Internal Market Scoreboard

10 Years Internal Market without frontiers

SPECIAL EDITION

November 2002 - N°
Internal Market

Scoreboard
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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. Alexander Schaub, Director General, Internal Market DG, The European Commission, B-1049 Brussels, or to the following e-mail address: Markt-A1@cec.eu.int

Please also use this address if you would like to receive a copy of this or future Scoreboards.

The Commission is grateful to Markztools from Markzware B.V. for their help in finalizing the desk-top version of this Scoreboard
Main Findings

Implementing the Internal Market’s Legal Framework

- The transposition deficit has dropped considerably from 21.4 % in 1992 to 2.1 % today. However, the latest score is up from 1.8 % only 6 months ago.

- Only 5 Member States (Sweden, Finland, Denmark, Netherlands, UK) now meet the European Council’s target for spring 2003 of having a transposition deficit of 1.5 % or less. The transposition deficit of 3 Member States (France, Greece, Portugal) is more than double the European Council’s target.

- Finland is the only Member State which has already met the European Council’s other target of transposing all directives whose transposition deadline is overdue by 2 years or more. 4 Member States (France, Germany, Luxembourg, Greece) will need to transpose 10 or more ‘old’ directives in the next 6 months to meet it.

- The total number of Internal Market infringement proceedings remains stubbornly high at more than 1500 open cases. France and Italy continue to have the highest number, together accounting for nearly 30 % of all cases.

- Only Denmark has managed to reduce the number of infringement proceedings relating to misapplication of legislation by 10 % or more, as called for in the Commission’s 2002 Internal Market Strategy Review. Most others have seen their numbers actually go up. More than half of all cases take more than 2 years to be resolved – reinforcing the argument that cases should, where possible, be resolved by other means.

- Compared to 10 years ago standardisation today mainly takes place on the European level and is to a very large extent (over 80 %) initiated by industry. Problems with long development times remain in several areas of standardisation.

Ten Years of Internal Market without frontiers. Views of European Businesses and Citizens

- The business survey shows that, although large numbers of firms of different kinds have benefited from the Internal Market, it is exporting companies which are the most enthusiastic and feel that they have benefited the most. 76 % of companies exporting to 6 or more other EU countries rated the impact of the Internal Market on their business as positive. Over 60 % of these companies said that it had contributed to their exporting success. And nearly 37 % of them believe that it has helped to increase their profits.

- More than 80 % of companies believe that improving the functioning of the Internal Market should be a key priority for the European Union in the future.

- The citizens survey shows that 80 % of Europeans believe that the Internal Market has had a positive impact on product availability, 67 % on product quality and 41 % on prices. 76 % of citizens welcome the increased competition which the Internal Market has introduced in a number of areas like transportation, telecommunications, banking or insurance services.

- More than 50 % of citizens would be interested in buying products across borders, but are mainly deterred by travel costs, loss of time, concerns about after-sales service and language barriers.

Internal Market Index 1992 - 2002

- A specially developed Internal Market Index shows considerable progress in the functioning of the Internal Market over the last 10 years (up from 100 to 143). The index for Finland, Spain, Italy, Sweden and Austria grew significantly more than the EU index.
By the end of this year, it will have been a decade since Europe’s Internal Market without borders was launched. The Internal Market is one of the Union’s proudest achievements. However, perhaps because of the ‘magical’ 1992 deadline, some people seem to believe that the Internal Market has long been completed and consider it as yesterday’s issue. Nothing could be further from the truth.

The Internal Market will never be ‘completed’. The effort to maximise its performance is a process, not an event. After 10 years, there are still holes to be plugged and barriers to be removed, for example in the areas of services or taxation. There is also the challenge of technological progress, which requires constant review and, where necessary, updating of the Internal Market legal framework. And then there is the ongoing challenge to ensuring effective and timely transposition of legislation and quality of enforcement.

So the message is: the Internal Market is working – but it can and must be constantly improved in order to fulfil its promise. A single open market – backed up by a single currency - provides the essential basis for future economic growth in the Community. Continued progress in removing the remaining barriers in the Internal Market and its efficient operation must remain a priority – as much today as it was 10 years ago.

This Scoreboard looks back at some of what has been achieved over the last 10 years, particularly insofar as Member States’ good Internal Market behaviour is concerned. There has been some good progress in reducing delays with transposition, although this positive trend has recently been interrupted. Application of the rules, in practice, remains a problem. There are about 1500 active infringement proceedings, most of which take a long time to be resolved.

The Scoreboard also contains a summary of the main results of a Commission-sponsored survey of the views of businesses and citizens on the Internal Market now compared with 10 years ago. The results are encouraging. The benefits of the Internal Market are widely recognised. A clear majority of businesses and citizens urge that further steps be taken to allow them to operate more effectively within it on a continental scale. The Internal Market belongs to the citizens and enterprises of the Union and policy makers should be responsive to their demand for its further development.

Lastly, an attempt has been made to capture the development of the Internal Market in a single measurement – an Internal Market Index. Unlike our assessment of the state of transposition and of enforcement, this index looks at the impacts of the Internal Market on the ground. Again, the results are broadly positive. They also show that the ‘newest’ Member States benefited rapidly from the Internal Market – this is a particularly welcome message in view of forthcoming EU enlargement.

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1 The Commission intends to publish a Communication highlighting the achievements of 10 years of the frontier-free Internal Market in early 2003.
1. Implementing the Internal Market’s Legal Framework

A. Transposition of Legislation

The Internal Market is designed to put into place a legislative framework for a frontier-free European Union. Community legislation governing the operation of the Internal Market is largely in the form of directives, an instrument which requires each Member State to adapt its national legislation by enacting ‘transposition’ measures to give effect to the directive. This has the advantage of allowing a degree of flexibility to Member States in order to take account of their different legislative techniques.

However, it also imposes the need for Member States to ensure and for the Commission to monitor that the transposition measures are adopted on time and that they really correspond to the requirements of the directives. This is not a bureaucratic exercise – it is a necessary condition for fair competition, for avoiding unnecessary costs for business and citizens, and for developing the confidence that underpins an effective Internal Market.

We have come a long way since 1992 when on average more than 1 in 5 directives had not been transposed by Member States and when for 3 out of every 5 directives, at least one Member State had failed to take the necessary action. This dismal performance seriously fragmented the Internal Market so that in many cases businesses and citizens were not able to take advantage of their new rights. Wider recognition of the importance of timely transposition for the Union’s economy, the threat of legal action and, last but not least, strong political pressure from the Commission, inter alia by means of this Scoreboard and the peer pressure it creates, have all pushed transposition rates up – even with a steady and continuing flow of new directives – helping to make the Internal Market the reality that it is today.

2 Today the fragmentation factor is 9 % i.e. less than 1 out of 10 Directives has not yet been transposed by all Member States.

