regulation on Cross-border Payments</td>
<td>July 2002 (withdrawals from ATMs and bank card transactions) / July 2003 (credit transfers)</td>
</tr>
<tr>
<td>Amendments to the Insurance Directives to permit Information Exchange with Third countries</td>
<td>November 2002</td>
</tr>
<tr>
<td>Amendment to the Money Laundering Directive</td>
<td>June 2003</td>
</tr>
<tr>
<td>Directives on Collective Investment Funds (UCITS)</td>
<td>August 2003</td>
</tr>
<tr>
<td>Directive on the Winding-up and Liquidation of Insurance Undertakings</td>
<td>September 2003</td>
</tr>
<tr>
<td>Insurance Solvency Margin Directive</td>
<td>September 2003</td>
</tr>
<tr>
<td>Amendments to the 4th and 7th Company Law Directives to allow fair value accounting</td>
<td>January 2004</td>
</tr>
<tr>
<td>Directive on the Winding-up and Liquidation of Banks</td>
<td>May 2004</td>
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<tr>
<td>European Company Statute</td>
<td>October 2004</td>
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<tr>
<td><strong>Outstanding FSAP Measures</strong></td>
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<td>-------------------------------</td>
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<tr>
<td><strong>Legislative measures in preparation by the Commission</strong></td>
<td><strong>Expected adoption</strong></td>
</tr>
<tr>
<td>Modernisation of the 4th and 7th Company Law Directives</td>
<td>May 2002</td>
</tr>
<tr>
<td>New Take-over Bids Directive</td>
<td>June 2002</td>
</tr>
<tr>
<td>Review of Investment Services Directive</td>
<td>December 2002</td>
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<tr>
<td>Directive on Regular Reporting</td>
<td>December 2002</td>
</tr>
<tr>
<td>Transfer of Corporate Seat (14th Company Law Directive)</td>
<td>Commission proposal pending decision on a relevant case by the European Court of Justice. No proposal expected before end 2002</td>
</tr>
<tr>
<td>Review of Capital Framework for Banks and Investment Firms</td>
<td>2004</td>
</tr>
<tr>
<td><strong>Measures proposed by the Commission and currently under negotiation</strong></td>
<td><strong>Latest deadline for adoption set by the Barcelona European Council</strong></td>
</tr>
<tr>
<td>Regulation on International Accounting Standards</td>
<td>May 2002</td>
</tr>
<tr>
<td>Distance Marketing of Financial Services Directive</td>
<td>Summer 2002</td>
</tr>
<tr>
<td>Collateral Directive</td>
<td>Summer 2002</td>
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<tr>
<td>Prospectuses Directive</td>
<td>December 2002</td>
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<td>Insurance Intermediaries Directive</td>
<td>December 2002</td>
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<tr>
<td>Taxation of Savings Directive</td>
<td>December 2002</td>
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<tr>
<td>Occupational Pension Funds Directive</td>
<td>December 2002</td>
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<tr>
<td>Market Abuse Directive</td>
<td>December 2002</td>
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<tr>
<td>Financial Conglomerates Directive</td>
<td>December 2002</td>
</tr>
</tbody>
</table>
3. TECHNICAL BARRIERS AND THE FUNCTIONING OF THE INTERNAL MARKET

A. Focus on Free Movement of Goods

The Barcelona 2002 European Council requested that this Scoreboard make specific references to outstanding technical barriers to trade. The focus on free movement of goods in this Scoreboard is the Commission’s first and rapid response to this request.

It has not been possible in the limited time available to compile the data needed for a quantitative comparison of Member State performance in the traditional Scoreboard style. This chapter is therefore based on some brief analyses which nevertheless cast interesting light on how technical barriers can affect the ability of citizens and businesses to benefit from the Internal Market. The first two examples concern sectors for which the technical regulations have been harmonised at EU level. The second two examples are taken from the non-harmonised sector in which intra-EU trade relies on the principle of mutual recognition.11

1. RADIO EQUIPMENT AND TELECOMMUNICATIONS TERMINAL EQUIPMENT (R&TTE) – A SUCCESS STORY

Implementation

The R&TTE Directive 1999/5 covers GSM handsets, telephones, modems, remote controls, car-door openers etc. As the main legal instrument for the sector the directive has now replaced previous European directives and some 1,500 national technical regulations. In parallel, a change of regulatory culture took place: away from an over-regulated and closed market in which state controlled monopolies treated a relatively harmless product like the telephone as if it were a dangerous device, towards an open competitive system that relies on self-regulation by industry wherever possible. ETSI, the European standardisation body for the telecommunications industry, has performed well by adopting more than 80% of the standards mandated by the European Commission, most of them within 1-2 years of acceptance of the mandate.