3 Where Member States fail in their responsibilities to ensure transposition or where transposition is incomplete or incorrect, the Commission will not hesitate to take the appropriate action under Article 226 of the Treaty. This may include recourse to the provisions of Article 228 of the Treaty regarding the imposition of sanctions.
Implementing the Internal Market’s Legal Framework

Overall the transposition deficit has inched up from 1.8% in the previous Scoreboard to 2.1% now - the first time since 1992 that the downward trend in the deficit has been interrupted (see figure 1). Only 5 Member States (Sweden, Finland, Denmark, the Netherlands and the UK) and 2 EFTA countries have met the European Council’s standard of achieving – or maintaining – their deficits at 1.5% or below (see figure 2). This is worse than 6 months ago when Belgium and Spain were also part of this leading group. As only 7 Member States had achieved the European Council’s standard by March 2002, the Barcelona European Council decided to extend the deadline until next spring.4

Further specific actions to improve transposition performance are set out in the Commission action plan “Simplifying and improving the regulatory environment” (COM(2002) 278 final).

Note: The situation as at 1 October 2002. 1475 directives and 324 regulations currently relate to the Internal Market as defined in the Treaty.

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Note: Change in the number of outstanding directives since the May 2002 Scoreboard. For example, Portugal has increased its backlog by 14 directives (deterioration = red, improvement = green).
It is particularly worrying to see that Member States which were already furthest away from the target 6 months ago (France, Greece, Germany, Ireland, Austria and Portugal) have allowed the gap to widen even further (see figure 3). Italy and Belgium also seem to have lost momentum – they are finding out that transposition requires a permanent effort and that any relaxing of efforts quickly means that their deficit rises again. At a time when one needs to step on the accelerator, these Member States are going into reverse.

Given the volume of legislation that will come onto stream in the next 6 months, it is hard to see how Member States will meet the spring 2003 target without drastic action (see figure 4).

The Barcelona European Council also set a ‘zero tolerance’ target for next spring for directives whose transposition is 2 years or more overdue. In these cases, the reason for delay is not usually insufficient planning, but often goes deeper in that it may be a symptom of serious political difficulties or even sheer unwillingness to transpose. As figure 5 shows, Finland is the only Member State that has achieved the target – with Sweden, Portugal, the Netherlands and Denmark coming close. The relatively good score

Figure 4: If they are to hit the 1.5% target by next spring, many Member States still have a lot of directives to transpose

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>EL</th>
<th>P</th>
<th>A</th>
<th>D</th>
<th>I</th>
<th>IRL</th>
<th>B</th>
<th>L</th>
<th>E</th>
<th>UK</th>
<th>NL</th>
<th>FIN</th>
<th>S</th>
<th>DK</th>
</tr>
</thead>
<tbody>
<tr>
<td>For a zero deficit</td>
<td>95</td>
<td>86</td>
<td>85</td>
<td>79</td>
<td>79</td>
<td>78</td>
<td>76</td>
<td>69</td>
<td>66</td>
<td>62</td>
<td>59</td>
<td>55</td>
<td>46</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td>For a 1.5% deficit</td>
<td>73</td>
<td>64</td>
<td>63</td>
<td>57</td>
<td>57</td>
<td>56</td>
<td>54</td>
<td>47</td>
<td>44</td>
<td>40</td>
<td>37</td>
<td>33</td>
<td>24</td>
<td>24</td>
<td>22</td>
</tr>
</tbody>
</table>

Note: Current number of directives which Member States still need to transpose by March 2003.

Figure 5: The majority of Member States will have their work cut out to meet the Spring 2003 0% target for overdue directives

Note: Number of directives with a transposition deadline before March 2001 which will have to be transposed by March 2003 in order to meet the European Council’s 0% target.
of Portugal and Italy on ‘old’ directives seems to suggest that a large part of the overall delay in transposing directives can be effectively tackled by making improvements in planning.

The ‘oldest’ directive which has not yet been transposed in all Member States dates back to 1993. Figure 6 lists examples of other directives most of which should have been transposed a long time ago. They include measures which are

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5 Directive 93/15: Explosives for civil use.

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### Figure 6: Some progress on the 10 key directives highlighted in the last Scoreboard

<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>P, 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>F, FRI, 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>F, 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, P</td>
<td>Hampers the free movement of lawyers</td>
</tr>
<tr>
<td>98/8: Placing of biocidal products on the market</td>
<td>F, E, 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 bio-technological 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>

*Note: Member States whose references are crossed out have notified their transposition measures since May 2002. For the purposes of the Scoreboard UK transposition statistics do not take into account transposition in Gibraltar.
Implementing the Internal Market’s Legal Framework

critical to further improving the environment for business or the consumer or those which will measurably contribute to sustainable development. It is not credible if the Union calls for actions to unleash the potential of the biotechnology sector, while 9 Member States have still not implemented the measures which are aimed at encouraging investments and R&D in this sector more than 2 years after the agreed deadline. On the positive side, the directive facilitating the interoperability of trans-European high-speed rail links has finally been implemented by all.

It is interesting to look at the ways in which Member States have organised their internal transposition process. On the basis of discussions in the Internal Market Advisory Committee, a number of ‘best practices’ have emerged. These include the appointment of a senior national transposition co-ordinator, who ‘owns’ the problem. Other ‘best practices’ include the establishment of advance planning schedules, systematic measurement of ministries’ performance as well as regular reporting of results to national parliaments.

The presence of these practices in the Member States is listed in figure 7. There is no strict correlation between complying with these ‘best practices’ and Member States’ performance. On the one hand, there are the Finnish and Danish examples where good results are obtained by acting within the normal administrative arrangements and by giving transposition high political priority. On the other hand, in France and Germany all ‘best practices’ have been put in place, albeit only recently so that the real impact of these changes may soon become visible. The preliminary conclusion is that nothing can substitute for strong political will to transpose directives on time and correctly, although the presence of certain disciplines may be helpful to translate political will into action.

Figure 7: Political will seems to be a more important factor than organisation

<table>
<thead>
<tr>
<th>Member states having:</th>
<th>F</th>
<th>EL</th>
<th>P</th>
<th>A</th>
<th>D</th>
<th>I</th>
<th>IRL</th>
<th>L</th>
<th>B</th>
<th>E</th>
<th>UK</th>
<th>NL</th>
<th>DK</th>
<th>FIN</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>National co-ordinators</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Advance planning schedule</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Measurement of performance</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Discussion in parliament</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Transposition deficit</td>
<td>3.8</td>
<td>3.3</td>
<td>3.1</td>
<td>2.9</td>
<td>2.7</td>
<td>2.6</td>
<td>2.6</td>
<td>2.3</td>
<td>2.0</td>
<td>1.6</td>
<td>1.4</td>
<td>1.3</td>
<td>0.7</td>
<td>0.6</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Note: Replies of Member States’ representatives in the Internal Market Advisory Committee to a Commission questionnaire. Situation as at September 2002.
B. Infringement Proceedings

If citizens and businesses are to benefit fully from their Internal Market rights, European legislation has to be both efficiently transposed and effectively applied. The tenth anniversary of the removal of borders within the Internal Market is an appropriate moment to undertake a critical examination of our performance in this area and to examine how we can improve the service we offer to citizens and businesses. New ideas and new methods will be needed when Enlargement takes place if we are to maintain, let alone improve, our current performance in a Union of up to 25 countries and 500 million people.

Infringements – latest performance figures

The number of open cases⁶ remains stubbornly high at 1505 – practically unchanged from the 1508 cases recorded in the May 2002 Scoreboard. Little has changed over the last year – either in overall numbers or in the ranking across Member States. France and Italy continue to account for almost 30 % of all cases.

Infringements – a longer term view

The significant improvement in the transposition of legislation since 1992 has not been matched in the infringements field. The number of open infringement cases has soared from just under 700 in 1992 to just over 1500 today, although the figures have remained relatively stable in recent years. The addition of 3 new Member States in 1995 is not to blame for the increase since these Member States are amongst the best performers and together only account for about 150 cases in 2002. The share of infringements by Member State has in general remained rather stable over the last 10 years.

The number of open infringement cases can only fall if there is either a reduction in the number of cases or if the system improves the rate at which cases are solved. Figure 10 gives us an idea of

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⁶ Scoreboard infringement cases 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.
Member States’ early resolution performance. The ranking of best performing Member States is somewhat different compared to the last Scoreboard but the average early resolution performance remains at a rather meagre 35%. Denmark, the Netherlands and Portugal fell back by more than 10% whilst Germany, Greece, Spain and the UK improved by the same order of magnitude.

Figure 11 shows that the time taken to close an infringement case can vary significantly.

Figure 9: The number of infringement cases went up considerably over the last 10 years

![Figure 9](image)

Note: Open infringement cases as at 31 August 1992 and 31 August 2002.

Figure 10: Only a third of infringement cases are solved early

![Figure 10](image)

Note: Number of cases closed by 31 August 2002 as a percentage of the number of cases opened between 1 January, 2000 and 31 December, 2001.
The pattern of case resolution shown in figure 11 has a significant effect when there is a step change in the number of cases entering the pipeline. EU enlargement will inevitably bring such a step change even if the new Member States' Internal Market behaviour is at least as good as the existing Member States. Figure 12 is a simulation of how cases would jump when new Member States join. In order to illustrate the effect of a step change, let us assume that there is a constant flow of say 100 extra new infringement cases each year. This would lead to an increase of more than 200 unresolved cases after 2 years and 300 unresolved cases after 6 years.

The Commission and Member States need to act in good time to ensure that the number of infringement proceedings does not grow to unmanageable proportions. The average time taken to resolve an infringement could possibly be reduced by allocating more resources to the process both in the Commission and in Member States, always assuming that the capacity of the Court to deal with cases would be up to the task. But a reduction in the case flow from each and every Member State would seem to be a much more promising approach.

Many of the proposals in the Commission’s recent Action Plan “Simplifying and improving the regulatory environment” could help indirectly to reduce the number of complaints. The Action Plan also defines some actions which could be of direct use – the electronic transmission of national notifications could reduce the number of infringements related to late transposition. And the proposal to establish priorities for examining possible breaches of Community law could also reduce the number of open infringement proceedings. It should for example be possible to reduce the number of infringement proceedings involving the misapplication of Community law because some of these cases involve mistakes or misunderstandings which could be solved pragmatically using a different mechanism.

The Commission set a target in the latest Internal Market Strategy Review for Member States to reduce the number of proceedings involving misapplication in which they are involved by 10% by June 2003. So far progress has been disappointingly slow.

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Figure 11: Over half of all infringement proceedings take more than 2 years to be resolved

<table>
<thead>
<tr>
<th>Years</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 1</td>
<td>23</td>
</tr>
<tr>
<td>1 - 2</td>
<td>25</td>
</tr>
<tr>
<td>2 - 3</td>
<td>18</td>
</tr>
<tr>
<td>3 - 4</td>
<td>12</td>
</tr>
<tr>
<td>4 - 5</td>
<td>8</td>
</tr>
<tr>
<td>more than 5</td>
<td>14</td>
</tr>
</tbody>
</table>

Note: Number of years between the launching of official proceedings and resolution of the Internal Market infringement cases that were closed between 1 January 2000 and 31 August 2002.
pointing and only Denmark has achieved the target of reducing the number of open misapplication cases by 10%. Some other Member States have made some slight progress, but others have fallen back. Finland and Greece have even increased the number of open cases substantially. As a result the total number of open cases has increased by 1%. At this stage, even this modest 10% target looks a long way off.

Note: Simulation indicates the number of open cases if 100 additional cases enter each year and the resolution times are as indicated in figure 11 (for simplicity all cases remaining open after the fifth year are assumed to be resolved in the sixth).
The Commission has also recently launched the SOLVIT problem solving network whose purpose is to resolve cross-border problems arising from the misapplication of Internal Market law by public authorities. For a certain category of relatively simple cases, this channel could offer rapid and effective problem solving to citizens and businesses as an alternative to lodging a formal complaint with the Commission. SOLVIT has only been operational for a few months but it has had a promising start and several successes have already been registered. The Commission and Member States are working hard together to raise awareness of the network and thus to build up its case flow. Once the case flow is sufficient for SOLVIT to have a track record, the Commission will report on its performance and that of Member States in the Scoreboard.

8 Further information on SOLVIT can be found at: http://europa.eu.int/comm/internal_market/solvit/index_en.htm
C. European Standardisation

European standards are important ‘nuts and bolts’ in the Internal Market framework. They play a vital role in reducing the barriers faced by companies who want to sell their goods and services throughout the Union.

The Scoreboard has until now focused mainly on the ‘harmonised standards’ which are designed to support New Approach directives. The European Commission usually gives mandates to develop these harmonised standards to the European standardisation organisations CEN, ETSI and CENELEC. Manufacturers use them as a convenient way of proving that their products conform to European rules. If products are made according to a harmonised standard, all Member States must grant them free market access.

However, the vast majority of European standardisation is industry-driven without the need for any mandate from the European Commission. The following graph shows that industry-driven standardisation has grown at more or less the same rate as standardisation resulting from mandates given by the Commission.

These figures explode the myth that European standards are imposed by the Brussels bureaucracy. The dramatic increase in the number of available European standards over the 10 years since 1992 demonstrates clearly that there is a constant demand for European standardisation – and that the source of this demand is very much from industry itself. This is not surprising, since any European standard, be it ‘harmonised’ or not, replaces a multitude of different national standards. The efficiency gains for cross-border business are obvious.

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9 For the sake of simplicity this Scoreboard uses ‘harmonised standards’ as synonyms for referring to standards which are to be referenced in the Official Journal of the European Communities.

10 European Committee for Standardisation (CEN), European Telecommunications Standards Institute (ETSI). European Committee for Electro-technical Standardisation (CENELEC).

11 Cf. Scoreboard 10 for an overview on standardisation and technical barriers to trade. Further information on standardisation under the New Approach can be found at http://www.newapproach.org/

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**Figure 14: The number of available standards has increased substantially over the last ten years**

Note: Number of available ‘European standards’ as at 1 September 2002, i.e. European standards (EN) or equivalent: ETS (European Telecommunications Standard – only ETSI), TBR (Technical Basis for Regulation – only ETSI), HD (Harmonisation Document – only CENELEC). Definitions vary slightly from one European standardisation organisation to the other.
And public authorities also gain because their market surveillance role is simpler when one standard replaces many others.