The widely recognised GSM standard itself was developed by CEPT/ETSI12 outside the scope of the directive itself but with strong EC support. One of the major benefits of GSM is of course the ability to use the same handset throughout Europe. But to fully exploit this advantage commercially, regulatory problems with handset testing and approval procedures had to be solved at a European level through the R&TTE Directive. European harmonisation thus made a major contribution to the development of the mobile phone market. The overwhelming business case for GSM provided a very strong incentive for European harmonisation.

Real world impacts

Technological progress was exploited to the full in this sector thanks to the way in which the market was opened up – not only by the R&TTE Directive but also due to the liberalisation of the European telecoms sector in general. A robust hardware standard has thus helped to develop a vigorous EU industry which leads the way in the world market (see box).

11 See Annex for details.
12 Conférence Européenne des Postes et Télécommunications (CEPT), European Telecommunications Standards Institute (ETSI).
EU industry is a world leader

- European companies world market share in mobile phones exceeds 50%.
- In 2001 the European market for end user equipment grew to 44 bn euro.
- In 2001 associated mobile and fixed line telephone services amounted to 202 bn euro and intra-EU trade had increased 13 times since 1995.
- The number of mobile phone subscriptions has also increased dramatically over the last 10 years. The European mobile phone market is considerably bigger than the US market.

Figure 9: Trade of mobile phones in the EU has expanded much faster than exports to Third Countries

Figure 10: Mobile phone subscriptions in the EU have exploded

Source: Eurostat/Comext. Index calculation based on EU15 export value data.

Conclusion

The key to success was that businessmen and politicians alike recognised both how important the sector would become as well as the need to find European solutions to dismantling major technical barriers. Whilst nobody could argue that Internal Market legislation in this area was responsible on its own for the veritable market explosion which took place, it is nevertheless true to say that it was one of the essential conditions for success. The industry now faces a major challenge to meet the costs of the introduction of the third generation UMTS standard. European harmonisation will continue to support the industry in its efforts to deliver real benefits to customers.

2. CONSTRUCTION PRODUCTS: A PROBLEMATIC SECTOR, BUT SOME LIGHT ON THE HORIZON

The construction products industry has a turnover of 200 bn euro. It is estimated that the industry accounts for about 15% of European manufacturing output15 and that the jobs of 26 million workers in the EU depend directly or indirectly on the construction sector.16

Implementation

The New Approach directive 89/106 (CPD) was adopted in 1989 and covers a wide range of products from cement, thermal insulation, masonry products, curtain walling, to windows or pipes and fittings.

Harmonisation in the construction products sector has been particularly complex and difficult for several reasons (see box). Only 10% of the mandated standards have been delivered.17

In the absence of harmonised standards, Member States continue to develop their own regulations. The Commission received 109 notifications of new national technical regulations in the construction sector in 2000 which represented 15% of all notifications received.18

CPD implementation has been slow because:

- The essential requirements and related standards have to cover both individual construction products and the works/buildings which are constructed using them.
- National building regulations are not harmonised and are adapted to a wide variety of climatic conditions and national building traditions.
- Technical barriers to the free movement of construction products are created by binding national standards (which will be replaced by European standards) and by national building codes which refer to national product specifications and certification procedures. Not all national standards are legally binding, but they tend to be mandatory in practice because of liability requirements and customary practice.
- Industry does not press strongly for European standardisation. Small companies rarely have cross-border interests and fear additional red tape, whereas big companies are not interested in additional competition for their foreign subsidiaries who have learnt to deal with local national regulations.

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16 Source: Unpublished study commissioned by the European Commission, Deloitte & Touche: Study to evaluate the functioning of the principle of mutual recognition in selected sectors, lot no. 4: construction products, p. 6.
17 Cf. Internal Market Scoreboard 8 + 9.
Real world impacts

A supplier wanting to trade throughout the EU would have to comply with each Member State’s regulations and thus undergo between 3 and 10 different certification procedures according to the product or market. This could take up to 3 years and cost hundreds of thousands of euro.19

But as in the case of telecommunications equipment, this regulatory environment cannot be held responsible on its own for all the economic impacts. For obvious reasons, trade in construction products focuses on higher value added products like heating equipment rather than on heavy lower value added commodities such as cement or bricks which are expensive to transport. Thus as one would expect, construction products are traded less than other manufactured products. But as the graph shows, even from a lower base they have failed to participate fully in the increase in intra-EU trade.

A further indicator of the low degree of market integration is the significant price variation for construction products in Europe. Average prices for comparable products across the EU are estimated to vary on average by 26% compared to only 6% for the United States. Prices can even vary by up to 35% for some products as for example in the case of thermal insulation.20

Conclusion

Industry has not pressed very hard for the removal of technical barriers in the area of construction products. Insufficient implementation of Internal Market legislation due to the slow adoption of standards has thus contributed to a situation in which the necessary conditions for growth in trade and market integration are not present. This situation is compounded by the continued existence of other complex technical barriers related to national building regulations.