It is not surprising that about 80% of standardisation now takes place on the European rather than on the national level. Harmonised standards which are in most cases mandated by the European Commission only account for about 16% of all European standards and even less in the fast moving telecommunications sector covered by ETSI. Rapid technical progress makes timely production of standards even more important in order to harvest the full potential of European standardisation efforts.

The Commission continues to monitor its mandates for harmonised standards. It does so partly because the European standardisation organisations receive subsidies in order to produce these standards. But also because the existence of the appropriate standards is the best way to ensure that companies derive the full benefit of European legislation and that it is fully operational.

Looking more closely at progress in particular areas, there is both light and shade.

Producing new standards can take a lot of time, but figure 16 suggests that the time taken to develop them varies enormously according to the sector. For example the radio and telecommunications terminal equipment directive (R&TTE) was adopted in 1999 – three years later almost 80% of the supporting standards are available. On the other hand the construction products directive was adopted in 1989 and 13 years later 88% of the necessary standards are still outstanding. The case studies in Scoreboard 10 would indicate that demand from industry is one of the factors affecting the rate of progress in adopting standards.

The rate of adoption of harmonised standards is an important factor in making Internal Market legislation fully operational. For example, although there has been some recent progress, at the current adoption rate the programme for construction products standards cannot be expected to finish before 2007. The Scoreboard will therefore continue to monitor progress in areas like these, which are significant for the functioning of the Internal Market.

Figure 15: The relatively low share of harmonised standards indicates that standardisation is primarily industry-driven

Note: The percentage of harmonised standards in the production of European standards (EN or equivalent) by organisation.

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12 See Scoreboard 9: CEN has set itself a target which would reduce current development time by more than 50% to 3 years.
### Figure 16: Standardisation work on some directives like medical devices is well advanced, whereas much remains to be done in lifts and construction products

<table>
<thead>
<tr>
<th>Standardisation Area</th>
<th>Outstanding Standards</th>
<th>Available Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction products (1989)</td>
<td>88%</td>
<td>22%</td>
</tr>
<tr>
<td>Lifts (1995)</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>Pressure equipment (1997)</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>CEN average</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Machinery (1998)</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Medical devices (1993)</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>Personal protective equipment (1989)</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>CENELEC average</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>ETSI average</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>R&amp;TTE (1999)</td>
<td>22%</td>
<td>78%</td>
</tr>
</tbody>
</table>

Note: Outstanding standards (current work programme of European standardisation organisations which also includes revisions of existing standards) and adopted standards made available for some key directives. Figures in brackets indicate the year of adoption of the corresponding New Approach directive. The situation as at 1 September 2002.
2. Ten Years of Internal Market Without Frontiers. Views of European Businesses and Citizens

The ultimate aim of the Internal Market is to bring tangible benefits to both business and citizens. Nearly ten years after the completion of the Internal Market Programme, these benefits should be beginning to materialise. The best way to find out whether they are or not is to ask citizens and businesses themselves. The Commission has therefore undertaken two independent surveys, the first testing the views of businesses and the second testing the views of citizens. Both surveys were carried out between August and September 2002.

A. What Businesses Think

The first survey covered 5900 businesses in all 15 Member States in a range of sectors. These businesses ranged in size from small (i.e. those employing 10 – 49 people) to medium-sized (i.e. those employing 50-249 people) and large (i.e. those employing more than 250 people). Businesses surveyed included both exporters and non exporters.

Overall impact of the Internal Market programme

The survey shows that businesses across the EU are generally upbeat about the Internal Market and its effects on them. Nearly half (46 %) feel that the overall impact of the Internal Market on their company has been positive. 42 % feel that it has had no impact. Very few (just 11 %) feel that the impact has been negative.

Behind this broader picture, there were some significant variations between Member States. As figure 17 shows, companies in the UK are least enthusiastic about the Internal Market; only 26 % of them rated its impact on their business as positive. In 2 of the other larger Member States – Germany and France – the num-

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**Figure 17: Businesses in smaller Member States tend to rate the impact of the Internal Market more positively**

Note: Percentage of businesses who believe that the overall impact of the Internal Market has been rather or very positive (negative). No impact / do not know replies are not included.

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13 Further information and technical details on the surveys are available at: http://europa.eu.int/comm/internal_market/en/update/score/index.htm

14 Construction, industry, trade and services.
ber of companies rating the impact as positive was also relatively small (42 % and 35 % respectively). Companies in smaller Member States tend to be keener on the Internal Market; over 69 % of businesses in Ireland and Greece rated its impact as positive. This may reflect the particular importance of trade with other EU countries for companies whose own domestic markets are relatively small. On the other hand, businesses in Italy, another of the larger Member States, are also enthusiastic about the Internal Market, with 68 % of them saying that its impact has been positive.

There were also some significant variations according to company size. As figure 18 shows, nearly half (44 %) of smaller companies rated the impact of the Internal Market on their business as positive. For medium-sized companies, this figure rose to 55 %. However, it is large companies which are the most enthusiastic, with 67 % of them rating the impact of the Internal Market as positive.

It is clear that a large percentage of companies of all sizes are feeling the effects of extra competition in their domestic markets. Over 40 % have noticed an increase in competition coming from other EU firms, while only 2 % say that competition from these firms has reduced. Interestingly, it seems that companies are also experiencing stronger competition from their domestic rivals; 46 % said that competition from this source had increased.

As might be expected, a sizeable proportion of firms have responded to this more competitive environment by becoming more efficient. Figure 19 shows that 25 % of smaller companies, 29 % of medium-sized companies and 39 % of larger companies feel that the Internal Market has contributed to an increase in their productivity. 7 %, 6 % and 2 % respectively felt that the Internal Market had contributed to a decrease in their productivity.

It is likely that some firms have had to increase productivity simply in order to survive. But figure 19 shows that, for many, greater productivity has translated into higher profitability; 21 % of smaller companies, 24 % of medium-sized companies and 33 % of larger companies feel

**Figure 18: Bigger companies are more positive about the Internal Market**

![Bar chart showing percentage of businesses who believe the overall impact of the Internal Market has been positive or negative.](chart.png)

Note: Percentage of businesses who believe that the overall impact of the Internal Market has been positive or negative (no impact / do not know replies not included).
that the Internal Market has contributed to an increase in their profits. 59%, 56% and 51% respectively felt that it had had no impact.

The survey also shows that 18% of smaller companies, 23% of medium-sized companies and 31% of larger companies feel that the Internal Market has contributed to an increase in employ-
ment in their company. 69 %, 65 % and 57 % respectively said that it had had no impact.

Larger companies have a more positive perception of the effect of the Internal Market on their productivity, profitability and employment. A sizeable proportion (36 %) of all firms report that the Internal Market has contributed to a decrease in their telecommunications costs. Clearly, the benefits of the telecommunications liberalisation begun in the mid-1990s are being felt across the board. But significant numbers of larger businesses said that the Internal Market has contributed to reductions in their costs in other areas too: the cost of raw materials and components; energy supplies; labour costs; fees for banking services; and distribution.