Progress is beginning to take place on the adoption of European standards. CEN has delivered about 70 standards to date


Figure 11: Expansion of trade in construction products is below average

and the Internal Market Scoreboard will continue to monitor progress in this critical sector. Safety in case of fire is a crucial issue for over 80% of construction products and an important step forward has been taken recently with the finalisation of a harmonised European classification system for reaction to fire. The new classification will gradually replace national classifications which currently make cross-border comparisons difficult and often lead to unnecessary double testing and recognition problems. However, technical barriers for construction products continue to be a significant brake on trade and market integration.

3. BICYCLES: MUTUAL RECOGNITION WORKS BUT NATIONAL RULES ADD TO COSTS

The European bicycle market covers a wide range of products from ‘conventional’ adult bicycles to mountain bikes, sports bikes or child bicycles. In 2000 approximately 17 million bicycles were sold to European consumers (car sales: 15 million) of which 12 million were produced locally by an industry that employs 130,000 people.

**Implementation**

Technical regulation on bicycles has not been harmonised and Member States have differing national rules about the technical requirements of bicycles when it comes to lighting, brakes, labelling, etc. (see box). National authorities tend to advance safety concerns as a justification for also applying these rules to imported bicycles and requiring specific additional testing to check conformity with their rules.

**Real world impacts**

Although at least some national requirements appear to violate the mutual recognition principle, the Commission does not receive many complaints about problems with the free movement of bicycles and there are no pending infringement proceedings.

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**National rules create technical barriers**

- In Germany, the biggest bicycle market in Europe, product liability insurance requires retailers to provide a ‘voluntary’ certificate of compliance with the national DIN norm.
- In Denmark each bicycle has to carry an indelible mark / stamp to ensure traceability. This is difficult to achieve for importers, since a painted bike cannot be stamped.
- In Spain each type of bicycle has to pass a laboratory test and receives a control number.
- In France bicycles have to be completely assembled when sold to consumers (no kits are allowed, saddles/pedals/handle-bars have to be properly fixed and adjusted). The French AFNOR standard is mandatory.
- In the UK all bicycles have to be in conformity with the BS6102 standard when leaving the shop.

Two factors explain this:

- Manufacturers and importers voluntarily adapt their bicycles to local rules in order to avoid problems with local authorities. 4 out of 10 bicycle companies do not even know the principle of mutual recognition and its associated rights. They may adapt their products to national rules without experiencing any particular difficulties. But these product adaptations carry a cost – they make producers less competitive and contribute to making bicycles more expensive for the European consumer.

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21 The ‘Single Burning Item’ (EN 13823: 2002).
22 Sources: European Bicycle Manufacturers Association, (EBMA) Colibi/Coliped (associations of the European bicycle and bicycle parts industries / employment figure relates to both).
23 Source: EBMA.
24 Cf. Internal survey carried out by DG Internal Market among 34 companies in the bicycle sector.
• SMEs dominate the bicycle production sector in Europe. Such companies do not have the resources to engage in lengthy legal proceedings. They are more likely to either simply refrain from trade if they encounter regulatory barriers or simply pay the costs of compliance. This is likely to lead to fewer cross-border transactions and explains the low level of complaints.

Intra-EU bicycle trade grew significantly in the first half of the nineties due to the introduction of mountain bikes mainly imported from the Far East. In the second half of the decade, severe EU anti-dumping measures have restricted unfair low-cost imports. EU producers substituted for part of these imports, but intra-EU trade has tended to stagnate since the mid-nineties. Italy used to be the biggest European bicycle exporter. Its exports appear to have been significantly affected by a more restrictive interpretation of safety requirements in France and Germany.25

Despite anti-dumping measures and a 15% general import tariff, the EU still imports 5.5 million bicycles per year from outside the EU. EU exports to the rest of the world have been decreasing and are currently only 0.4 million per year.26 This suggests continuing import pressure and a problem of (price) competitiveness for the European bicycle industry.

Another sign of the fragmentation in the EU Internal Market is the important price differences between Member States. The average price for a simple bicycle fluctuates from 38 euro in Greece to 144 euro in Germany.27

Figure 12: After a hike in the early nineties EU bicycle trade stagnates

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25 Source: Ancma / Italian bicycle association + Comext. This also explains why the Italian bicycle industry is one of the driving forces behind the work on the new European bicycle standard (cf. Conclusion).

26 Source: Colibi/Coliped.

27 Source: CEN / TC Cycles, Draft Business Plan 1998, estimate for a ‘utility’ bicycle in 1996. USD values have been converted into ECU/euro at the average 1996 rate of 1.27 USD/euro. Quality might not be strictly comparable.
Conclusion

Existing technical barriers do not prevent significant trade from taking place within the EU market although the re-export of bicycles imported from outside the EU accounts for part of this trade. National technical barriers continue to add unnecessary costs to trading for the SMEs which dominate the EU industry.

But help is at hand. On the initiative of the bicycle industry, the European standardisation body CEN is currently preparing a new European standard for bicycles. It is intended to reflect a European consensus on safety requirements and technical specifications for bicycles. Once adopted by CEN, the new European standard should lead to the withdrawal of all national standards thus significantly reducing technical barriers to trade. This should enhance market integration and encourage EU producers to trade more. The new standard is also intended to help the European bicycle industry to face import competition by creating a level playing field and making quality differences more transparent. As it is based on an international ISO standard the new European bicycle standard is not expected to create obstacles to trade with countries outside the EU.

4. BEER: A SUCCESS STORY FOR THE FREE MOVEMENT OF GOODS, BUT TAXATION CREATES DISTORTIONS

European consumers spend over 100 bn euro per year on beer. The European beer industry accounts for 25% of total world beer production and 60% of world beer exports. Europe has a rich diversity in its beer culture which is reflected in a broad range of products from standard lager beer to traditional dark beer with 'live' yeast cultures.

The principle of mutual recognition seems to work reasonably well in this sector and there is no call for European harmonisation. Over the years a number of national technical barriers have been identified and progressively rooted out (see box).

- Following a 1987 judgement of the European Court of Justice, Germany and Greece had to accept imported beer which was not made according to the traditional purity law which is still applicable for domestic producers in Germany.
- In 2002, Denmark finally agreed to accept imported beer which was not packaged in reusable bottles. A ban on marketing beer (and other beverages) in non-refillable packaging had lead to a number of complaints and infringement proceedings over the last 20 years.
- The UK modified its regulation favouring the distribution of traditional beer so that foreign producers of this type of beer could also access the market (the Guest Beer system was modified in 1997 and is now about to be abolished).

The progressive enforcement of the mutual recognition principle can thus be considered to have removed most of the specific technical barriers related to intra-EU trade in beer. In practice, the major remaining obstacle to the smooth func-

<table>
<thead>
<tr>
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<th>E</th>
<th>L</th>
<th>F</th>
<th>EL</th>
<th>P</th>
<th>I</th>
<th>NL</th>
<th>B</th>
<th>A</th>
<th>DK</th>
<th>S</th>
<th>UK</th>
<th>IRL</th>
<th>FIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise duty</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.13</td>
<td>0.14</td>
<td>0.15</td>
<td>0.18</td>
<td>0.21</td>
<td>0.21</td>
<td>0.26</td>
<td>0.46</td>
<td>0.86</td>
<td>0.99</td>
<td>0.99</td>
<td>1.43</td>
</tr>
<tr>
<td>VAT</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.05</td>
<td>0.03</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.12</td>
<td>0.22</td>
<td>0.17</td>
<td>0.21</td>
<td>0.31</td>
</tr>
<tr>
<td>TOTAL</td>
<td>0.12</td>
<td>0.12</td>
<td>0.12</td>
<td>0.16</td>
<td>0.17</td>
<td>0.18</td>
<td>0.22</td>
<td>0.25</td>
<td>0.25</td>
<td>0.31</td>
<td>0.58</td>
<td>1.08</td>
<td>1.16</td>
<td>1.20</td>
<td>1.74</td>
</tr>
</tbody>
</table>

Source: CBMC / European Commission, excise duties and VAT in euro per litre of beer.

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23
tioning of the Internal Market for beer lies in the large difference in excise duties and VAT within the Internal Market.

**Real world impacts**

Beer is not heavily traded across borders. High transport costs and limited shelf life of the product together with continuing preference of consumers for national brands prevent the cross-border exchange of large volumes. However, over the years import penetration has progressively increased in most Member States and over 90% of EU imports come from another Member State.

When fiscal border controls and restrictive allowances on personal imports of beer were removed with the creation of the Internal Market in 1993, consumers quickly started to take advantage, especially where the geographic distance to low-tax countries is small. In some areas this has lead to very significant imports for personal consumption. As a result it is not always easy for customs officials to distinguish between legitimate imports and illicit smuggling. Very large differences in taxes and excise duties thus create a number of serious problems for the functioning of the Internal Market:

- High prices in some regions which oblige consumers to shop across the border.
- Smuggling.
- Administrative waste in trying to distinguish between legitimate personal imports and smuggling.
- Very significant damage to beer retailers in certain regions of higher tax Member States.

**Conclusion**

Specific technical barriers no longer prevent the free flow of beer across borders. Large differences in tax and excise duty do cause major distortions which prevent the smooth functioning of the Internal Market. These distortions hit certain consumers and retailers very hard.