28 % of larger companies report that the Internal Market has reduced the unit costs of their products. 47 % say that it has had no effect. Only 14 % said that it had contributed to an increase in unit costs. This indicates that many larger companies have been able to exploit economies of scale in the Internal Market and thus benefit from cost savings.

It is also clear that larger companies have been better able than smaller companies to exploit opportunities in new markets. Figure 20 shows that, while similar numbers of companies of all sizes say that the Internal Market has contributed to an increase in sales in their own country, nearly twice as many large companies as small companies believe that the EU has boosted their sales to other EU countries (and to other non-EU countries).

The survey generally shows that, although large numbers of firms of different kinds have benefited from the Internal Market, it is exporting companies which are the most enthusiastic and feel that they have benefited the most. Figure 21 shows that 76 % of companies exporting to more than 5 EU countries rated the impact of the Internal Market on their business as positive. Over 60 % of these companies said that it had contributed to their exporting success. And nearly 37 % of them believe that it has helped to increase their profits.


**Figure 21: Exporting companies think favourably about the Internal Market**

![Bar chart showing the percentage of businesses who believe that the Internal Market has contributed to an increase of sales to other Member States, an increase of profits, or a positive overall impact.](Image)
As well as the overall impact of the Internal Market on their business, firms were asked to say which Internal Market measures had been most important for them. Interestingly, the responses were roughly the same for all types of firm – large, medium-sized and small, exporting and non-exporting. The elimination of customs documents and the abolition of border controls emerged as the most important measures, with large numbers of firms also pointing to European product standards and VAT procedures for sales within the EU.

**Are companies thinking more European?**

Businesses are most likely to benefit from the Internal Market if they are prepared to gear up their business strategies to meet the challenges it poses and take advantage of the opportunities it offers.

Over half (56%) of small companies said that their company was thinking more European than before because of the Internal Market. So did 63% of medium-sized companies and 68% of larger companies.

Asking companies about the impact of the Internal Market on particular aspects of their strategy threw up some particularly interesting responses. As figure 22 shows, more than 50% of small companies said that the Internal Market had influenced their marketing strategy. This compares with just 40% of large companies. It can be surmised from this that many large companies had already taken account of the larger European market in their marketing strategies before 1992 while for many smaller companies, this represents a new departure. It seems that the Internal Market has had a greater effect on other aspects of larger companies’ business strategies: the pricing of products; purchasing from other EU countries; and distribution in other EU countries.

It might be expected that, at this stage in the development of the Internal Market, larger companies would be seeking to attain a genuinely European dimension by setting up businesses in other EU countries or buying stakes in other EU companies or by means of mergers and acquisitions or co-operation agreements with other companies. The survey results confirm that they are doing so and show that co-operation agreements are the preferred instrument. Figure 22 shows that...
43% of large companies said that the Internal Market had encouraged them to enter into these kind of agreements. Smaller (but still significant) numbers spoke of setting up businesses in other EU countries, investing in companies in other EU countries or of companies in other EU countries investing in their business.

Are companies well informed about their Internal Market rights?

Clearly, companies will only adjust their business strategies to take advantage of the opportunities offered by the Internal Market if they are fully informed about those opportunities.

Nearly half (42%) of respondents said that they feel very well or well informed about their company’s rights in the Internal Market. Figure 23 shows that businesses in Luxembourg, Denmark and Austria feel most confident; 69%, 62% and 61% of respondents from those countries said that they feel very well or well informed. The Germans, the British and the Spanish are the least confident; only 34%, 40% and 40% of respondents from those countries feel very well or well informed. This lack of information may partly explain why relatively few German and British companies are positive about the impact of the Internal Market.

Figure 24 shows that 58% of larger companies say that they feel very well or well informed about their rights in the Internal Market. This compares with 46% of medium-sized companies and 41% of smaller companies. This information gap may go some way to explaining the higher proportion of larger companies who feel that they have benefited from the Internal Market.

The conclusion is that greater efforts are required to raise awareness among companies of their Internal Market rights, particularly in Member States, such as Germany, the UK and Spain, where awareness levels appear to be low. Efforts should be targeted particularly at closing the information gap between large and small companies.

Can more companies be encouraged to take advantage of the opportunities offered by the Internal Market?

The survey shows that companies which export to other EU countries are the most positive about the Internal Market and feel that they have benefited the most. This raises some important questions: why do so many EU companies choose not to export and what, if anything, can be done to encourage them?
As figure 25 shows, the largest numbers of respondents among non-exporters simply said that their products were not suitable for export (41%) or that their local demand was sufficient (50%). 12% said that they lacked the financial means to export. Clearly, companies giving responses like these are unlikely to begin exporting in the near future and there is probably very little that policy makers can do to change this.

However, as figure 25 also shows, 9% of respondents said that they would like to export but would require more information. And 10% said that they would like to export but were concerned about the barriers they might encounter. This suggests that, if more information could be provided and remaining barriers removed, there is potential for increasing the number of businesses taking advantage of the opportunities offered by the Internal Market.

Disappointingly, over 20% of respondents said that they had simply not thought about exporting to other EU countries. While it is probably true that most of the non-exporting companies covered in the survey are fairly small, they all employ at least 10 people, and it is perhaps surprising that so many of them seem to have...
Views of European Businesses and Citizens

no urge to raise their ambitions and to think on a European scale.

On a more positive note, very few respondents (under 5 %) said that they had tried to export in the past but had been deterred by the problems they had encountered.

**Have companies recruited staff from other EU countries?**

EU law makes it possible for employers to tap into a wider European labour market by recruiting staff from other Member States. About 20 % of respondents said that they had already done so. The remaining 80 % were asked why they had not.

Figure 26 shows that about half of these respondents (45 %) said that their local or national employment market was sufficient to meet their needs. These respondents clearly have no wish or need to recruit from other Member States.

However, this implies that at least some of the remaining half would like to recruit from other Member States. Figure 26 also shows that some of the reasons given by respondents for not recruiting across borders are difficult for policy makers to change: the fact that candidates were reluctant to move because of family considerations, for example, or wage differentials and financial incentives.

However, slightly larger numbers of respondents cited reasons which could be changed if the correct policy measures were implemented. These reasons include difficulties with the provision of pensions, candidates’ poor language skills or difficulties in assessing professional experience or qualifications.

**Looking to the future**

83 % of smaller companies, 90 % of medium-sized companies and more than 92 % of larger companies believe that improving the functioning of the Internal Market should be a key priority for the European Union in future. This shows that, even 10 years after the 1992 deadline, business people understand that much remains to be done in order to make the Internal Market function better and that Internal Market policy must therefore remain at the top of the political agenda.

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16 European citizens wanting to work in another country, and employers wishing to recruit from abroad can get information and assistance from the EURES network. Partners in the network include public employment services, trade unions and employer organisations. The partnership is coordinated by the European Commission. See http://europa.eu.int/eures

Respondents were also questioned about specific activities which could form part of future Internal Market policy. Figure 27 shows that they believe that the priority should be to ensure that companies can do business throughout the Internal Market on the basis of one set of rules not 15. Large numbers also cite the need to ensure fair competition and the need to more closely align national tax systems. The order of priorities was very similar for all sizes of company.

**Taking advantage of the opportunities offered by an enlarged Internal Market**

Most respondents expect that enlargement of the Union will have a broadly positive impact on their business. In particular, 55% of respondents are looking forward to exploiting new market opportunities. This is not limited to Member States, such as Austria and Germany, which have common borders with candidate countries. Businesses in Spain, Italy, Greece and Sweden appear to be the most enthusiastic about the new opportunities which will soon become available.

**Figure 27: Companies want a single set of rules in the Internal Market**

![Figure 27: Companies want a single set of rules in the Internal Market](chart)

Note: Percentage of all respondents (multiple answers possible).
B. What Citizens Think

The second survey covered 7500 citizens in all 15 Member States. These citizens ranged in age from the 15-25 age group to the over-55s. They were drawn from a wide range of socio-economic categories and live in different localities (metropolitan, other town/urban centres and rural areas). There were equal numbers of men and women.

**Overall impact of the Internal Market programme**

The survey reveals that EU citizens view the overall impact of the Internal Market on their daily lives as very positive. Two thirds of them recognise that it is now easier to travel from one Member State to another than it was 10 years ago. Three quarters of them welcome the increased competition which the Internal Market has introduced in a number of areas like transportation, telecommunications, banking or insurance services.

The respondents believe that the Internal Market has been generally positive for consumers. Figure 28 shows that 80 % believe that the range of available products has increased. 67 % believe that the quality of products is better too. However, only 41 % believe that prices have gone down.

In fact, as figure 29 shows, perceptions of the Internal Market’s effect on prices vary from one Member State to another. Responses from Luxembourg, the UK, Belgium, France, Sweden and Finland were broadly positive, while those from Greece, the Netherlands, Italy, Austria, Germany and Ireland were less so.

There are possible explanations for some of these variations. Price differences amongst Member States have narrowed over the past 10 years. This has occurred largely because the more expensive countries have moved closer to the EU average. This would explain the positive perceptions in countries, such as Finland and Sweden, where prices tend to be higher. Other variations may be due to factors which are not directly related to the Internal Market at all. In the UK, for example, the strength of sterling inevitably means that imported goods appear to be less expensive and this may partly explain the positive responses given. The more negative perceptions in Ireland may simply be due to their relatively high inflation rate within the euro zone.

**How well informed are citizens about their Internal Market rights?**

If citizens have a generally positive view of the impact of the Internal Market on...
their daily lives, is this view based on a sound knowledge and understanding of the Internal Market and the opportunities it offers? The survey used two different techniques to find out. Firstly, respondents were asked how well informed they think they are (figure 30).

Secondly, in order to test their actual level of knowledge, respondents were quizzed about their basic Internal Market rights18 (figure 31).

Figures 30 and 31 paint a rather mixed picture. In the EU as a whole, just under half (45%) of the respondents consider themselves to be well or very well informed. Just over half (54%) consider themselves to be rather uninformed or not informed at all. This should be seen alongside the results of the quiz in

Figures 30 and 31: A majority of citizens in Austria, Belgium, Luxembourg, Germany and Spain feel well informed

Note: Percentage of citizens who feel well or very well informed in respect to their rights within the Internal Market.

18 Issues covered were Internal Market rights in the areas of work permits, mortgages, car purchase, house insurance, access to health care, academic qualifications, product guarantees and voting rights.
which, on average, respondents got just over half the questions right (52%).

There is only a limited degree of variation from one Member State to another. The results show that only 38% of French respondents believe themselves to be well or very well informed (only Italy had a lower score at 33%). However, when it came to actually being questioned about their rights, the French achieved the highest average score. 61% of Austrian respondents believe themselves to be well or very well informed. This was the highest score of any Member State but their average score on the quiz was unexceptional at 51%. Greece registered the lowest average score on the quiz at 41%. This ties in with their own perceptions; a majority (59%) of Greek respondents believe themselves to be rather uninformed or not informed at all.

Taken together, these results suggest that there remains a great deal to do and that public authorities at EU level and in all the Member States need to step up efforts to raise awareness of Internal Market rights.

**Are citizens taking advantage of opportunities available in the Internal Market?**

The Internal Market gives citizens important new opportunities – to live, work or study in another Member State or to shop across borders for goods and services. The question is how many of them are actually taking advantage of these opportunities or would be prepared to do so and what are the possible implications of this?

The survey reveals a mixed picture. The first question concerns the number of people who would certainly or probably be prepared to go to another Member State to buy a product or a service.

It is interesting to consider this in relation to future price convergence in the Union. There has been considerable convergence since 1992 although the process appears to have stalled in recent years. The question is whether – now that the euro has made it easier to compare prices in different Member States - consumers will get the process moving again by shopping across borders in large numbers.

The survey shows that slightly more than half of the respondents (53%) would certainly or probably consider going to another Member State to buy a product or a service because it is cheaper or better. The figure is higher in Luxembourg (74%) and in the UK (66%), the latter figure may reflect differences in taxation

**Figure 31: The percentage of correct answers was highest in France and Luxembourg**

Note: Citizens were asked to answer 8 questions about their Internal Market rights. The average scores were calculated by adding together the percentages of respondents giving a correct response to each of the questions and then dividing the total by 8.
levels (for alcohol19 and cigarettes) or exchange rate considerations.

It seems that this percentage is unlikely to increase very much in future, regardless of the actions undertaken by policy makers. Figure 32 shows that, of those who said that they would certainly or probably not be prepared to go to another Member State to buy a product or a service, the majority pointed to travel costs, language problems or the time needed to do so as the main barriers. None of these factors can be immediately tackled by policy makers. Factors which policy makers can more easily influence – such as administrative costs, after-sales service or enforcement of consumer rights – seem to be less important.

Nevertheless, even if it is unlikely to go up in future, 53% is a fairly high percentage. However, even if over half of the adult population is certainly or probably prepared to travel to another Member State to buy goods or services, these purchases will probably remain just a small percentage of the total.

Of course, cross-border shopping does not necessarily require people to physically move between Member States; it can also take place on line. The fact that most respondents were concerned about the time spent travel-

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19 Scoreboard 10 highlighted that important private imports into high excise tax Member States like the UK do in fact take place.

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**Figure 32: Reasons for not buying in another Member State**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned about administrative formalities</td>
<td>11%</td>
</tr>
<tr>
<td>Worried that your consumer rights will not be upheld in another Member State</td>
<td>14%</td>
</tr>
<tr>
<td>Concerned about after-sales service</td>
<td>23%</td>
</tr>
<tr>
<td>Language barriers</td>
<td>21%</td>
</tr>
<tr>
<td>Too time consuming</td>
<td>41%</td>
</tr>
<tr>
<td>Travel costs too high</td>
<td>57%</td>
</tr>
</tbody>
</table>

Note: Percentage of all respondents who would not consider going to another Member State to buy a product or a service (multiple answers possible).