**Figure 14: Europeans increasingly drink beer from other Member States**

Source: CBMC. Imports in % of consumption (volumes). Imports from Third Countries represent less than 10% of total imports.
B. Grocery Prices across the EU

For many citizens, one of the most direct and visible benefits of the Internal Market is its impact on prices for goods and services and the resulting lower household bills at the end of each month. Differences in prices can tell us much about where the Internal Market is still not operating to its full potential. Price differences cannot of course be totally eliminated - even in a fully integrated market, prices will differ, for example, because of transport costs and local tastes. But the divergences should not be much greater than those within a geographically large Member State if the Internal Market is working properly.

The introduction of euro notes and coins has made price differences even more evident, and is likely to lead to increased cross-border competition. The Commission is committed to regularly reporting on market behaviour in the Scoreboard in an attempt to increase transparency and produce information that consumers, intermediaries and legislators can act upon.

The Internal Market Scoreboard of May 2001 included results of price studies in the area of fresh foods and consumer electronics. These studies found that price variation across Member States was as high as 40% for consumer electronics and was even higher for fresh foods.

A similar analysis has now been conducted for general grocery and household goods - aimed again at identifying the extent of price differences throughout the EU and gaining an understanding of the factors that explain any differences for these goods.

Figure 15: Prices of general supermarket goods can differ significantly

<table>
<thead>
<tr>
<th>Multinational brands</th>
<th>Highest prices</th>
<th>Lowest prices</th>
<th>Ratio - Cheapest / Most expensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evian mineral water</td>
<td>Finland 189</td>
<td>France 44</td>
<td>4.3</td>
</tr>
<tr>
<td>Barilla spaghetti</td>
<td>Sweden 138</td>
<td>Italy 59</td>
<td>2.3</td>
</tr>
<tr>
<td>Heinz Ketchup</td>
<td>Italy 138</td>
<td>Germany 66</td>
<td>2.1</td>
</tr>
<tr>
<td>Kellogg's cornflakes</td>
<td>Greece 152</td>
<td>UK 71</td>
<td>2.1</td>
</tr>
<tr>
<td>Mars bar</td>
<td>Denmark 143</td>
<td>Belgium 73</td>
<td>2.0</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>Denmark 139</td>
<td>Germany 73</td>
<td>1.9</td>
</tr>
<tr>
<td>Fanta</td>
<td>Sweden 146</td>
<td>Netherlands 77</td>
<td>1.9</td>
</tr>
<tr>
<td>Nivea shaving foam</td>
<td>UK 142</td>
<td>France 81</td>
<td>1.8</td>
</tr>
<tr>
<td>Colgate toothpaste</td>
<td>UK 126</td>
<td>Portugal/Spain76</td>
<td>1.7</td>
</tr>
<tr>
<td>Elvital shampoo</td>
<td>Ireland 126</td>
<td>Spain 76</td>
<td>1.7</td>
</tr>
<tr>
<td>Nescafé</td>
<td>Italy 133</td>
<td>Greece 77</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Large price differences exist at an EU level for household consumer products

Figure 15 shows that large price differences exist across Europe for selected everyday products. For instance, the price of a Mars chocolate bar in the most expensive country (Denmark) is almost double the price of the cheapest country (Belgium). The price difference for Evian mineral water is almost 4 times higher in the most expensive country (Finland) compared to the least expensive (France).

No country however has either consistently high or consistently low prices for all of the goods concerned. For example, the UK comes out as cheapest for one product - Kellogg's cornflakes - yet is the most expensive in the EU for another - Colgate toothpaste. This finding is consistent with studies reported on in last year's Scoreboard.

Sweden and Denmark are the two most expensive countries in Europe for general grocery and household goods, when prices including VAT are compared. On the other hand, Spain seems to be the cheapest country in Europe followed by the Netherlands, Germany and France.

If we exclude VAT, the position of the individual countries changes slightly. For example, ex VAT, the UK is now the second most expensive country, relative to the EU average. But the general level of price dispersion for the EU is, however, roughly the same whether measured with or without VAT.

Prices for general grocery and household goods vary considerably throughout the EU. Different VAT rates do not seem to explain much of the price dispersion.

Note: Highest and lowest prices33 (all taxes included) of selected commonly purchased grocery and household goods. EU average price = 100.

<table>
<thead>
<tr>
<th>National brands</th>
<th>Highest prices</th>
<th>Lowest prices</th>
<th>Ratio - Cheapest / Most expensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral water</td>
<td>Sweden 199</td>
<td>Spain 39</td>
<td>5.1</td>
</tr>
<tr>
<td>Ground coffee/</td>
<td>Ireland 178</td>
<td>Spain 54</td>
<td>3.3</td>
</tr>
<tr>
<td>coffee beans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olive oil</td>
<td>Finland 166</td>
<td>Spain 51</td>
<td>3.3</td>
</tr>
<tr>
<td>Drinking chocolate</td>
<td>Sweden 157</td>
<td>Germany 56</td>
<td>2.8</td>
</tr>
<tr>
<td>Marmalade</td>
<td>Denmark 154</td>
<td>Netherlands 65</td>
<td>2.4</td>
</tr>
<tr>
<td>Flour</td>
<td>Italy 144</td>
<td>Netherlands 63</td>
<td>2.3</td>
</tr>
<tr>
<td>Frozen pizza</td>
<td>Portugal 152</td>
<td>Germany 71</td>
<td>2.1</td>
</tr>
<tr>
<td>Milk (UHT, full fat)</td>
<td>Finland 137</td>
<td>Netherlands 64</td>
<td>2.1</td>
</tr>
<tr>
<td>Washing up detergents</td>
<td>Sweden 122</td>
<td>Netherlands 63</td>
<td>1.9</td>
</tr>
<tr>
<td>Milk (UHT, half fat)</td>
<td>Finland 139</td>
<td>Portugal 80</td>
<td>1.7</td>
</tr>
<tr>
<td>Butter</td>
<td>Denmark 127</td>
<td>Ireland 77</td>
<td>1.6</td>
</tr>
<tr>
<td>Sugar</td>
<td>France 120</td>
<td>UK 77</td>
<td>1.6</td>
</tr>
</tbody>
</table>

33 Prices are unit values and not ‘off the shelf’ prices and include VAT.
The results from the study show that price differences inside Member States are in general 3 to 6 times smaller than across countries. For example, the price dispersion for toothpaste is 14% at the EU level while it is only 4% on average inside Member States. However, for some products the difference is even bigger. The price of a bottle of ketchup varies only by 2% within Member States, whereas the price dispersion across Europe is 19%.

Price dispersion for some products can be high even within Member States. For example, although price dispersion in France is less than 2% in general, the dispersion for frozen vegetables is around 7%. Similarly in the UK, the general price dispersion is around 3%, but for dry pasta, it is around 10%.

Figure 17 shows the price difference between the most expensive and the cheapest region inside each Member State. Not surprisingly price differences seem to increase with the size (by area) of the country: France, Germany, United Kingdom, Spain and Sweden have larger internal price differences.

Among the bigger Member States, Germany seems to have particularly large internal price differences. This is probably a result of the significant differences between East and West Germany that still exist. Prices in the former East Germany seem to be significantly lower than prices in the former West Germany.

Note: 100% = average EU price level. The comparisons of price levels between countries should be interpreted with caution, since the products compared are not always the same for all countries due to the fact that some products are not sold in all Member States.
**Figure 17: Prices differ considerably between regions**

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of regions</th>
<th>Most expensive region</th>
<th>Cheapest region</th>
<th>Average price difference between most expensive and cheapest region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5</td>
<td>West Austria</td>
<td>East Austria</td>
<td>22%</td>
</tr>
<tr>
<td>Belgium</td>
<td>5</td>
<td>North East</td>
<td>South West</td>
<td>1.6%</td>
</tr>
<tr>
<td>Denmark</td>
<td>2</td>
<td>East</td>
<td>West</td>
<td>1.0%</td>
</tr>
<tr>
<td>Finland</td>
<td>7</td>
<td>North</td>
<td>West</td>
<td>2.2%</td>
</tr>
<tr>
<td>France</td>
<td>9</td>
<td>Paris</td>
<td>Normandy &amp; Brittany</td>
<td>3.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>8</td>
<td>Berlin</td>
<td>Thuringia &amp; Saxony</td>
<td>5.1%</td>
</tr>
<tr>
<td>Ireland</td>
<td>4</td>
<td>Dublin</td>
<td>Leinster (excluding Dublin)</td>
<td>18%</td>
</tr>
<tr>
<td>Italy</td>
<td>4</td>
<td>Centre</td>
<td>South &amp; Sardinia</td>
<td>1.6%</td>
</tr>
<tr>
<td>Portugal</td>
<td>6</td>
<td>South Interior</td>
<td>Greater Porto</td>
<td>39%</td>
</tr>
<tr>
<td>Spain</td>
<td>8</td>
<td>North West</td>
<td>Greater Madrid</td>
<td>64%</td>
</tr>
<tr>
<td>Sweden</td>
<td>6</td>
<td>South</td>
<td>West</td>
<td>87%</td>
</tr>
<tr>
<td>UK</td>
<td>10</td>
<td>South West</td>
<td>North East</td>
<td>30%</td>
</tr>
</tbody>
</table>

Note: No regional information is available for Greece and the Netherlands. No. of regions relates to the AC Nielsen study and not to the geographical or administrative situation (for example, France has 22 regions and not 9).