**Figure 33: Reasons for giving up the idea of moving to another Member State**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concerned about tax implications</td>
<td>7%</td>
</tr>
<tr>
<td>Worried that your academic qualifications will not be recognised</td>
<td>5%</td>
</tr>
<tr>
<td>Concerned about administrative formalities</td>
<td>7%</td>
</tr>
<tr>
<td>Cannot afford to live in another Member State</td>
<td>13%</td>
</tr>
<tr>
<td>No wish to do so</td>
<td>16%</td>
</tr>
<tr>
<td>Difficulty in finding an appropriate job</td>
<td>18%</td>
</tr>
<tr>
<td>Lack of information about the opportunities</td>
<td>20%</td>
</tr>
<tr>
<td>Language barriers</td>
<td>29%</td>
</tr>
<tr>
<td>Family considerations</td>
<td>61%</td>
</tr>
</tbody>
</table>

Note: Percentage of all respondents who would not consider going to another Member State to buy a product or a service (multiple answers possible).
ling and the costs involved, rather than issues such as enforcement of consumer rights, suggests that cross-border shopping could well develop further by means of the Internet.

It is also worth remembering that the impulse for further price convergence will come primarily from other factors, including increased competition in domestic markets resulting from more imports from other EU countries and the establishment of a presence by firms from other Member States. In order to accelerate this trend, efforts to dismantle barriers to trade and establishment should continue.

Respondents were also asked about moving to another Member State to study or work. Only 6% have already done so. 67% have never thought of it. 15% are thinking of moving in future and a further 11% said that they had thought about it but had given up the idea. As figure 33 shows, the main reasons for giving up are family considerations and language barriers, but also a lack of information20 and difficulties in finding an appropriate job. Some of these factors are susceptible to action by policy makers.

Only a tiny minority of respondents (6%) said that they had already taken out an insurance policy or obtained a mortgage in another Member State or were thinking of doing so. This demonstrates that, despite the arrival of the euro, which has removed many of the disincentives to buying financial products across borders, and despite recent progress towards integrating financial markets in the EU, citizens are still very reticent about taking up the opportunities on offer.

As figure 34 shows, of those who have never thought about taking out an insurance policy or obtaining a mortgage in another Member State or who have thought about doing so but decided against it, 36% cited a lack of information about the opportunities as either their first or second reasons. This ties in with the results of the quiz; very few people responded correctly when asked questions about the possibility of buying these products across borders. Language barriers or concerns about administrative formalities, tax implications or enforcement of consumer rights were also cited.

However, the majority of these respondents (64%) just do not wish to buy this type of product in another Member State. This may simply indicate that, when it comes to financial services, proximity and security are still very important and any company wishing to penetrate the market in another Member State would be well advised to establish a presence there.

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20 The Action Plan for Skills and Mobility (COM(2002)72 final) announced the creation of a One Stop Job Mobility Information Website.

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**Figure 34: 64% do not wish to take out an insurance policy or a mortgage in another Member State**

Note: Percentage of all respondents who would not consider taking out an insurance policy or obtaining a mortgage in another Member State (multiple answers possible).
3. **INTERNAL MARKET INDEX 1992 - 2002**

The Commission first published the Internal Market Index in the November 2001 Scoreboard. The index is a composite indicator intended to measure the functioning of the Internal Market. The Commission promised that the index would be reviewed and revised. As a consequence, the 2002 index has been considerably improved compared to the 2001 edition.\(^\text{21}\)

The objective of the Internal Market Index is to provide some measure of the effects of Internal Market policy as defined in the broadest terms by the free circulation of goods, services, capital and workers within the European Union. It should be seen more as a reality check than as a precise scientific exercise.

The revised index focuses on a set of indicators which are intended to measure Internal Market policy impacts. The objective of the revision was to make the new index a better measure of the ‘core business’ of the Internal Market. Variables linked to the Internal Market in a wider sense (greenhouse gas emissions for example, which were included in the 2001 index) were therefore excluded from the revised index.

The 2002 index is computed as a weighted sum of the following 12 base indicators – their relative importance\(^\text{22}\) was decided by canvassing the members of the Internal Market Advisory Committee (IMAC), the group of Member State officials who advise the Commission on Internal Market matters.

As we are approaching the tenth anniversary of the 1992 target date for the Internal Market programme, the Commission felt that it would be appropriate to track progress since 1992. The index appears to

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\(^{21}\) Credit must go to the Commission’s Joint Research Centre for the very significant investment it made in calculating the index and improving its methodology. An in-depth report on the methodology and calculation of the index is available at: [http://europa.eu.int/comm/internal_market/en/update/score/index.htm](http://europa.eu.int/comm/internal_market/en/update/score/index.htm)

\(^{22}\) Cf. annex for more detail. The variables ‘workers from other Member States’, ‘value of pension fund assets’, ‘retail lending interest rates over savings rate’ and ‘postal tariffs’ are not referred to in the analysis of what is driving the index due to the very low weights accorded to them. They are, however, always included in the calculation of the index itself.

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**Figure 35: Member States chose intra-EU trade, public procurement, foreign direct investment, the cost of utilities and a reduction in state aid as the most important indicators for the Internal Market**

![Diagram showing the most important indicators for the Internal Market]

- Postal tariffs: 1%
- Sectoral and ad hoc state aid: 14%
- Value of pension fund assets: 9%
- Telecommunication costs: 12%
- Electricity prices: 7%
- Gas prices: 10%
- Intra-EU foreign direct investment (FDI): 4%
- Retail lending interest rates over savings rate: 12%
- Intra-EU trade: 14%
- Workers from other Member States: 3%
- Value of published public procurement: 13%

**Note:** Average weighting of variables provided by Member States (except Luxembourg). Each Member State was asked to identify important variables and allocate 100 points among these important variables. All Member States have equal weight in the overall average and in the index.
reflect steady progress towards the desired impacts of Internal Market policy since then. The overall score for the EU has improved by some 40%.

We can usefully look at some of the factors which affect the rate at which the index grows. The two variables which have the most positive influence on the growth of the index are foreign direct investment (FDI) and the value of published procurement. The variables on gas prices and intra-EU trade have the least positive influence on the index. This quantitative indication fits with an intuitive view of the development of the Internal Market over the last decade. Legislation on public procurement has lead to Member States publishing openly a larger proportion of contracts. The high levels of intra-EU trade which already existed in 1992 have increasingly been complimented by the increasing emphasis which business puts on investing in a European production base. And there have been different trends in opening up certain utilities markets – more progress has been made in telecommunications for example than in energy markets.

The EU Internal Market Index is calculated by aggregating the data from each of the Member States. Thus although all the data is not available for all Member States, we are able to measure the extent to which the index has increased in each Member State. This does not allow us to rank Member State’s relative Internal Market performance in any way. A rapid increase in the index may simply indicate that a Member State started from a low level and a slow increase could easily be a sign that a Member State started from a level where there was little room for further improvement. But it is possible to see how much the index has increased in each Member State since 1992 – and to identify the variables within the index responsible for the change.