The potential factors behind price differences can be divided into three groups: Natural Factors, Market Conditions and Structural Factors.

**Natural Factors**

Natural factors like culture, climate, local preferences and transport costs can influence prices. For example, the sales per inhabitant of butter in Denmark are almost 6 times greater than in Spain. As prices in Spain are generally 40% lower than those of Denmark, you could expect that the price of butter would be approximately 40% lower.

However it is not. The smaller market for butter in Spain seems to imply a higher price. The price of butter in Spain is in fact similar to the price of butter in Denmark, in spite of this 40% difference in the average price of products.

Transports costs can also directly affect the price of some goods. Not surprisingly, Italian pasta is cheapest in Italy - costing around 60% of the...
average price in the EU. Generally, the further away from Italy, the more expensive the product will be. However, it is cheaper in Finland than in Belgium, even though Finland is the EU country the furthest away from Italy.

Natural factors affect all prices and contribute to a certain level of price dispersion to be found even in fully integrated markets. The size of the Union, the differences in consumer tastes, environment, climate etc. can probably explain some of the large price differences found. However, the price differences on the EU level seem to be significantly higher than would be expected from natural factors alone.

**Market conditions**

Market conditions relate to factors that might allow retailers, wholesalers and producers to deviate from the price you would expect to find in a perfectly functioning market.

Concentration in the retail sector varies across countries. The market share of the 5 leading groups in grocery retailing is over 75% in Finland, Denmark and Sweden while it is only 25% in Italy.34 It may be that this dense concentration in the retail sector in Finland, Denmark and Sweden contributes to the fact that they record the highest price levels in the EU for the products studied.

Market power of producers can also influence prices. Strong brands that are available in many countries are able to charge a premium from consumers. In almost all product categories, the Pan-European brands are more expensive than the national brand.

It should however be noted that the relationship between market share and price is by no means straightforward. Concentration of producers, retailers and wholesalers varies from product to product and the final price of a product is therefore, to a certain extent, a result of the bargaining power and skills of the market players. Larger players can also have lower costs that benefit consumers.

Intense competition between retailers, producers and wholesalers puts downward pressure on prices. As one would expect, Member States with a very competitive retail sector will therefore tend to have a lower price level.

**Structural causes**

Structural causes include VAT and other excise taxes, income differences, legislation on shop opening hours and size, legislation on land use, labour legislation, advertising rules and other types of legislation affecting the cost of selling grocery and household goods.

VAT and income differences seem to be able to explain some of the price differences found in the EU, but they are by no means the only cause. As figure 16 indicated, the VAT rate does play a role in a country’s price level. But price differences across the EU are large whether measured with or without VAT.

On the aggregated level in the economy there seems to be a high correlation between a country’s income level and its price level.35 For the goods studied though, the correlation is a lot less clear. Both Germany and the Netherlands have an income per capita above the EU average and one might therefore expect the price of everyday supermarket goods in those countries to be similarly above the EU average. But it is not. In fact grocery and household goods in those countries seem to be among the cheapest in the EU. Conversely, Portugal has an income level below the EU average yet the price of these goods in that country seem not to be low, but in fact somewhere around the EU average.

The importance of market share of outlet types has a significant influence on prices. In Spain, the relatively high market share of hyper-markets36 helps

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35 See, for example, European Economy, supplement A, No 7, July 2001.
36 Hyper-markets are defined as shops selling groceries with a sales area larger than 2500 sqm. Supermarkets: 400-2500 sqm. Traditional shops: generally less than 400 sqm and a more limited assortment. Discount stores: low price sales concept and limited assortment irrespective of sales area.
Technical barriers and the functioning of the Internal Market

account for lower prices. Take the example of milk. There is little variation in the price of milk throughout the various types of retail outlets – doubtless because the price is forced down by the influence of these retail heavyweights. In Italy, there is a high market share of both supermarkets and smaller ‘traditional’ shops. Unlike Spain, large price differences exist in Italy for milk. The price in supermarkets is around 15% more than the EU average, while the price in hyper-markets, who have a small market share, is only slightly above the EU average milk price.

As the Italian retail sector is dominated by non hyper-market outlets, one would expect prices to be relatively high. However, figure 16 shows that Italy is far from being the most expensive EU country for goods. This is a further demonstration that the price we pay for goods depends upon a large number of complex factors.

A reason for the relatively low prices in Germany and France could be linked to the fact that Germany has 6 and France has 5 of the top 30 international grocery retailers (as measured by sales volume) in 2000. These major players have been active in expanding into neighbouring markets. This could explain the intense competition that seems to be present in these countries. It is this strong competition that seems to contribute to the relatively low price level in these countries.

VAT and income levels seem to explain only a limited part of grocery price dispersion in Europe. Member States that have a larger market share of hyper-markets and discount stores, along with a strong presence of international grocery retailers, tend to be cheaper than those which do not.