* This has to be understood in relative terms compared to the evolution of the other variables. A variable might drive the index down even if this variable increases in absolute terms – in such a case the increase would simply be below the average increase. The importance of a variable as a positive or negative ‘driver’ results both from the weight of this variable and its actual values.

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23 The influence results from both the weight of the variable and its development over time.
4 of the 5 Member States whose index grew the fastest over the last decade are relatively new Member States. 3 joined in 1995 and Spain in 1986. The faster growth in their indices could reflect on the one hand their rapid integration on an economic level and on the other the introduction and compliance with certain EU legislation (state aid, public procurement) which was not applicable prior to membership. The above average growth in the Italian index seems to be the result of the key drivers in the table below and a reduction in telecommunications costs.

<table>
<thead>
<tr>
<th>Has driven index up*</th>
<th>Has slowed index down*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINLAND</td>
<td>Intra-EU trade, telecommunications costs</td>
</tr>
<tr>
<td>SPAIN</td>
<td>Gas prices, relative price level</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>Telecommunications costs, relative price level</td>
</tr>
<tr>
<td>ITALY</td>
<td>Gas prices, electricity prices</td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>Relative price level, state aid</td>
</tr>
</tbody>
</table>

Note: Index measuring percentage change compared to the base year 1992 (=100).
These Member States are all founder members of the EU and it does not seem unusual that their indices grow at a rate close to the EU index, since they had already implemented many Internal Market rules before 1992. Utility prices seem to have played a very significant role in the development of these countries’ indices.

<table>
<thead>
<tr>
<th>Has driven index up*</th>
<th>Has slowed index down*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRANCE: Public procurement, FDI</td>
<td>Gas prices, relative price level</td>
</tr>
<tr>
<td>GERMANY: Telecommunication costs, electricity prices</td>
<td>Gas prices, intra-EU trade</td>
</tr>
<tr>
<td>LUXEMBOURG: Telecommunication costs, public procurement</td>
<td>Gas prices, relative price level</td>
</tr>
<tr>
<td>BELGIUM: Public procurement, intra-EU trade</td>
<td>Electricity prices, gas prices</td>
</tr>
<tr>
<td>NETHERLANDS: Telecommunication costs, public procurement</td>
<td>Electricity prices, gas prices</td>
</tr>
</tbody>
</table>
The index for Greece and Portugal grew slightly faster than the EU index until 1998. Since then the index for these two countries has fallen both relative to the EU index and in absolute terms. The index for the UK and Ireland grew more or less in line with the EU index until 1997 and from then on grew significantly more slowly. This is primarily because price variables are used in the index as proxies to measure Internal Market progress on utilities and to measure relative price levels. All of these prices are measured in euro. The UK index is therefore heavily affected by the appreciation in the value of the pound whilst the Irish index is affected by Ireland’s differential inflation rate compared to the rest of Euroland.

**Figure 39: The index for Portugal, Greece, Denmark, UK and Ireland has grown significantly less than the EU index**

Note: Index measuring percentage change compared to the base year 1992 (=100).

<table>
<thead>
<tr>
<th></th>
<th>Has driven index up*</th>
<th>Has slowed index down*</th>
</tr>
</thead>
<tbody>
<tr>
<td>PORTUGAL</td>
<td>Electricity prices, telecommunication costs</td>
<td>State aid, public procurement</td>
</tr>
<tr>
<td>GREECE</td>
<td>State aid, public procurement</td>
<td>Intra-EU trade, relative price level</td>
</tr>
<tr>
<td>DENMARK</td>
<td>Public procurement, FDI</td>
<td>Electricity prices, state aid</td>
</tr>
<tr>
<td>UK</td>
<td>FDI, public procurement</td>
<td>Relative price level, gas prices</td>
</tr>
<tr>
<td>IRELAND</td>
<td>Public procurement, telecommunication costs</td>
<td>Relative price level, gas prices</td>
</tr>
</tbody>
</table>
### ANNEX: INTERNAL MARKET INDEX – VARIABLES AND SOURCES

<table>
<thead>
<tr>
<th>Variable</th>
<th>Source</th>
<th>Weight*</th>
<th>Sign*</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectoral and ad hoc state aid as % of GDP</td>
<td>Eurostat*</td>
<td>14 %</td>
<td>–</td>
<td>Proxy for fair competition</td>
</tr>
<tr>
<td>Value of published public procurement as % of GDP</td>
<td>Eurostat*</td>
<td>13 %</td>
<td>+</td>
<td>Proxy for transparency and market access</td>
</tr>
<tr>
<td>Telecommunication costs (10 min local, national and international call)</td>
<td>Eurostat*</td>
<td>9 %</td>
<td>–</td>
<td>Proxy for market opening in telecommunications sector</td>
</tr>
<tr>
<td>Electricity prices (industry and households)</td>
<td>Eurostat*</td>
<td>12 %</td>
<td>–</td>
<td>Proxy for market opening in electricity sector</td>
</tr>
<tr>
<td>Gas prices (industry and households)</td>
<td>Eurostat*</td>
<td>7 %</td>
<td>–</td>
<td>Proxy for market opening in gas sector</td>
</tr>
<tr>
<td>Relative price level of private final consumption including indirect taxes (EU average = 100)</td>
<td>Eurostat*</td>
<td>10 %</td>
<td>–</td>
<td>Proxy for price divergence by Member State from EU average</td>
</tr>
<tr>
<td>Intra-EU foreign direct investment inward flows as % of GDP (FDI)</td>
<td>Eurostat</td>
<td>12 %</td>
<td>+</td>
<td>Proxy for free movement of capital between Member States</td>
</tr>
<tr>
<td>Intra-EU trade as % of GDP</td>
<td>Eurostat</td>
<td>14 %</td>
<td>+</td>
<td>Proxy for free movement of goods between Member States</td>
</tr>
<tr>
<td>Active population in a Member State (aged 15-64) originally coming from other Member States as % of total population</td>
<td>Eurostat</td>
<td>3 %</td>
<td>+</td>
<td>Proxy for free movement of workers between Member States</td>
</tr>
<tr>
<td>Value of pension fund assets as % of GDP</td>
<td>European Commission, Internal Market DG</td>
<td>1 %</td>
<td>+</td>
<td>Proxy for movement from pay-as-you-go to funded pension schemes</td>
</tr>
<tr>
<td>Retail lending interest rates over savings interest rates ratio</td>
<td>European central Bank <a href="http://www.ecb.int/stats/">http://www.ecb.int/stats/</a></td>
<td>4 %</td>
<td>–</td>
<td>Proxy for efficiency of the banking sector</td>
</tr>
<tr>
<td>Postal tariffs (20g standard letter)</td>
<td>European Commission, Internal Market DG</td>
<td>1 %</td>
<td>–</td>
<td>Proxy for market opening in postal services</td>
</tr>
</tbody>
</table>

Notes: Prices and values are always measured in euro.
* Weights as allocated by Member States. Sign indicates if increasing values of the respective variable drive the index up (+) or down (–).