Conclusion

The results of this price study confirm that significant price differences currently exist throughout the EU for general grocery and household items. No single factor can fully explain these price differences, but differing competitive pressure across products and countries seems to account for a substantial part of these differences.

Europe still seems to be divided into individual national markets. The very large price differences for certain individual items seem to indicate that some producers exploit market fragmentation by operating different pricing policies in different national markets. There is considerable scope for further price convergence. The study suggests that one of the main drivers behind lower prices is the density of hyper-markets and discount stores. Growth in this sector however is often restricted by different urban planning laws that can impose severe restrictions on shop size and opening hours.

There are also certain regulatory factors that appear to limit downward pressure on prices by impeding the attempts of retailers to advertise, market and retail across borders and/or devise EU-wide strategies. For example, differing legislation on commercial communications, on the type of products allowed to be sold, on franchising arrangements, etc. All can make it more difficult for retailers to penetrate new markets. The Commission’s proposal for a Regulation on Sales Promotions, its Green Paper on EU Consumer Protection and the forthcoming follow-up communication are all efforts to help eliminate these barriers for consumers and business.

ANNEX: BASIC CONCEPTS OF THE FREE MOVEMENT OF GOODS

General Principles

The EC Treaty states that goods should circulate freely within the Internal Market. Member States may restrict the free movement of goods only in exceptional cases, for example when there is a danger resulting from issues such as public health, environment, or consumer protection.

The risks vary by product sector. Pharmaceuticals and construction products obviously present higher risks than office equipment or pasta for example. In order to minimise risks and ensure legal certainty across Member States, EU legislation harmonising technical regulations has been introduced in particular in the higher risk product sectors. Lower risk sectors have not in general been the subject of legislation on a European level. Trade in this ‘non harmonised’ sector relies on the mutual recognition principle under which products legally manufactured or marketed in one Member State should in principle move freely throughout the Community. Approximately half of intra-EU trade in goods is covered by EU technical harmonisation, the other half is accounted for by the ‘non harmonised’ sector which is either regulated by national technical regulations (30%) or not specifically regulated at all (20%).

Figure 18: Half of intra-EU trade is covered by EU technical harmonisation

![Pie chart showing 50% harmonised, 30% national technical regulation, 20% no product specific regulation]


The need for speed

Before 1985 all EU directives prescribed product requirements in great detail and as a result the regulatory process was rather slow. The objective of creating a single market by 31st December 1992 required a new regulatory technique to speed things up. The New Approach to technical harmonisation and standardisation was therefore agreed. It established some innovative principles. Legislative harmonisation is limited to essential requirements which products placed on the market must meet if they are to benefit from free movement. The technical specifications of products meeting the essential requirements are laid down in harmonised standards. Application of these standards is voluntary and manufacturers may always

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* In the case of consumer products, however, the General Product Safety Directive (92/59 EEC) ensures that only safe products can be legally placed on the market. See also http://europa.eu.int/comm/consumers/policy/developments/prod_safe/index_en.html

** Essential requirements define the results to be attained or the hazards to be dealt with but do not specify or predict the technical solutions for doing so.
apply other technical specifications to meet the essential requirements. However, there is an incentive to use the harmonised standards as products manufactured in compliance with them benefit from a presumption of conformity with the essential requirements.

Implementation

Although harmonised European standards are not mandatory, their adoption is a key element in the smooth functioning of the New Approach directives. The European Commission gives mandates to private sector standardisation bodies like CEN, CENELEC or ETSI\(^2\) to develop the required harmonised standards. Interested parties (both enterprises and other societal stakeholders) develop these harmonised standards together with the European standardisation organisations.

Following sustained efforts over the last 15 years, European standardisation is nearing completion in a number of sectors. However, there are still a considerable number of problems in sectors such as construction products, machinery or pressure equipment where progress has been slow (cf. Scoreboard 9).

Beyond standardisation, attention also needs to be focused on the consistent implementation and application of harmonised legislation across Member States. Member States are responsible for having adequate conformity assessment and market surveillance structures, but there are no detailed prescriptions on how to implement this in practice. Depending on the different solutions chosen by Member States, testing procedures, accreditation criteria for test laboratories, frequencies of inspection etc. often vary considerably. It is vital to ensure that uneven implementation across Member States does not undermine trust in the level playing field and the concept of mutual recognition. Following an online consultation that ended in March 2002, these problems are currently being examined by the Commission. A communication on the review of the New Approach is planned to be presented to the June 2002 Council.

\(^2\) European Committee for Standardisation (CEN), European Committee for Electro-technical Standardisation (CENELEC), European Telecommunications Standards Institute (ETSI). Further information on standardisation under the New Approach can be found at http://www.NewApproach.org